

LIVING WAGE FAQ

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1. What is at stake – about Living Wage?

1.1. Why is the LW an issue, why is it scrutinized so closely today, and who is standing for it?

The right to a decent standard of living is a salient human right and it is the responsibility of companies to provide living wages to their workers. From a business perspective, implementing a Living Wage is a commitment that is part of a company's robust approach to corporate responsibility and sustainability.

A living wage is key for profitable, resilient, and durable business. Several studies have demonstrated that a company paying its employees a living wage improves productivity, people's turnover and talent retention. Additionally, an increasing number of investors and clients are taking the Living Wage into account when considering investing or starting a business relationship, making it a competitive advantage within a company's business ecosystem.

Notably, the Dow Jones Sustainability Index (DJSI) recently integrated the Living Wage in its criteria.

1.2. Why is LW addressing poverty, inequalities, and notably gender equity issues?

Global inequality is one of the great challenges of our times. Companies can contribute significantly to alleviating poverty in their workplaces and in their supply chains, by contributing to creating decent working conditions. Living Wage commitments will be decisive in tackling growing poverty, empowering women and reducing the gender pay gap -since the poorest workers are mostly women- and ultimately in delivering the United Nations Sustainable Development Goals by 2030 in the "Decade of Action".

The unprecedented COVID-19 crisis the world is facing has exacerbated existing inequalities and vulnerabilities within our societies. This crisis has reinforced the essential role of businesses in providing a decent standard of living as well as being a driving force in poverty eradication. Addressing living wages is now more necessary than ever.

Implementing Living Wages is already on the agenda of change for many of the members of the Business For Inclusive Growth (B4IG*) coalition, where L'Oréal is today considered as a "front-runner" standing for Living Wage. Many of these companies have

understandably first focused their efforts on ensuring living wage conditions in their own operations and for their own workforce. However, efforts should not be limited to own activities alone; companies should work with their suppliers, so they too provide living wages to their workers. It is corporate business responsibility to cascade this commitment to their value chain in the post COVID economy.

* Business for Inclusive Growth (B4IG) is a partnership between the OECD and a global, CEO-led coalition of companies fighting against inequalities of income and opportunities.

1.3. What are the main differences between minimum, living, fair wage?

Although they are often used indifferently, these terms do not mean the same thing and should thus be distinguished.

- The minimum wage is the wage floor defined by governments after consultations of social partners (or eventually in some countries fixed directly by social partners).
- The living wage is the minimum required for ensuring the coverage of workers' and their families' basic needs.
- Fair wage (decent wage being a close concept) corresponds to wage practices and levels that ensure sustainable developments at enterprise level including the payment of a living wage but also other wage elements (wage stability and security, wage disparity, wage that progresses along with changes in work intensity...)

1.4. How do those notions compare to poverty rate or median income?

In an ideal world, there would be a wage floor in each country whose payment would ensure all workers the coverage of their family basic needs.

This function is expected to be played by the legal minimum wage that is precisely aimed at providing a wage floor below which no workers should be expected to be paid.

The problem is that the legal minimum wage is often a political compromise between governments, employers' and workers' representatives that has fallen below the floor that workers and their families would require to cover their basic needs.

This is the reason why living wage campaigns for instance in the UK where the minimum wage was low and not frequently adjusted but also in developing/emerging countries that do not enjoy strong minimum wage and collective bargaining institutions.

This is why the living wage is expected to pull workers out of poverty while the minimum wage does not always do it. Obviously higher is the median income, and lower should be the proportion of workers being paid below the living wage, but this will depend on a number of other factors (general level of prices and rate of every year, (inflation, level of economic development etc.).

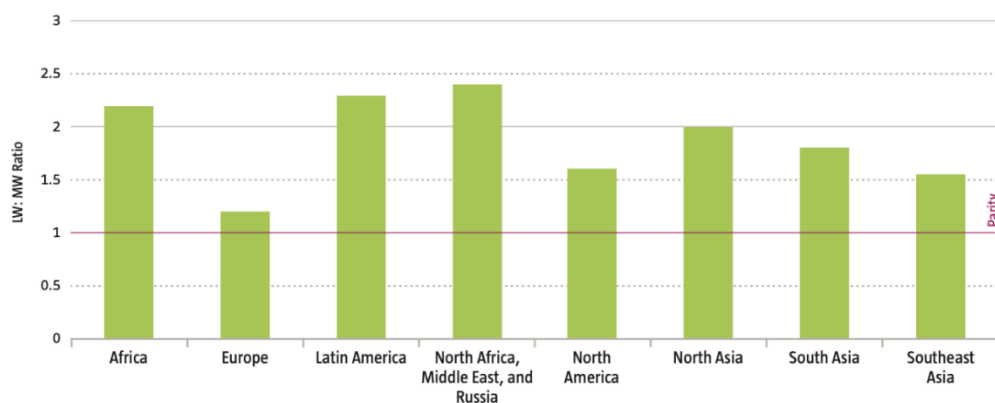
1.5. In which countries and activities do we often find major LW issues and gaps compared to minimum wage and general market practices?

The gap is higher where there is no frequent adjustment of the legal minimum wage and where this minimum wage remains low.

Since most companies use the legal minimum wage as a benchmark to pay workers at the bottom of the wage scale, higher will be the gap between the minimum wage and the living wage, higher will be the percentage of workers to be expected to be paid below the living wage.

See graph below as an example of this gap by geographical regions in the world. In terms of sectors, the gap will be more important in sectors where the wage floors will be the lowest like in agriculture, garment etc.

Figure 1: The living wage deficit (living wage/minimum wage ratio)



In every geographic region the minimum wage is well below parity with the living wage—the pay workers actually need to support basic needs. Workers are better off as countries move closer to the parity line.

Source: Minimum wage and living wage thresholds; Fair Wage Network database.

1.6 Are there countries where it is unnecessary to conduct the living wage gap analysis?

It is necessary to conduct the gap analysis in all the countries in which your company operates, even countries where the minimum wage is equal to or higher than the living wage.

There is no single living wage threshold for a country, but many thresholds that depend on local costs of living, at a regional or even city level.

For example, a New Yorker would not be able to live with an average living wage for the United States, calculated using the average of all living wages in the United States.

2. The target and scope

2.1 Is LW a ceiling target? Is that OK to pay the LW in the countries where the LW is below the minimum wage?

Ensuring a living wage means paying workers enough to provide basic needs: food, housing, education, health and and face the unexpected for themselves and their dependents, regardless of the country where they work.

In many countries, the minimum legal wage is indeed not enough to cover those basic needs: this is where the living wage acquires its meaning and significance.

Of course living wage should not be considered as a ceiling but a floor wage.

2.2 Is it expected to comply to LW everywhere in a defined timeframe?

It is a progressive journey. The most important is having a step by step roadmap, with continuous progress over the months and years, to achieve 100% of your employees are paid a living wage by 2030.

2.3 What if the Company is good with regard to LW in “full cash”, but not if are removed the variable wage components?

The goal is to take the basic wage only.

Now, it is understood that it is a progressive journey, where it might be possible when necessary to start the gap analysis with full cash wages, subject to the condition that:

- It is a temporary step before assessing only the basic part of the wage,
- The various components are clearly assessed (in principle only guaranteed components should be kept for the comparison)

2.4 How to evaluate LW achievement for part-time employees?

Shall we consider they are paid a LW if they are paid a LW on an hourly basis? (Even though they can't make a living if they had this sole source of revenue paid by the company?)

For part-time employees that work below the regular number of working hours, their monthly wage is converted into a full-time equivalent so that the wage is increased as if

they working the regular number of working hours before being compared to the living wage.

The hourly rate of the part-time worker is also systematically compared to the hourly rate of full-time workers to make sure there is no discriminatory rate against part-time workers.

2.5 How to evaluate LW achievement for employees paid by piecework?

The living wage achievement for piece rate workers is evaluated by comparing the minimum they make per month through piece rate payments during regular working hours without considering piece rate payments made for overtime hours.

3. L'Oréal and LW ambition

3.1 Why does L'Oréal consider Companies have a role to play, internally and with their extended ecosystem of suppliers? What is concretely doing L'Oréal to stand and take action for achieving LW?

In June 2021, it is to note 2 major news relating to Living Wage:

Nicolas Hieronimus, CEO of L'Oréal said: "In the current difficult global context, companies, more than ever, can and must take action to alleviate poverty. One way we can help mitigate inequality is by applying a Living Wage policy. First, we must apply it to our own workforce but then also extend the principle to our supply chains. We will need to work collectively in order to have a significant impact. (...) It also makes good business sense since it makes for a more engaged workforce and makes our supply chains safer and more secure."

Nicolas Hieronimus and Alan Jope (CEO of Unilever) joined forces in the B4IG* Board Meeting in June 2021, encouraging each one of the member companies to endorse the IDH** Call to action. They achieved the Coalition voting for engaging in working collectively on the LIVING WAGE.

Alexandra Palt (CSO of L'Oréal) advocated for Living Wage during the United Nations Global Compact Leader Summit.

L'Oréal is certified Living Wage compliant since February 2023.

3.2 Does LW ambition apply to L'Oréal strategic suppliers' employees only, or also to their own suppliers, contractors, temping agencies, upstream and all along the supply chain with tier suppliers?

Those who are directly in the 2030 L4TF priority scope are all the L'Oréal Tier 1 Strategic* suppliers, whatever their activities (including ALL types of materials, goods, and services) for their own employees.

It is a journey: this will be a progressive process and that it will take years to achieve the meaningful change we're calling for.

Now, the ultimate goal will be to extend the living wage and living income principles all along the value chain.

Solidarity Sourcing projects contributing suppliers are particularly expected to lead by exemplarity. Living and fair wage, beyond the minimum wage, associated with stable contracts and decent working conditions, are key for social inclusion and the sustainable positive social impact which are at the essence of the Program.

We can understand that each of our strategic suppliers have its specific challenges but it should not release any of us from our responsibility to see how we can eliminate poverty wages in our operations and supply chain.

- * In the scope of the Living Wage L4TF commitment, the 409 strategic suppliers who cover the 60% of L'Oréal direct+indirect spend. Solidarity Sourcing suppliers, strategic or not, are also expected to be exemplary

3.3 How is L'Oréal intending to evaluate, verify, follow up, and valorize its suppliers' performance on LW?

A) Commitment step:

In 2021, we first ask our strategic suppliers to formally confirm they commit in the Living wage ambition with a roadmap, in line with L4TF ambition "We will ensure that by 2030, all of our strategic suppliers' employees are paid a living wage"

→KPI : % of strategic suppliers having formally confirmed they committed to L'Oréal Living Wage Ambition with a dedicated time-bound objective and roadmap.

How:

we are working with Ecovadis to have the LW KPIs included in the next few months.

If it is not available on time in 2022, we will follow through a Supplier Commitment form to be signed by our strategic suppliers. It is currently under study to ideally track the supplier commitment and record the auditable form directly in MySourcing.

We will integrate LW in the Supplier performance scorecard for the strategic suppliers who will have formally confirmed their commitment to build a Living Wage roadmap accordingly.

B) LW provider choice step:

L'Oréal has chosen Fair Wage Network, a rigorous and widely recognized international NGO.

We strongly encourage our strategic suppliers to make the same choice, and we negotiated preferential rates for our L'Oréal Strategic Suppliers to access the Fair Wage Network WW Living Wage database and services. Fair Wage Network is part of the IDH- approved Living Wage standards L'Oréal recognizes.

→ KPI: % of strategic suppliers having confirmed partnership with Fair Wage Network, or any IDH-approved provider

C) Assessment step:

KPI : % of strategic supplier's total employees assessed against the Living Wage (gap analysis done)

D) Action plan step:

KPI: % of strategic supplier's total employees paid a Living Wage (gaps filled)

How:

L'Oréal is part of the leaders pushing for setting a standard. In order to be able to track progress on the upcoming steps 3 and 4, we are currently working with ECOVADIS to set up a common monitoring system to evaluate the Living Wages policies, just as they integrate other components of the social and environmental sustainability performance.

4. About Fairwage Network and the methodology

4.1 Who defines the level of Living Wage per country?

L'Oréal has chosen three organizations, all vetted by IDH, the sustainable trade initiative: FairWage network, WageIndicator and Global Living Wage Coalition.

All these organizations calculate the level of living wage by country from data collected by governments, specialized data organizations and NGOs.

4.2 Why did L'Oréal choose FairWage Network (FWN) as the standard and partner on LW?

After reviewing market offers, among those accredited by IDH, L'Oréal chose FairWage Network as a recognized operating partner to build and roll out our Living Wage Strategy:

Strong expertise and understanding of the needs and workings of a business

An economically rigorous standard and methodology, considering multiple data sources

A single database covering almost every country and updated yearly to account for inflation

4.3 Does L'Oréal accept other standards but Fair Wage Network?

Yes, L'Oréal only relies on the IDH-approved providers, among which preferably Fair Wage Network.

4.4 What is IDH? Is that mandatory to sign the IDH CTA to be considered as committed for LW?

IDH, The Sustainable Trade Initiative is an organization (Foundation) that works with businesses, financiers, governments and civil society to realize sustainable trade in global value chains.

L'Oréal has signed the IDH Call to Action regarding Living Wages.

4.5 How is the LW evaluated/calculated by FWN to build its database?

The living wage represents what workers and their family require to cover all their basic needs in terms of accommodation, food, education, healthcare, transportation and we also include 15-20 % as precautionary savings for unexpected expenditures.

These data on living costs are collected through:

- Surveys among workers to have their total family costs including by items;
- Complemented by surveys in local markets to get the right prices of basic commodities.

These two sources of information allow the FWN to define LW thresholds by country and by individual region/province/city within those countries.

4.6 Is there a LW per personal situation regarding household?

Salary should not be based on individual family situation; it would be discriminatory. However, the Living Wage should allow each worker to live decently in a given country, based on national average number of children.

As a supplier, you need to enter 3 main criteria:

- Household size
- Number of income earners
- Local currency

From there, you can get the LW for the given region.

4.7 Is the LW defined per country or even more local region per country?

There is a basic living wage calculated per country, however there is a local living wage per region, which is mandatory to use to better stick to one's living standard reality.

4.8 Is L'Oréal giving access to the FWN database to the suppliers?

L'Oréal cannot give its own database access to the suppliers. All strategic suppliers that committed to the Living Wage project are recommended to subscribe and use the Fair Wage Network database. L'Oréal negotiated a special offer for its suppliers.

4.9 With which frequency is it updated, and which impact does that have on the necessity to constantly actualize Company's achievement toward LW?

While new data on living costs are collected by the FWN every day of the year, they are saved so that an annual adjustment of the database can be done once a year, generally in September, with the new LW thresholds being then communicated to the users.

4.10 Why does gross salary take into account whereas the employee can count only on the net wage to pay for its needs?

For a number of reasons:

- first because gross wages are generally the wage data that are available and communicated by local HR officers who do not always have net wages (the calculation of net wages is complex because changing very much by country and also by household profile).
- Second, because many brands consider that it is not their responsibility to pay extra money to compensate for the government's redistribution policy.
- Third, because most brands would not be in a position to pay a living wage today if the payment of all taxes including income tax had to be paid as well to the workers; this is the reason why at the FWN we see this as a multi-step approach: we are helping brands to pay a gross wage that would cover the family living wage and once this will be secured we would be able to help brands who wish to go further to start taking into account the payment of income taxes and other taxes, with a new basic function being incorporated into the online living wage database tool.

