Why SA companies might not pay living wages

In a world of growing calls for global social reform, companies that want to preserve their market share will have to pay their employees at least a living wage.

Image source: robert hyrons – 123RF.com

This is according to Professor Ines Meyer of the Living Wage South Africa Network, whose groundbreaking research paves the way for remuneration policies favouring human needs over market rates.

"Unfortunately, many companies are still resistant because of legacy thinking that goes against what modern consumers expect from their vendors and employers," she says.

So why don't most companies pay their employees a living wage, even though not doing so could cost them dearly?

What is a living wage?

Even employed South Africans can live in poverty because they are underpaid in relation to the cost of living.

Meyer defines a living wage as sufficient income for an individual and their family to afford the basic necessities of life, have something over for savings, and so be prepared for emergencies.

This is different from the minimum wage legislated in the National Minimum Wage Act that compels companies to pay workers a rate not lower than the prescribed amount.

"The Act focuses on a minimum amount which is a compromise between labour, business and government representatives, but the concept of a living wage looks at what a human being needs to subsist with a measure of dignity, in accordance with Section 10 of the Constitution," says Meyer.

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The South African arguments

In Meyer's experience, South African companies have three main arguments against paying a living wage.

The first is that they simply cannot afford it. Secondly, the prohibitive cost would mean letting go of employees or hiring fewer workers, thereby impeding job creation and increasing unemployment. Thirdly, the difference between the income of the lowest and next highest paid worker would be unfair on higher skilled employee.

However, Meyer asserts that her own research and that of bodies like the World Economic Forum (WEF) suggests this knee jerk reaction results from flawed thinking that is not backed by data.

For example, the enforcement of a minimum wage in South Africa did not lead to corporate financial distress, higher unemployment or employee dissatisfaction.

"A better approach than to ask can we afford it would be how to make it happen as paying less means we ensure we keep employees living in poverty," says Meyer.

A lack of data and data consistency

Both globally and locally, determining an appropriate living wage is problematic due to a lack of data and inconsistency in data that is available. How should employers calculate if they are offering a reasonable living wage or not?

"Even if they could, who are we as middle-class earners in our ivory towers to decide what the lowest paid workers need to live a decent life?" asks Meyer. With this mindset, she put the question of what is enough not to employers but to the workers themselves.

The result is a growing body of research that pinpoints the optimal living wage organisations should adopt, which Meyers says is between R12,000 and R15,000.

Time for change

While companies may see such figures as an unwanted loss to their business, the WEF has identified many overriding benefits.

Already mentioned is retaining the patronage of consumers who favour ethical companies that share their value of an equitable world. In addition to goodwill, lifting workers out of poverty has been shown to grow consumer markets. Companies also experience less absenteeism, greater employee engagement and increased productivity.

“Worker poverty can adversely affect the entire organisation, including profits, so early adopters of a living wage initiative stand to benefit sooner and win a greater share of the market,” says Meyer.