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# The Living Wage Employer Experience

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Edmund Heery, David Nash, Deborah Hann



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## Executive Summary

In the six years following the creation of the Living Wage Foundation in 2011 over 3000 employers have gained accreditation by agreeing to pay the Living Wage to directly employed staff and to the employees of contractors working on their premises. The real Living Wage is an independently calculated hourly rate of pay that is based on what it costs to live in London and the UK. Accredited Living Wage employers directly employ 1.35 million employees, of which about 150,000 have benefited directly. The Living Wage has also had a further indirect impact beyond these 3000 employers, with numerous other organizations in both the private and public sector adopting the Living Wage for their directly employed staff. In addition, the Living Wage has influenced government policy, most notably with the 2015 announcement of the National Living Wage, a higher statutory minimum rate of pay for workers aged 25 and over.

This report presents the findings of new research that examines the experience of those organizations which have chosen to become accredited Living Wage employers. The report outlines the motivations behind the decision to become accredited, the extent and nature of supporting changes that employers have introduced and the benefits and challenges that accreditation has brought.

The report is based on a survey of all accredited employers undertaken by a research team from Cardiff Business School in the Autumn of 2016. Over 840 employers responded to the survey, representing the full range of accredited organizations. The report also draws on supplementary information from a database of accredited employers compiled by the research team, as well as interviews conducted with key actors, including Living Wage campaigners, key employers, and trade union representatives.

The results show that for many organizations the key justification for signing up to this voluntary standard is values or mission-led. The vast majority of employers indicated that their decision to seek accreditation was the result of a desire to demonstrate that they are a socially responsible employer or more broadly to act in accordance with their core mission or aims. Reputational considerations are also found to play an important role in the decision to become a Living Wage employer with organizations seeking to improve either their reputation as an employer or their corporate reputation. Many employers see Living Wage accreditation as a way to differentiate themselves from their competitors. Finally, there is evidence of a human resources motivation with significant numbers of employers signing up in an attempt to improve employee recruitment and retention.

The report shows that the influences on the decision to seek accreditation are primarily internal to accredited organizations. Owners and managers are the key decision-makers, indicating that accreditation to the Living Wage is primarily a conscious, top-down decision. Where they are present, human resource professionals are also found to positively influence the decision to become accredited. By way of contrast, the influence of external stakeholders is relatively limited with the notable exception of Citizens UK, the Living Wage

Foundation and their Scottish equivalents, which are cited as being influential by a majority of employers.

The analysis suggests that organizations are not having to make large-scale changes as a result of Living Wage accreditation. The vast majority of organizations report that they have managed to absorb the higher wage costs without making any major changes to their wider work practices. Where changes have occurred they have, perhaps unsurprisingly, tended to be in the low pay sector. There is some evidence of a resulting positive shock from accreditation, with a number of employers identifying that they have introduced factors such as additional training or promotion opportunities for Living Wage workers. Furthermore, there is virtually no evidence of employers making adverse changes to employment contracts in an attempt to 'claw back' the costs resulting from having to pay the Living Wage.

The central finding of the report is that Living Wage accreditation has been a positive experience for the majority of employers. The results support the claim that there is a business case for becoming a Living Wage employer. 93 per cent of employers feel they have benefitted from accreditation, although the strength of these benefits is sometimes modest. These benefits broadly link to reputational benefits, a positive impact on human resources (i.e. recruitment and retention) as well as on the employment relationship more generally and finally also broader business benefits (such as securing contracts). In terms of the potential challenges resulting from Living Wage accreditation, most employers do not report any significant negative effects. For the minority of organizations that do report challenges the increase in the wage bill following accreditation was the most significant issue.

The benefits of Living Wage accreditation are further reinforced in the final section of the report which examines the impact of the Government's National Living Wage that was introduced in 2016. The results show that employers' commitment to the voluntary Living Wage has been largely unaffected by the new statutory wage floor, although there is some understandable confusion surrounding the terminology of the two rates. Indeed, for a majority of employers, Living Wage accreditation remains an important and public commitment to addressing the problem of low pay. The report concludes that in the five years since it was introduced the Living Wage scheme has become a significant form of voluntary, civil regulation in the UK and that it is sustainable, capable of continuing to raise the pay of low-wage workers in the United Kingdom into the future.

## Introduction

The UK's campaign for a Living Wage was launched in 2001 in the East End of London. The East London Community Organization (TELCO) - now part of the national community organizing network, Citizens UK - initiated the campaign following a 'listening exercise', which indicated that low pay and the problems it generated were major concerns for its affiliated members: faith, community, and trade union organizations which included low-wage workers in East London. While welcoming the introduction of the statutory National Minimum Wage in 1998, TELCO argued that it provided insufficient income for a decent standard of living and drew attention to the adverse consequences of low pay, such as the need for people to work long hours and take on multiple jobs which, in turn, left no time for family and community life. Many organizations for whom low-wage workers worked, either directly or through outsourcing arrangements, moreover, could well afford to pay higher rates and the early campaign focused on highly profitable City institutions with offices at Canary Wharf. Other early successes were with large public service organizations that had outsourced service functions as a means to reduce costs.

The objective of the campaign was simple – to persuade employers to pay wages that supported a decent standard of living. Since its launch it has grown rapidly and has extended, first across London and then to all other parts of the UK. A pivotal development in the growth of the campaign, was the creation in 2011 of the Living Wage Foundation by Citizens UK. The Foundation has a dedicated brief to promote the Living Wage to employers and provide advice and guidance on how to become a Living Wage employer. Central to its activity is the accrediting of employers, who agree to pay the Living Wage to directly employed staff and to the employees of contractors working on their premises, with the Living Wage Employer Mark. Since 2011, when the system of accreditation began, more than 3000 employers have signed up to the Living Wage, who collectively employ approximately 1.35M people, about 4.3 per cent of total UK employment. According to the most recent estimate, 150,000 workers have benefited directly from the spread of Living Wage accreditation, receiving a welcome boost to low-wage incomes.

The Living Wage has also generated indirect gains. It has spread beyond the ranks of accredited employers to organizations that have adopted the Living Wage, at least for their directly employed staff. Low-wage workers in the NHS, universities, further education, local government, property development, supermarket retail, and in arts and cultural organizations have all benefited from the non-accredited Living Wage, often as a result of the campaigning activity of trade unions.

The Living Wage has also shaped policy debate, helping to put the issue of low-wages and in-work poverty on the political agenda. The rise of the real Living Wage is one of the factors behind the UK Government's introduction of the confusingly named National Living Wage, a higher statutory minimum wage for those aged 25 or over, which is planned to reach 60 per cent of median earnings by 2020.

The Living Wage is a striking example of the ‘civil regulation’ of employment relations; that is, the creation of an employment standard by civil society organizations that is adopted by employers and which improves the terms of employment for employees. The current rates for the Living Wage are £9.75 per hour within London and £8.45 per hour in the rest of the UK and participating employers agree to pay these rates to all direct and indirect employees who are aged 18 or over and who are not working either as apprentices or on a training contract. The rates are set on the basis of independent research into the living costs of low-wage workers and are issued by the Living Wage Foundation every year at the start of November in Living Wage Week.

In addition to the Living Wage for Accredited Living Wage Employers, the Living Wage Foundation has established a second standard, awarding a recognition mark for Living Wage Service Providers. Under this scheme service and facilities management companies agree to pay the Living Wage to their permanent head-office employees and include a Living Wage estimate when they tender for contracts from business clients. The purpose of this second standard is to create a ready supply of contractors prepared to pay the Living Wage. More recently, a third standard has been created, the Living Wage Friendly Funders standard, which is designed to spread the Living Wage in the not-for-profit sector. Under this scheme, grant-making organizations commit to paying the Living Wage to their own direct employees and budget for the Living Wage in the grants they make to charities.

In combination, these measures form a concerted attempt to enlist the voluntary support of employers in tackling low-pay and in-work poverty. The purpose of this report is to provide original, survey evidence of why and how employers have lent their support to the Living Wage and to assess its impact on both employing organizations and their employees. The report also examines employer views of the Government’s National Living Wage and whether its introduction reduces the need for the ‘real’ Living Wage.

## Research

The research evidence reported below comes primarily from a population survey of Accredited Living Wage Employers, carried out in the autumn of 2016. The survey questionnaire was sent to approximately 2,800 accredited employers and asked about various aspects of their experience of paying the Living Wage. The questionnaire also sought information on the Government’s National Living Wage, with this part of the questionnaire being designed by communication consultants on the Foundation’s behalf. Over 840 employers responded to the survey, which represents a response rate of 30 per cent.

While the survey of Living Wage Employers is the main source of evidence, supplementary information has also been used. Some of the latter takes the form of qualitative statements about paying the Living Wage and its associated challenges and benefits that many employers chose to make when submitting their completed questionnaire.

In addition, the report makes use of a dataset of all Living Wage Employers and Living Wage Service Providers that has been assembled by the Cardiff research team and which contains basic descriptive information about accredited/approved organizations, relating to their size, sector, industry, geographical location and other characteristics. It has been possible to add material from this dataset to the survey information to help analyse the pattern of survey responses; for example, to break down results by industry, region, and sector.

The report also makes use of interview material. Since the summer of 2015, the Cardiff research team has conducted more than 40 recorded interviews with Living Wage campaigners, employers and trade union representatives about their experiences of campaigning for and implementing the Living Wage.

Further information on all of these different components of the research, including descriptions of the questionnaire survey sample and pattern of responses, can be found in the Appendix to the report.

## Structure of the Report

In the following report, we present initial findings from the survey of Living Wage Employers. The report presents information on six key aspects of the employer experience of the Living Wage. These six themes are as follows:-

- 1. Reasons for accreditation:** the reasons that have led employers to pay the Living Wage and seek accreditation from the Living Wage Foundation. Has accreditation been driven by instrumental considerations by employers seeking to upgrade human resource management or identify new commercial opportunities or has it originated primarily in ethical motivations, an expression of values rather than a means to obtain business benefits?
- 2. Influencing the decision:** the individuals and groups both within and beyond accredited organizations which have influenced the decision to become accredited. Has accreditation been driven by forces external to employers, such as Living Wage campaigners, or has the decision to seek accreditation been taken internally through established structures of decision-making?
- 3. Associated changes:** the extent and nature of supporting changes that employers have introduced, alongside accreditation. Critical issues that are considered here include whether or not employers have introduced changes to offset the cost of the Living Wage and whether or not the latter has prompted an upgrading of HR and broader management practice.

4. **Contractors:** the extent to which Living Wage has prompted change in the relationship between employers and contractors, including the extent to which services previously outsourced have been brought back in house.
5. **Benefits and challenges:** this central section of the report considers the impact of the Living Wage on employing organizations. It considers the evidence for positive, beneficial effects of the kind outlined in the ‘business case’ for the Living Wage. It also considers the challenges that are associated with accreditation, including the challenge of integrating the Living Wage with existing pay systems and pay structures.
6. **The National Living Wage:** an objective of the survey was to obtain the views of Living Wage Employers about the Government’s National Living Wage, a higher statutory minimum rate pay that applies to employees aged 25 and over. The Government’s National Living Wage is currently set at £7.50 per hour, substantially below the voluntary Living Wage rates. This section of the report examines whether the introduction of the Government’s National Living Wage is impacting employer support for the Foundation’s Living Wage or whether there is a continuing perceived need for the latter amongst accredited employers.

The report ends with a conclusion that summarizes key findings and draws out some of the practical implications of the empirical findings.

One final thing to note is that this report only presents part of the information collected through the survey of employers. The latter gathered data on the numbers and characteristics of employees receiving the Living Wage, including details of the jobs and occupations of direct beneficiaries. A second report, summarizing both these additional questionnaire data and impact evidence from our dataset of all Living Wage Employers will be presented in the near future. The focus of this document is on the employer experience and perspectives upon the Living Wage. In the next, attention will shift to Living Wage impact.

## Reasons for Accreditation

The first issue explored in the survey was the reasons why employers decided to seek accreditation from the Living Wage Foundation. An essential characteristic of the Living Wage is that it is a voluntary standard, which employers choose to adopt. Given this characteristic, it is important to know what motivates that choice. Is the decision to become accredited values-driven, arising from employer support for the Living Wage campaign, is it instrumental, driven by a calculation of business advantage, or is accreditation the result of pressure from suppliers, funders, customers or campaigners who have encouraged employers to adopt the Living Wage? In this section and in the next we seek to answer these questions, examining the full range of reasons that have led employers to seek accreditation.

**Figure 1 - Reasons for Becoming a Living Wage Employer**

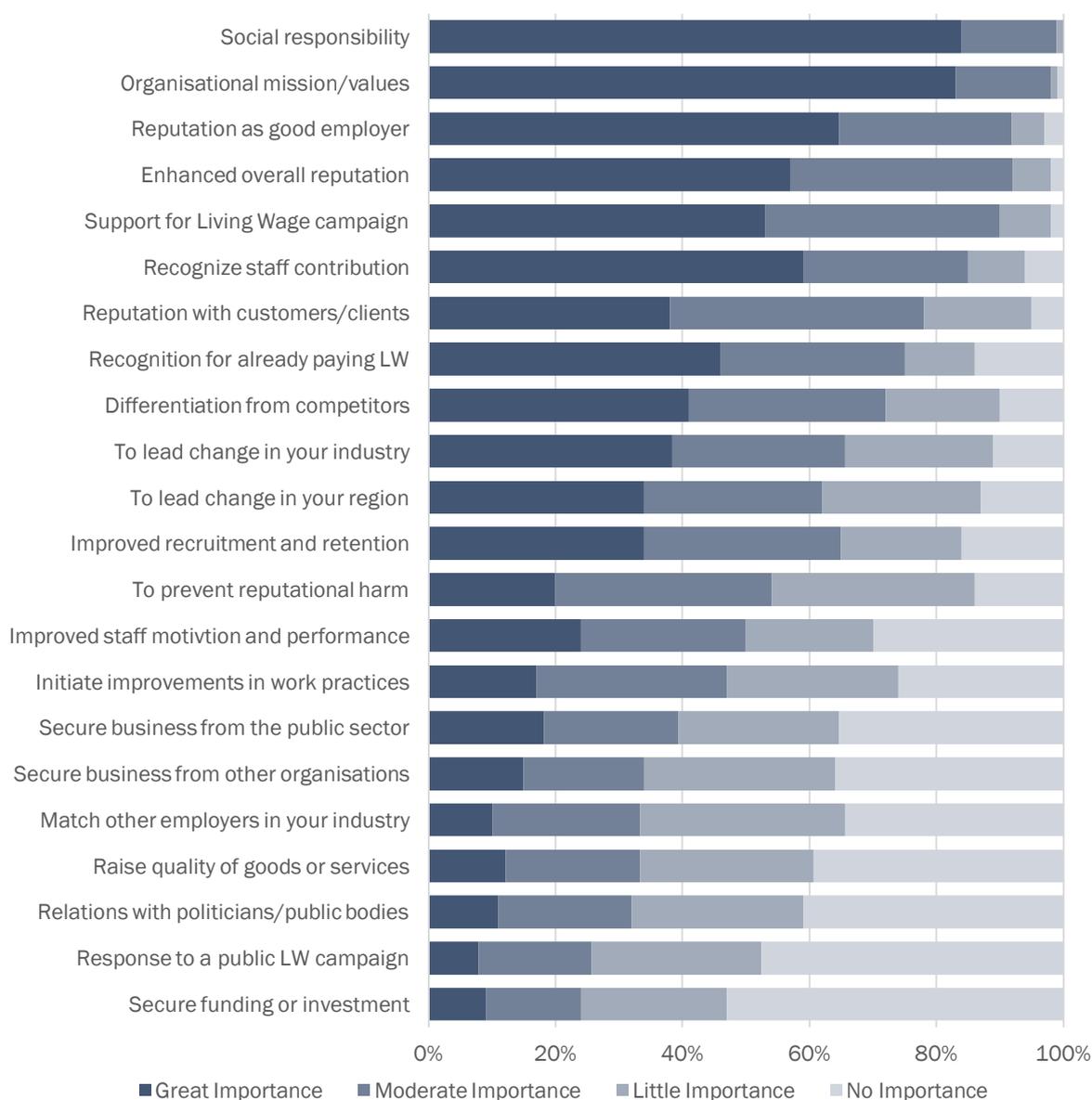


Figure 1 shows the pattern of replies to questions on why employers 'decided to become a Living Wage Employer'. Items have been placed in rank order, with those of the 22 possible reasons for accreditation described most frequently as of 'great importance' at the top. It is clear from Figure 1 both that some reasons are more frequently cited than others and that most employers have sought accreditation for a number of reasons: on average employers report that seven of the reasons in the list were of 'great importance' to their decision.

Further analysis of the information presented in Figure 1 revealed that there are distinct clusters of reasons that have influenced particular types of employer. These clusters are as follows:-

**Mission and values.** The two main reasons given by employers for seeking accreditation were to 'act in accordance with the organization's mission or values' and to demonstrate that the organization is a 'socially responsible employer', More than 80 per cent of employers reported these reasons were of 'great importance' to them. Moreover, 50 per cent reported that they had become accredited in order to demonstrate support for the Living Wage campaign, while about a third had done so to 'lead change', either in their industry or in their region. There is evidence therefore that the vast majority of Accredited Living Wage Employers have supported the Living Wage because it is intrinsically desirable and because they have wanted to act in a manner that is socially responsible.

To a degree, this is unsurprising given the characteristics of many Living Wage Employers, many of which have a record of or declared commitment to ethical employment practice. More than a third are not-for-profit organizations, 6 per cent are faith organizations, and nearly 20 per cent have an organizational mission that focuses either on social justice or on the alleviation of poverty. Moreover, most of the large private sector accredited employers have a formal policy on corporate social responsibility/sustainability and a substantial number have signed up to other progressive employment standards, such as Stonewall's Diversity Champions or the Investors in People standard. The Living Wage has attracted employers who have a record of ethical behaviour or which pursue objectives that overlap very directly with those of the Living Wage Foundation.

**Reputation and relationships.** A second motive for becoming accredited as a Living Wage Employer was to enhance the organization's reputation and foster good relationships with stakeholders. More than half of those replying to the survey said that they had become accredited to 'enhance the organization's overall reputation', while over 40 per cent said that a major purpose was to differentiate their organization 'from others in the same industry or performing the same activity'. The latter response indicates that some employers have seen accreditation as a source of competitive advantage. Other reputational motives were reported less frequently. Just over a third of employers said that a major consideration was to improve 'reputation with customers, clients or service users', about 20 per cent said that they were motivated by a desire to prevent harm to their organization's reputation, while only 10 per cent said that they were motivated to obtain a 'standard already obtained by other employers' or to 'improve relations with politicians

and/or public bodies'. In some industries, accreditation might be a means to preserving a competitive position and for some employers it might serve to garner political support but these are minority positions within the sample as a whole.

**Improving HRM.** A third type of reason for becoming accredited was to improve aspects of human resource management. About two thirds of employers reported that a major reason for becoming accredited was to 'develop a reputation as a good employer, attractive to all types of employee', suggesting that a desire to generate a positive 'employer brand' has led many to seek Living Wage accreditation. More concrete HR benefits were sought by substantial minorities of employers. About a third reported that a major intention was to 'improve recruitment and retention of employees paid below the Living Wage', while about a quarter stated that they wanted to raise employee 'motivation and performance'. Lower percentages stated that a primary purpose was to encourage 'improvements in work organization or work practices' or to raise the 'quality of goods and services produced by the organization'. In the field of HR, as with more general management, employers have generally looked to secure broad, reputational benefits, with a desire to make specific improvements in labour market or organizational performance confined to a minority. A final HR objective that was reported to be of 'great importance' by more than half of respondents was to 'recognize the contribution of all who work within the organization'. Paying the Living Wage has served to acknowledge employee contribution and reinforce a message that all are valued by the employing organization.

**Winning business, securing funding.** This message that accreditation has not been driven, for most, by highly instrumental considerations of a specific kind, is reinforced in the findings for a fourth cluster or responses. Below 20 per cent of employers said that the decision to become accredited was motivated to a major degree by a wish to 'secure business or win contracts' either from public sector organizations or from private businesses. Moreover, fewer than 10 per cent said that accreditation was driven by a desire to 'secure funding or investment'. For some organizations, hard commercial considerations have underlain accreditation and this type of motive may become more significant in the future if public service procurement is used to diffuse the Living Wage. It may also become more important as the Living Wage Friendly Funder scheme becomes established. For most current Accredited Living Wage Employers, however, the decision to seek accreditation has not, to date, been powerfully shaped by commercial considerations.

**Recognition of existing payers.** For 46 per cent of employers an issue of 'great importance' to their decision to become accredited was the fact that they wanted to obtain recognition that they were already paying the Living Wage to their employees. The impact monitoring data collected by Living Wage Foundation from newly accredited employers indicates that a large minority (29 per cent) had no employees, whether direct or indirect, currently paid below the Living Wage rate. For a substantial proportion of Living Wage Employers, therefore, accreditation provides public acknowledgement of existing practice and has not been sought in order to take immediate action against low pay. It is important to have regard to this fact when considering the impact of accreditation on employing organizations.

**Responding to a public campaign.** A final item in the list asked if employers had sought accreditation in order to ‘respond to a public campaign encouraging you to pay the Living Wage’. As has been noted, the Living Wage Movement originated fifteen years ago in highly visible campaigns targeting City financial institutions and public service providers – hospitals and universities - in the East End of London. These campaigns placed the issue of the Living Wage on the public agenda and were instrumental in persuading some of the first employers to sign up. In the period since, however, it seems that campaigning activity targeted at individual employers has become less significant. Only 8 per cent of employers reported that responding to a public campaign was of ‘great importance’ to the decision to become accredited, the lowest percentage for any item in the list.

**Patterns of variation.** Figure 1 suggests that there is considerable variation in the reasons that lead employers to sign up to the Living Wage. Further analysis of the evidence in the Figure has identified some of the characteristics of organizations that are associated with different motivations for becoming accredited. This work is at a preliminary stage and findings are provisional but it has been possible to identify some of the factors that underpin the decision to become a Living Wage Employer.

The first issue that was examined was the characteristics of organizations who had become accredited because they wanted to lead change, either in their own industry or in their own region. It was considered that this leading group of Living Wage Employers are likely to form the core support of the Living Wage campaign and may play an important part in spreading the Living Wage to other employers.

The analysis indicated, firstly, that lead employers were more likely to have been accredited in the early years of the campaign, though the level of correlation was modest. They were also more likely to be found in the public sector, suggesting that government agencies, local authorities and other public sector bodies have become accredited as part of a broader push to raise wages. Public sector organizations have often accepted a ‘model employer’ obligation, committing to good employment standards that they seek to have adopted by other organizations which they fund and with which they contract. There is evidence of the Living Wage being absorbed within this established public sector tradition.

A second issue that was examined was the characteristics of organizations which stated that they had signed up for the Living Wage because of commercial considerations: to win contracts or secure funding. Here, there was a notable division with some organizations being notably less likely to report reasons of this kind while others were more likely. Amongst the former group were religious organization and organizations in public administration and hospitality. These latter associations probably reflect the influence of financing arrangements: public bodies are in large part tax-funded and bars, café’s, restaurants and hotels often generate income from consumers rather than through commercial contracting.

Organizations that reported relatively strong commercial motivations tended to operate in construction, ICT, professional services, and health and social care. The small number of

cleaning firms responding to the survey also scored relatively highly. In service industries, where commercial contracting is central to business funding, therefore, commercial motivations have been relatively strong in leading employers to the Living Wage.

Another type of motive that was examined were reputational benefits: the analysis sought to identify the characteristics of employers that had signed up to the Living Wage at least in part to strengthen their organization's reputation. To examine this issue a scale was created composed of a number of items: whether accreditation had been sought to enhance the organization's corporate or general reputation, to differentiate it from others in the same line of activity, to obtain a standard that other organizations had already obtained, to attract customers or clients, and to build relations with politicians and public bodies. Analysis of the evidence revealed that industry differences were of most significance. The strongest reports of accreditation being sought to win reputational benefits were found amongst construction companies, though finance and real estate organizations also scored highly. At the other end of the scale religious organizations, once again, were distinguished by the relative lack of importance of this type of motive for their decision to seek accreditation.

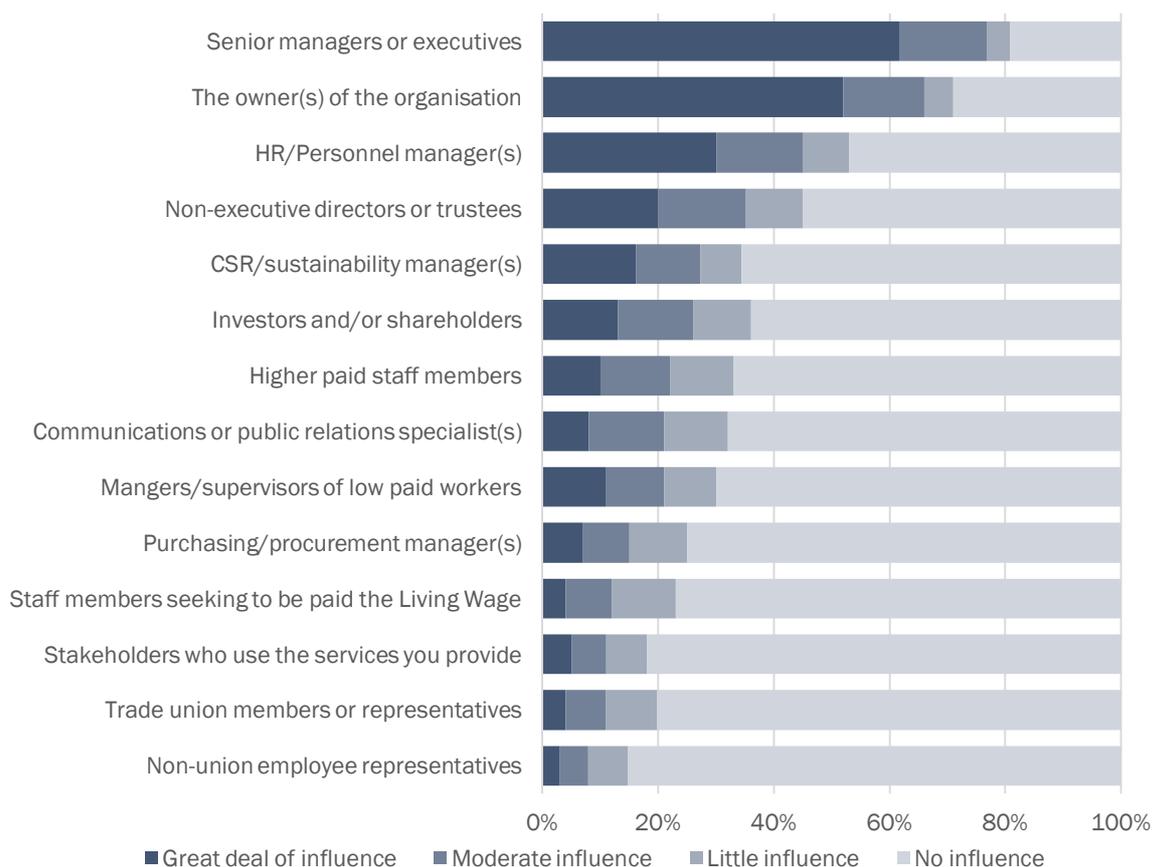
## Influencing the Decision

A second set of questions in the survey asked Living Wage Employers which groups, internal and external to the organization, had influenced the decision to become accredited. The purpose of this set of questions was to identify the key decision-makers who have driven the spread of the Living Wage and to identify the social and political forces that have influenced their decision.

### Internal Influences

Figure 2 shows the response for groups internal to accredited organizations, with items again placed in rank order depending on the frequency of reports of influence for each group. The main findings are as follows:-

**Figure 2 - Internal Influences on the Decision to Become Accredited**



**Owners and managers.** It is clear from Figure 2 that senior managers and the owners of organizations have been the primary internal decision-makers. The decision to seek Living Wage accreditation in most organizations, therefore, has reflected the established structure of authority. Becoming a Living Wage Employer has been a top-down decision in

most cases. It should also be noted that in about a third of cases investors have helped shape the decision and in just under half non-executive directors or the trustees of not-for-profit organizations have played a role. In a fifth of accredited organizations the latter were said to have exerted a 'great deal of influence' and some of our interviews reinforced this view, with reports of board members in educational and cultural institutions, in particular, playing a key role in the decision to adopt the Living Wage.

**Specialist managers.** The second most influential group within accredited organizations are specialist managers. HR managers, specialists in corporate social responsibility, communications specialists and purchasing managers have all played a role in the decision to seek accreditation in a substantial minority of organizations. Moreover, if one considers only those organizations which reported the presence of specialist managers then the influence of this group looms even larger. Amongst employers that reported the presence of a specialist HR function, 51 per cent said that HR had exerted a great deal of influence over the decision to become accredited and 86 per cent said that HR had had at least some influence. The equivalent figures for CSR were 47 and 80 per cent, for purchasing were 15 and 51 per cent, and for communications were 14 and 51 per cent. Where they are present, therefore specialist managers have influenced the decision to become accredited, with HR and CSR specialists being particularly influential.

**Organizational members.** Figure 2 indicates that other types of organizational member exercised less influence over the decision to become accredited. In around 10 per cent of organizations the direct managers or supervisors of workers who would benefit from the Living Wage and employees who would not themselves benefit had been a primary influence. Colleagues speaking up for the lower-paid within their organizations have been a significant force behind accreditation in some organizations, albeit only a minority. Another group that has pressed for accreditation are service users who are also organizational members, such as students within universities, the congregations of faith organizations, or the members of trade unions and professional associations. In just under 20 per cent of organizations, this group had had some influence over the decision to become accredited but they were identified as a primary influence in only 4 per cent cases. Students in particular have played a decisive part in pushing a number of universities towards accreditation but this type of pressure is quite unusual within the sample at large. The final group of organizational members were low-wage workers, themselves, who would benefit directly from Living Wage accreditation. In nearly a quarter of employing organizations this group was said to have influenced the decision to become accredited but was identified as a major influence in only 4 per cent of cases. Clearly accreditation of Living Wage Employers has not been driven in most cases by pressure from below from those on low pay.

**Representatives.** The final internal group were employee representatives - 'trade union members or representatives' and 'representatives of employees apart from trade union reps'. Once again, only a small percentage of employers across the full sample reported that these groups had exerted major influence: 5 per cent for trade unionists and 3 per cent for non-union representatives. However, most accredited Living Wage Employers are

not unionised. If one confines the analysis to organizations that ‘recognise or deal with a trade union (or trade unions)’ then the level of union influence, in particular, rises. In 58 per cent of these cases, the trade union had exercised some influence over the decision to become accredited and in nearly a quarter of cases the union had exerted a ‘great deal of influence’. This evidence suggests that, while trade unions have sometimes played a central part in driving accreditation in organizations where they have recognition, they have not been a major force promoting the Living Wage. This is primarily because most Living Wage Employers are not unionised but even in many unionised organizations the role of unions (as assessed by employers) has not been the primary driving force behind accreditation.

### Patterns of variation.

The main structural factors that were associated with the pattern shown in Figure 2 were organizational size and the sector in which the organization operated. The effect of size was seen in the number of internal influences – the bigger (and therefore more complex) the organization, the more internal influencers of the decision to accredit were identified. The involvement of specialist managers, such as HR and CSR specialists, was particularly associated with organizational size, with employers with a workforce in excess of 500, not surprisingly, being the most likely to report the involvement of specialists.

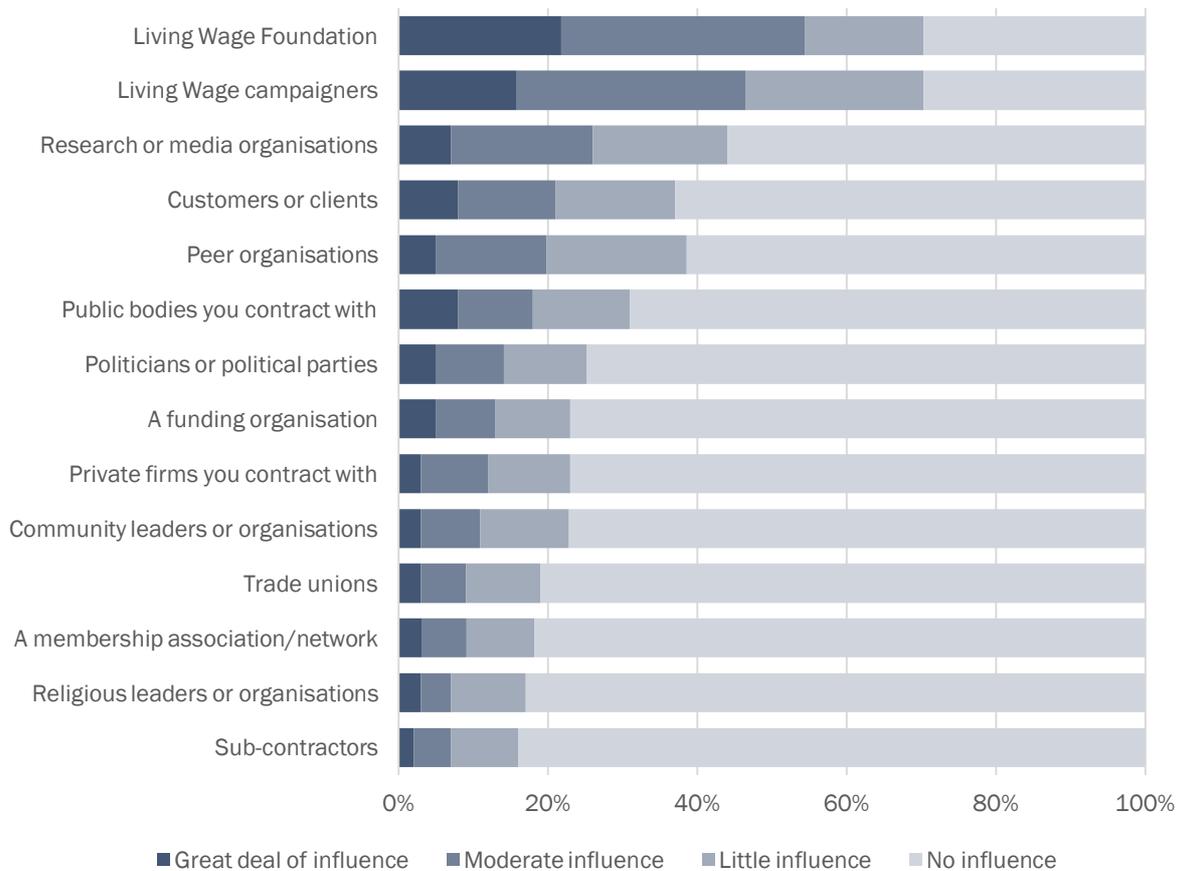
Sector was also important. Private sector employers were more likely to identify an important role for owners in the decision to become accredited and this was also true of small, micro-employers. The involvement of non-executive directors or trustees, in contrast, was found most commonly in the not-for-profit sector, where boards seemingly have guided their organizations towards Living Wage accreditation.

A final issue that was examined was the characteristics of organizations in which low-wage employees were themselves said to have influenced the decision to become accredited. Perhaps unsurprisingly, these organizations also reported that the Living Wage had been adopted in response to an external campaign. There was also an association, however, with the presence of a trade union and it may be that this traditional form of worker voice is important in enabling low-wage workers themselves to articulate the call for a Living Wage.

### External Influences

The survey also asked employers to rate a number of external groups, such as Living Wage campaigners, politicians, the media, customers and funders, in terms of the influence they exerted over the decision to become accredited. The results are shown in Figure 3.

**Figure 3 - External Influences on the Decision to Become Accredited**



The first thing to note about the evidence in Figure 3 is that the mean scores for the items are generally lower than those shown in Figure 2. According to respondents, the main influences on the decision to become accredited were located within the organization rather than outside, in the external business environment. Other significant findings are as follows:

**Living Wage campaigners.** The main external influences that were identified, not surprisingly, was the Living Wage campaign or movement. Seventy per cent reported that ‘The Living Wage Foundation or Scottish Living Wage Accreditation Initiative’ had influenced their decision and over a fifth of employers reported that they had exercised a ‘great deal of influence’. Over two thirds of employers also reported that ‘Living Wage campaigners, including Citizens UK and the Poverty Alliance’ had influenced their decision to become accredited, with 16 per cent reporting that campaigners had been a primary influence. The employer-focused element of the Living Wage campaign, embodied in the Living Wage Foundation and its Scottish equivalent, have been more influential in shaping the employer decision than has the campaign more broadly conceived.

**Wider society.** Apart from the Living Wage campaign itself, what evidence was there that other institutions have encouraged employers to adopt the Living Wage? One seemingly

important source were research and media organizations. The latter were identified as a primary influence by only 7 per cent of organizations but nearly half reported that they had exercised at least some influence. The findings point to the importance of maintaining a high media profile for the Living Wage campaign and for research findings which legitimate the Living Wage if it is to continue to spread. Other social forces were reported to have exercised only limited influence over accreditation. Religious organizations, community organizations, politicians or political parties, and external trade unions were reported to be influential by less than a quarter of employers and when influence was reported it was typically said to be modest. These findings echo that reported in the previous section on the limited impact of external campaigning. It should be noted though that a number of these institutions, particularly faith and community organizations, play an important role as affiliated members of Citizens UK and, through their membership, will have contributed to the primary Living Wage campaign.

**Commercial contacts.** Substantial minorities of employers reported that the decision to become accredited was influenced by external organizations with which they had commercial relationships. More than a third reported that clients or customers had influenced the accreditation decision. Similarly, around a quarter were influenced by either public or privately owned organizations with which they held contracts. In most cases, the level of influence was modest and less than 10 per cent of employers reported that commercial contacts were a primary influence. Nevertheless, business contacts seem to have been one of the most influential external forces in spreading accreditation. The survey also asked whether funding agencies or sub-contractors had influenced the decision to become accredited. Commercial contacts of this kind were less influential. Just over a fifth of employers said that funders had exercised some influence and 16 per cent said that sub-contractors had done so. The primary type of commercial contact influencing accreditation, seemingly, are purchasers or end-users rather than suppliers. It is those who procure, not those who sell or fund who have been most effective in spreading the Living Wage, though even in this case the scale of the effect has been fairly modest.

**Peers and member organizations.** The final type of external influence consisted of peer organizations – ‘an organization similar to your own, including competitors’ – and membership associations ‘for organizations of your type’, such as employer organizations and professional bodies. Peers were identified as one of the main external influences on the decision to become accredited. Over a third of employers said that peers had exercised at least some influences over their decision and this kind of influence can be seen in the population of Living Wage employers, which includes clusters of firms in particular industries. Craft brewers, universities, providers of social housing, credit unions and firms of solicitors, are all examples where the Living Wage has seemingly spread from employer to employer. Another such cluster can be found amongst ‘business and employers’ membership organizations’. Business in the Community, the British Bankers Association, British Chambers of Commerce, the Association of Colleges, the British Cleaning Council, several local BIDs and other employer bodies are accredited Living Wage Employers. Beyond the world of business the TUC and Scottish Trades Union Congress and many

organizations of charities are also members. Given this concentration of membership groups amongst Living Wage Employers, what evidence is there that they are persuading their member employers to become accredited? In some cases they have played this role: 19 per cent of accredited employers reported that an association or network of which they were a member had influenced their decision. For example, in interviews a number of respondents identified The Law Society as particularly playing this role with regards to its business members. In general, however, business organizations have played a marginal role in spreading the Living Wage: it is peer to peer relationships, unmediated by common membership of a business organization, which seems to exert most effect.

### Patterns of variation

As with internal influences, the number of external influences on the decision to accredit was associated with organizational size: larger organizations reported that more groups had influenced their decision.

Other external influences on accreditation tended to be reported by organizations with particular characteristics. The influence of Citizens UK or the Poverty Alliance, for instance, tended to be reported by public sector and religious organizations and by organizations which had been accredited at a relatively early date. The influence of the Living Wage Foundation or Scottish Living Wage Accreditation Initiative was also reported more frequently by public sector organizations and by organizations in Scotland. Scottish employers were also more likely to report that 'public bodies to which you contract or provide a service' had shaped the decision, indicating a public procurement dimension to Scottish Living Wage accreditation. This external influence also tended to be reported by employers in construction, professional services and in health and social work, industries in which supply to the public sector is an important source of revenue. Employers in health and social work were also more likely to state that 'an organization that provides you with funding' had influenced the decision to become accredited.

The final external influence that was examined was that of peer organizations. Here, there was a tendency for organizations in real estate, such as providers of social housing to report that this influence was significant. And it was also reported more frequently by large organizations, suggesting that the latter monitor the behaviour of other businesses as part of the process of adhering to standards of good management practice.

## Associated Changes

Another purpose of the survey was to establish whether or not the adoption of the Living Wage was associated with other changes in business and management practice. Was Living Wage accreditation a catalyst, prompting ancillary adjustments in the organizations which sought it?

Three main types of associated change were tested for in the survey. The first was whether the Living Wage had led to an upgrading of HR practice, stimulating a wider set of changes that improved workforce management. External regulation, union bargaining power and other forces that raise labour costs have often been identified as having an effect of this kind and the aim was to see if Living Wage accreditation operated in the same way, providing a positive, external shock to organizations adopting it.

The second type of change was the opposite of the first. If wages are increased ‘artificially’ above the market rate then it is often suggested that adverse consequences will follow. The latter might include laying-off workers, restricting future growth of employment, price increases that pass on high labour costs to consumers and the scaling back of investment as revenue is diverted to consumption. The survey explored whether negative adjustments of these kinds had flowed from accreditation.

The third type of change is also negative though in this case impacting much more directly on low-wage workers. The introduction of the Government’s National Living Wage led to a series of newspaper stories about employers ‘clawing back’ the cost of the wage increase by reducing hours, withdrawing supplementary payments and eliminating employee benefits. Research has indicated that this was not a majority employer response to the new statutory National Living Wage but it was felt important to gauge whether employers were responding in a similar manner to the voluntary Living Wage.

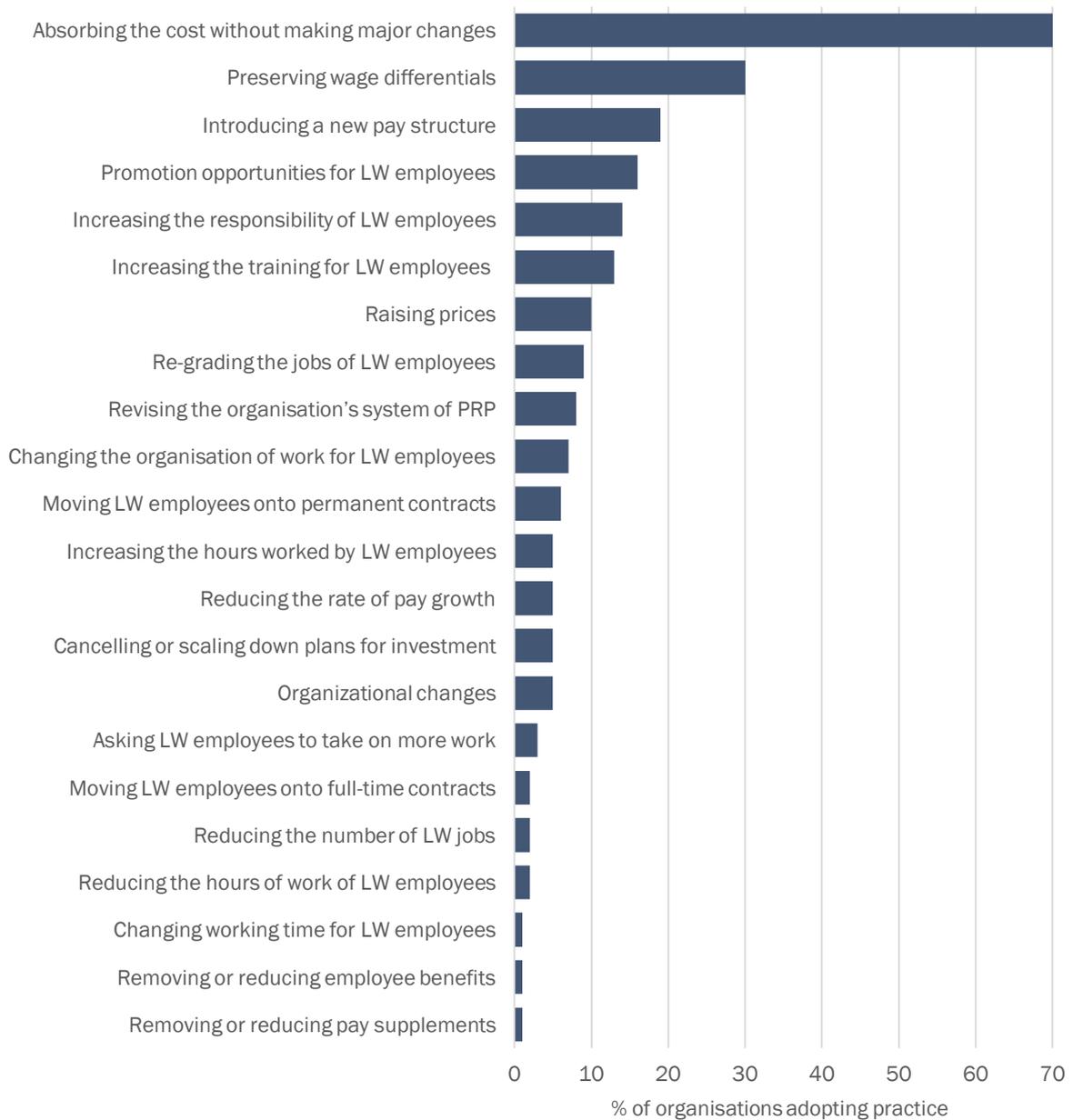
Our evidence on associated changes is presented in Figure 4, which shows the percentage of employers reporting changes that ‘were made as a consequence of becoming a Living Wage Employer’. Data are presented for 22 types of associated change and these have been placed in rank-order with the changes with the highest percentages at the top.

The most striking finding is that only one associated change is reported by a majority of Living Wage employers: 70 per cent of employers stated that they had ‘absorbed the cost of the Living Wage without making major changes’. On this evidence, the catalytic effect of the Living Wage has been limited, affecting only a minority of accredited employers. Most who have sought accreditation have taken it in their stride, increasing pay for the often small number of workers affected without having to make wider adjustments.

The second most common associated change, reported by 30 per cent of employers, was to ‘increase the pay of employees paid above the Living Wage to preserve differentials’. This finding suggests that in a substantial minority of organizations absorbing the cost of

the Living Wage has encompassed absorbing adjustments to the pay of higher paid workers. The third most common change was to ‘introduce a new pay structure’ and the findings suggest that, the most common adjustment in the wake of the Living Wage has been to revise aspects of pay management in order to minimize disruptive consequences. For a proportion of employers, the Living Wage has stimulated a reform of reward practice that extends beyond the simple introduction of the rate.

**Figure 4 - Changes in Employment Practice Associated with the Living Wage**



For a smaller percentage, the Living Wage has produced associated changes in line with the positive shock hypothesis. Just over a tenth of employers report that accreditation has led them to increase training for those being paid the Living Wage, provide promotion

opportunities and increase levels of responsibility. Smaller percentages report changing contracts from part-time to full-time and from temporary to permanent and to introducing new forms of work organization. There is evidence therefore accreditation stimulating an upgrade of HR practice but this has been very much a minority trend within sample.

Evidence for negative effects is even less common. A small number of employers report increasing prices and cancelling or scaling back investment (10 and 5 per cent of respectively). Negative consequences for employees have seemingly been even rarer. Fewer than 5 per cent of employers report that they have responded to the Living Wage by reducing the workforce, reducing working hours, asking workers to take on more work, scaling back benefits and pay supplements and reducing the rate of pay growth of higher paid workers. There has been some clawback but very much at the margin with typically one or two per cent of employers reporting effects of this kind. Accredited Living Wage Employers emphatically have not given with one hand and taken with the other.

### Patterns of variation

Analysis of variation in reported associated changes focused initially on the number of changes reported by employers. This analysis indicated that employers reporting a higher number of associated changes, i.e. those for whom accreditation had been a more 'disruptive' event, tended to have been accredited recently and to have relatively large numbers and a relatively large percentage of workers benefiting directly from the Living Wage. As would be expected, where the impact of accreditation has been greater then employers have made associated adjustments in their systems of management.

The analysis also pointed to industry differences. A relatively large number of associated changes was reported by manufacturing firms, retailers and wholesalers, hospitality businesses and in the public sector. Businesses operating in low-wage sectors of the economy, such as cleaning, social care, retail and hospitality, were also more likely to report associated changes. This finding again suggests that where accreditation as a Living Wage employer is more challenging then the need to make management adjustments is greater.

In contrast, in a number of other industries, and particularly in professional services and construction, the number of changes associated with accreditation was relatively low, suggesting that for businesses in these fields the Living Wage has not been a particularly challenging innovation.

Further analysis attempted to identify the characteristics of the small number of accredited employers that reported making offsetting adjustments to the Living Wage. To perform this analysis a 'clawback' scale was created comprised of replies to the following items: reducing the number of workers performing living wage jobs; reducing the hours of living wage employees; asking living wage employees to take on more work; removing or

reducing employee benefits to help pay for the living wage; and removing or reducing pay supplements.

It must be remembered that very few organizations reported making any of these changes. Those that did tended to have been accredited recently, in 2016, and to be found in particular industries, including retail and wholesale, financial services, public administration and education. In other industries, in contrast, the score was particularly low. This was the case in professional services, arts, sport and entertainment, and in other services, where most accredited employers are membership organizations of workers, employers, professionals or charities.

Clawback was not found to be associated with low-wage employment or with a relatively large Living Wage impact, in terms of number of workers directly benefiting. In at least some industries, such as public administration and education, however, it may be associated with a difficult funding environment that has pushed accredited Living Wage employers to make offsetting adjustments.

## Contractors

A critical feature of the Living Wage standard is that it encompasses the employees of contractors. Under the terms of accreditation, employees of contractors, provided they work on the employers' premises for at least two hours a day for a period of eight consecutive weeks, must be paid the Living Wage.

The purpose of this provision is to avoid the use of contracting to force down labour costs at the expense of low-wage employees. Particularly in low-wage labour markets, such as those for cleaning, security, grounds maintenance, social care and catering, the transfer of employment from the public sector and large private businesses to external suppliers has been associated with the erosion of pay rates and terms and conditions of employment. The object of the Living Wage is combat this process and afford wage protection for outsourced employees.

Another important feature of the requirement to extend the Living Wage to employees of contractors is that it encourages businesses which make use of outsourcing to assume responsibility for the terms on which contracts are let. There is a moral impulse behind the provision. Effectively, it declares to employers that the use of contracting does not eliminate the obligation to provide decent employment for all workers upon which the health of the business depends. In signing-up to the standard, employers accept this obligation.

Given the importance of the contracting provision within the Living Wage, it was essential that the issue was covered in the questionnaire survey. In particular, it was considered important to establish the extent of contracting, which types of activity were affected, and whether the accreditation had stimulated change in employer-contractor relationships, such as the renegotiation of contracts or the replacement of contractors. Finally, it was also felt to be important to identify if there was evidence that Living Wage Employers were proactively accepting responsibility for employment terms within contracting businesses and were using relations with contractors to encourage a more general upgrading of employment conditions, over and above the payment of the Living Wage.

The survey found that, while contracting was common amongst Accredited Living Wage Employers, it was far from ubiquitous. Over 330 employers (40 per cent of the sample), reported that they used contractors 'whose staff members work regularly on your premises and who are eligible for the Living Wage'. These employers tended to be larger, older and to be located disproportionately in the public sector, though an absolute majority were private businesses.

Table 1 shows the extent to which employers had made changes to their contracting arrangements as a result of Living Wage accreditation. It is clear from the table that the most frequent change resulting from Living Wage accreditation has been the simplest: employers have renegotiated contracts with contractors, presumably in order to

accommodate the higher rate of pay. To a degree, it is surprising that the percentage of employers reporting this change is not higher. It may be though that in some cases employees of contractors were already paid above the Living Wage and in others renegotiation is yet to occur as employers are waiting for existing contracts to expire.

**Table 1 - The Living Wage and Contracting**

	Number	Per cent
Renegotiation of contracts with existing contractor(s)	187	57
Replacement of existing contractor(s)	47	14
Contracting with a Living Wage Recognised Service Provider(s)	95	29
Bringing work previously contracted back in-house	15	5
Extending contracting to activities that previously were in-house	7	2
Encouraged contractor(s) whose employees do not work normally on your premises to also pay the Living Wage.	171	52
Encouraged contractors to adopt other good employment practices in addition to the Living Wage.	116	35

Much less common was the replacement of contractors. Fewer than one-in-five employers reported that the Living Wage had prompted them to change contractors, suggesting that in most cases contractors have been content to pay the higher rate provided the value of the contract is increased proportionately. In some cases though contractors have been resistant, possibly because of knock-on consequences elsewhere in their business, resulting in a change of contractor.

An encouraging finding from the table is that nearly a third of employers have awarded contracts to Recognised Service Providers. The purpose of the latter scheme is to provide a supply of facilities management businesses happy to pay the Living Wage as a way to spread best practice on pay in the contracted service industry. The evidence suggests that this aim has been met, at least to a degree. There are currently just over 90 Recognised Service Providers and these are providing employees, who are being paid the Living Wage, to about 360 Accredited Living Wage Employers.

Some of the early campaigners for the Living Wage were hopeful that the standard would lead to the return of contracted work in-house as the cost advantage of outsourcing was eliminated or reduced. However, it is possible that the Living Wage could have the opposite effect, facilitating contracting as the latter's association with wage reduction or poor employment conditions is ended. The evidence of in Table 1, indicates that neither of these changes have been common. Bringing work back in-house is reported by only 5 per cent of employers and extending contracting to activities previously performed by direct workers is reported by even fewer, only 2 per cent. Living Wage accreditation has led to the renegotiation of contracts and to some replacement of contractors but seemingly it has not really affected the volume of contracting amongst accredited organizations.

The final set of findings in Table 1 provide support for the belief that Living Wage Employers are using contracting proactively to upgrade employment conditions. More than half of the sample reported that they had encouraged payment of the Living Wage to employees of contractors who fall outside the formal requirements of the standard. This might be done by maintaining a list of favoured suppliers to the organization with a place on this list being dependent, at least in part, on payment of the Living Wage. A number of public sector organizations have developed policies of this kind but the evidence indicates that third and private sector organizations have followed suit, encouraging supplier businesses, which do not have employees located on clients' premises to also pay the Living Wage.

Less common though still reported by a third of employers, is the encouragement of contractors to adopt other beneficial employment standards. The evidence in Table 1 suggests that a degree of 'spillover' is taking place, with Accredited Living Wage Employers encouraging supplier businesses to engage in a broader upgrade of HR practice. This is a very positive finding, particularly in the light of current media comment on the erosion of employment standards in the period since the global financial crisis of 2008.

### Patterns of variation

In examining employer characteristics that were associated with different types relationship with contractors, it was decided to focus on three issues: the characteristics of employers who had contracted with Living Wage Service Providers; those that had encouraged contractors to extend the Living Wage to employees who did not work on the employer's premises and so were formally outwith the Living Wage standard; and those employers that had encouraged contractors to adopt other good employment practices.

The results of the analysis were quite striking, revealing strong patterns of association. Use of Living Wage Service Providers was concentrated disproportionately amongst large employers with a relatively high number of workers benefiting directly from the Living Wage. It was also concentrated amongst those who had received their accreditation early on, before 2013, and amongst employers which declared a formal commitment to corporate social responsibility on their websites. Micro-employers and employers in Wales, were notably less likely to use Living Wage Service Providers, perhaps in the latter case because of the limited number or availability of approved contractors in the Principality.

Seeking to extend the Living Wage to non-permanently located contracted workers was also associated with organizational size and early accreditation and, in addition, was a feature of public sector organizations and social housing providers. The latter associations provide further support for the importance of a public service model employer commitment and the desire of public service organizations to spread good employment practice across their network of supplying businesses.

Size, date of accreditation and public sector location were also associated with encouraging contractors to adopt other benign management practices though in this case

the levels of association were lower. The overall pattern across the three types of activity suggests, not only that public sector organizations are distinctive Living Wage Employers, but also that large organizations and early supporters of the Living Wage may be as well. Large organizations are likely to have greater market power and ability to influence the policies of contractors, while early adopters of the Living Wage may have a strong commitment to the campaign and be more ready to act as leaders, promoting its diffusion. The key finding is that there are certain types of employer within the ranks of those who are accredited who are prepared to use contracting more proactively to diffuse not only the Living Wage but also other good employment practices.

## Benefits and Challenges

Labour standards, like the Living Wage, are often promoted on the grounds that they can serve the interests of employers as well as employees. It is suggested that there is a compelling 'business case' for progressive management and, indeed, the Living Wage has often been promoted to employers on this basis. Earlier research, on the impact of the Living Wage in London, Scotland and amongst small and medium-sized enterprises, moreover, has provided support for the business case, pointing to a range of HR and other business benefits for employers that have signed up to the Living Wage.<sup>1</sup>

Given the centrality of this kind of argument to discussion of the Living Wage, a central purpose of the survey was to gather employers' own perspectives on the effects of the Living Wage on their organizations. Was it the case that a series of benign consequences had flown from accreditation, good for both workers and their employers, or had it led to significant challenges, pushing up labour costs and disrupting established pay structures?

With regard to potential benefits, we consider four issues: 1) the extent to which positive effects are reported across the survey sample, establishing whether the 'business case' for the Living Wage has a general or minority relevance; 2) the nature of the benefits that are reported and whether they are confined to the sphere of HRM, such as improvements in recruitment and retention, or whether they extend to other aspects of business functioning and performance; 3) the depth of the impact where a positive effect is registered – the extent to which the scale of change is major, modest or of only limited significance; and 4) the characteristics of those organizations most likely to report positive effects – are they concentrated in a particular sector, in particular industries or found amongst particular types of organization?

These same four issues are considered in the case of the reported challenges of the Living Wage. The focus of the latter section is narrower, however, concerned primarily with the impact of the Living Wage on direct and indirect labour costs and whether or not it has disrupted established pay arrangements, leading to difficulties in recruiting and motivating higher paid employees.

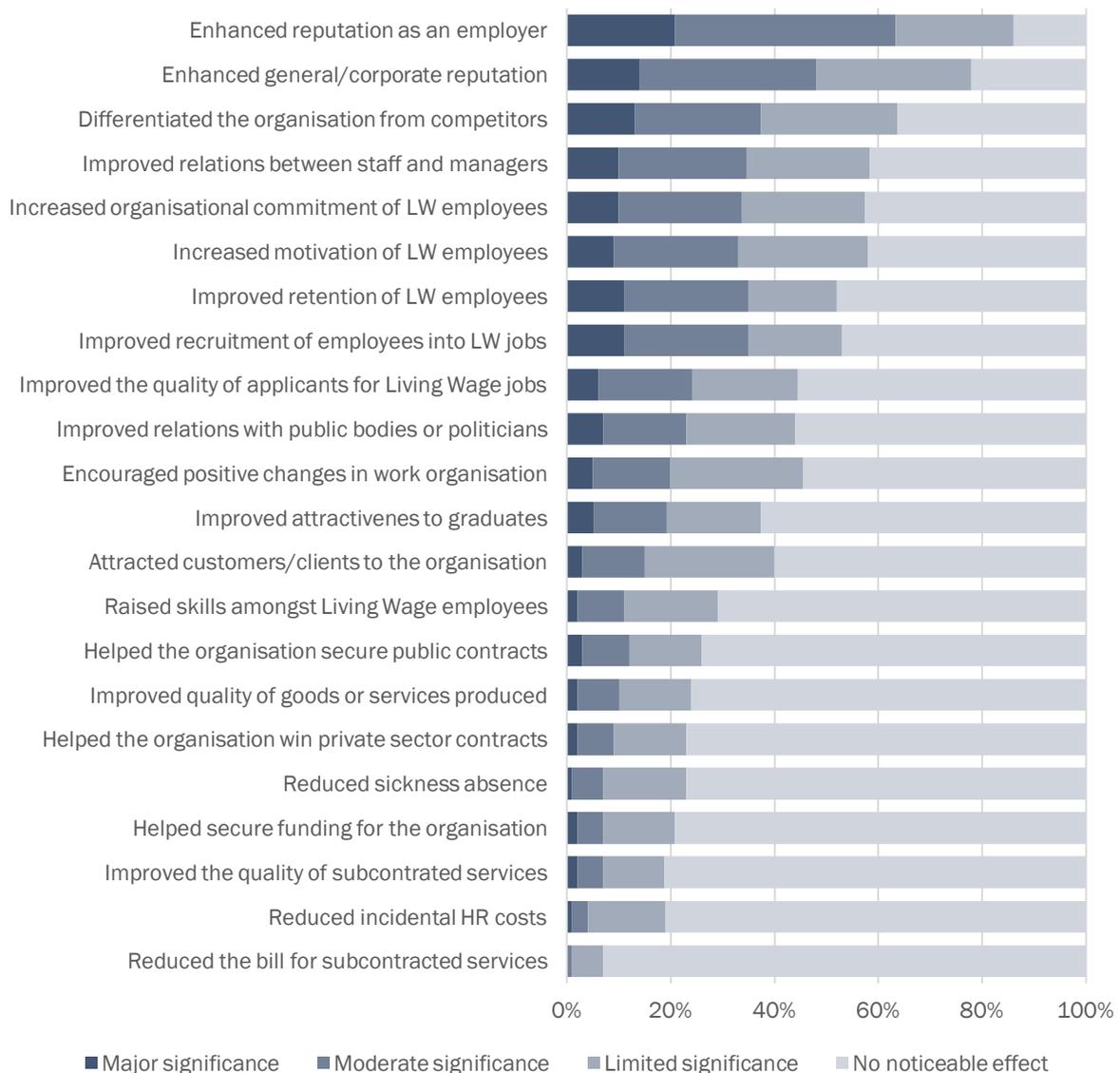
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<sup>1</sup> See for example: Coulson, A.B. and Bonner, J. (2015) *Living Wage Employers: Evidence of UK Business Cases*, University of Strathclyde; Werner, A. and Lim. M. (2016) *Putting the Living Wage to Work: Strategies and Practices in Small and Medium-Sized Enterprises*. Barrow Cadbury Trust & Wills, J. and Linneker, B. (2012) *The Costs and Benefits of the London Living Wage*, Trust for London.

## Benefits

Figure 5 shows employer estimates of the positive effects of the Living Wage on their organizations, with effects ranked according to the average 'score' across the sample of employers.

**Figure 5 - Benefits of Paying the Living Wage**



It is clear from the figure that Living Wage accreditation has benefited employers. The vast majority of employers (93 per cent) reported that they had gained from accreditation and of the 21 potential benefits listed in the figure, eight were reported by a majority of employers, 11 were reported by a third or more and all were reported by at least some organizations. The average number of beneficial outcomes reported across all employers was 8.7. It must be recognized, moreover, that several of the items listed are not of relevance to all employers: only a proportion are involved in securing contracts from the public sector or in seeking funding from outside sources or developing relations with public

bodies or politicians and this uneven relevance must be taken into account in interpreting the evidence.

While Figure 5 shows widespread positive effects for employers, it also shows that the scale of change was generally modest though with substantial variation across the sample. Employers reporting a beneficial change were asked whether it was of ‘major significance’, of ‘moderate significance’ or of ‘limited significance’. For 20 of the 21 items in the list of potential benefits, a majority of employers reported that the effect was of ‘limited significance’ and for only five items did 10 per cent or more report that the effect was of ‘major significance’. The overall pattern is therefore of a broad but relatively shallow positive effect. This pattern should not be surprising. As was noted above, in many cases accreditation has recognized a pre-existing commitment to paying the Living Wage and has not required an increase in wages. In many other cases, only a small proportion of employees have gained directly and in many of these they have been performing essential but ancillary roles, such as those in cleaning, security and catering, which support but do not contribute directly to value-generating activity. There is a business case for the Living Wage therefore but this should be caveated – accreditation has positive effects for employers though often on a modest scale; its effects for most are benign rather than transformative.

It is also apparent from Figure 5 that some positive effects are stronger than others; that employers are likely to report that the Living Wage has generated certain types of beneficial outcome. The main patterns of evidence for particular types of reported effect were as follows:-

**Reputational effects.** The most commonly reported positive change was enhancement of the organization’s reputation. A clear majority of employers reported effects of this kind: 86 per cent reported that Living Wage accreditation had ‘enhanced the organization’s general reputation as an employer’, 78 per cent that it had ‘enhanced the organization’s general or corporate reputation’, and 64 per cent that it had ‘differentiated the organization from others in the same industry or activity’. These three items were among the five in the list of potential effects that recorded a mean score of greater than 2.00, indicating that for many employers the reputational benefit of accreditation was of ‘moderate’ or ‘great’ significance. Many employers clearly believe that Living Wage accreditation has given them a stronger ‘employer brand’ and enhanced their overall reputation and these effects, in turn, have become a source of competitive advantage, differentiating the employer from other, similar organizations.

**HR effects.** The next most commonly reported type of positive effect were beneficial HR outcomes. The latter included benefits with regard to labour supply, with over half of employers reporting that the Living Wage had improved both recruitment and retention while a nearly half (45 per cent) reported that accreditation had ‘improved the quality of applicants for Living Wage jobs’. Over a third of employers, moreover, reported that accreditation had made the organization ‘more attractive to graduates and higher paid

employees', reinforcing the point above that the Living Wage can enhance the employer brand.

Many employers also reported improvements in work relations and worker performance. More than half stated that accreditation had 'improved relations between staff members and managers' and had increased both motivation and commitment of Living Wage employees. A more specific change, 'reduced sickness absence', however, was only reported by a fifth of employers.

Another type of HR change that was reported was an upgrading of work systems and of workforce capacity: 45 per cent of employers reported that the Living Wage had 'encouraged positive changes in work organization' and 29 per cent that it had 'raised skills amongst Living Wage employees'. There is evidence in some accredited organizations, therefore, that the Living Wage has stimulated positive change in workforce management; it has exerted a benign 'shock effect'.

The final HR effect about which employers were questioned, concerned the indirect effect of the Living Wage on HR administration. Employers were asked whether accreditation had 'reduced incidental HR costs, such as the cost of hiring and training'. It was felt that by stabilising the workforce and raising motivation, the Living Wage might serve to reduce the transaction costs incurred in workforce management. Only 19 per cent of employers reported that this was the case, however, and this type of change was one of the least commonly reported by those responding to the survey.

**Business effects.** A third type of positive change about which employers were asked were wider business benefits that were associated with Living Wage accreditation. Positive outcomes of this type were reported less frequently though a minority of employers stated that effects of this kind had been generated. Between a fifth and a quarter of employers reported that the Living Wage helped the organization secure public contracts and contracts with private clients, helped secure funding and raised the quality of 'goods or services the organization provides'. Rather fewer (18 per cent) reported that the Living Wage had 'improved the quality of service provided to the organization by subcontractors' but rather more (44 per cent) reported that it had 'improved relations with public bodies or politicians'. Most Living Wage Employers did not report benefits of this kind – for many they will not be relevant - but for a proportion of those that have been accredited there have been tangible and positive business effects.

### Patterns of variation

It is clear from Figure 5 that there is considerable variation in the effects of the Living Wage identified by employers. To explore this question further the analysis sought to identify the characteristics of employers that had identified three types of positive effect: HR benefits, such as improved recruitment and retention, motivation and performance; commercial benefits, such as winning contracts or funding; and reputational and relationship benefits,

such as improving employer brand, differentiating the organization from others in the same field of activity and enhancing relations with politicians or with customers or clients.

Identification of HR benefits was associated with a range of different employer characteristics. Early recruits to Living Wage accreditation were particularly likely to report benefits of this kind as were employing organizations which had a relatively large number and large percentage of workers who had benefited directly from the Living Wage. The latter associations suggest that where the 'bite' of the Living Wage is stronger then so are the observed gains within HR management.

HR benefits were also associated with industry differences. Benefits of this kind were particularly likely to be reported in low-wage industries, in construction, retail, hospitality, arts and entertainment and in the public sector. They were least likely to be reported by faith and social justice organizations and by organizations operating in 'other services'; that is in membership organizations such as trade unions, professional associations and business organizations.

One final correlation was with organizational size: very large organizations were more likely to report positive HR effects.

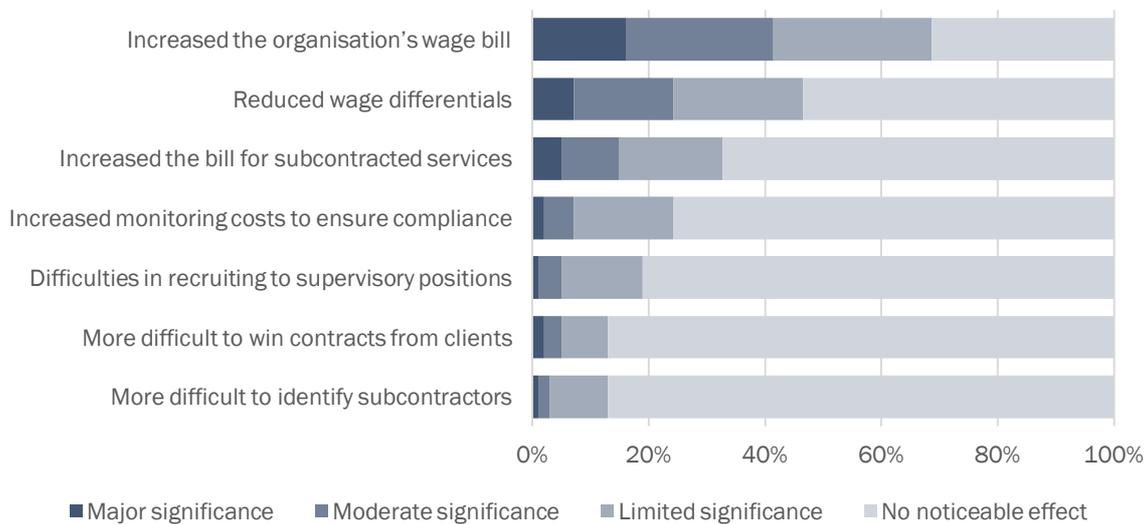
Some of the same patterns of association are seen amongst organizations reporting commercial benefits. Construction companies were disproportionately present amongst this group, while faith organizations were disproportionately absent. Other patterns differed, however. Thus, public sector organizations were less, not more, likely to report benefits of this kind, perhaps indicating their position at the top of public procurement supply chains. Apart from construction, the industries with relatively strong identification of commercial benefits were information and communication, professional, scientific and technical services, and health and social care: all industries that supply services to corporate clients, including clients within the public sector.

The pattern for reputational and relationship benefits was less clear-cut than that for other positive Living Wage effects. In large part it mirrored the pattern for HR benefits. Thus, reports of reputational gains were associated with a relatively high number and percentage of workers benefiting from the Living Wage and were most apparent in the public sector and in low-wage industries. The strongest reports of this kind were found amongst hospitality businesses – pubs, restaurants, bars and cafés. Hospitality is an industry that has seen only a limited adoption of the Living Wage and the findings suggest that the Living Wage could offer real benefits for businesses in this sector, as well as other parts of the economy characterized by relatively low wages.

## Challenges

In addition to positive effects, the survey asked Living Wage Employers whether they had experienced negative or challenging consequences from accreditation. The pattern of responses for each potential challenge is shown in Figure 6, ranked by mean score.

**Figure 6 - Challenges of Paying the Living Wage**



Employers were asked whether Living Wage accreditation had: reduced wage differentials; led to problems in recruiting to team leader or supervisory positions; increased wage costs and the costs of subcontracting; made it more difficult to win contracts from clients or to identify subcontractors; and increased monitoring costs 'to ensure the Living Wage is being paid'.

All of these potentially consequences were reported by at least some of the sample though in only a single case – increasing the organization's wage bill – did a majority of employers report the effect. The overall pattern shown in Figure 6 is of weak negative effects, reported by a minority of employers and with the scale of effect typically modest. The negative effects of Living Wage accreditation, on this evidence, are modest, limited in scale and scope, and the findings, when considered in conjunction with Figure 5, suggest that the balance of Living Wage effects is positive.

The main challenge arising from accreditation clearly has been the direct increase in costs. About two thirds reported that their overall wage bill had increased as a result of accreditation and for 16 per cent this increase was said to be of 'major significance'. While for most accredited organizations paying the Living Wage has been a fairly marginal cost this clearly has not been the case for all. Amongst those organizations using contractors, a similar percentage (66 per cent) reported that the cost of contracting had also risen, indicating that in most cases the increase in wage costs for contracted workers has been absorbed by client, not provider, firms. Indirect costs, to do with monitoring the Living Wage and ensuring that it was being paid were much less significant. Only 25 per cent of

employers reported this effect and only 2 per cent said that it was of major significance. It is the direct increase in labour costs that has been the major challenge for Living Wage Employers, albeit with some off-setting achieved through improved retention rates and improvements in performance.

The main HR challenge associated with the Living Wage is potential disruption to established pay structures and just under half of employers (47 per cent) reported that the Living Wage had 'reduced differentials between Living Wage employees and team leaders'. As we have seen, there has been reform of pay structures in response to this effect. Where differentials had narrowed, however, the effect typically was not seen as of major significance and relatively few employers (19 per cent) reported that it had become more difficult to recruit to team leader or supervisory positions.

The final potential negative consequences about which employers were asked had to do with commercial relationships. Here the findings were reassuring. Only 13 per cent of employers reported that the Living Wage 'had made it more difficult to win contracts from clients as costs are higher' and for only two per cent was this effect of 'major significance'. On balance, the Living Wage has helped employers win business rather than reduced their ability to do so.

Employers were also asked whether Living Wage accreditation had made it more difficult to identify contractors. It was felt that some of the latter may be unwilling to accept Living Wage contracts because of the precedent it may set for other parts of their operations. Once again, the findings were reassuring. Amongst employers who made use of contractors, 77 per cent reported that accreditation had not affected their ability to identify suppliers and amongst the minority who did report a negative effect, only one per cent reported that it was of major significance. For some organizations, Living Wage accreditation has negatively impacted on commercial relationships but these are only a small proportion of the overall sample and the negative effects they report typically are modest.

### Patterns of variation

To examine which types of employer were most likely to report challenging consequences of the Living Wage, a 'challenge' scale was created derived from the following items: reduced differentials; difficulty in recruiting team leaders; increased wage bill; increased contracting bill; and increased monitoring costs.

Analysis indicated that employers scoring highly on the 'challenge' scale tended to be large (organizations with more than 500 employees had particularly high scores) and to have a relatively large number and large percentage of workers who had benefited directly from the Living Wage. Not surprisingly, those reporting challenging effects tended to be those for whom the 'bite' of the Living Wage had been relatively powerful. These same organizations, it should be noted, were also those more likely to report a positive impact.

There were also some, overlapping industry differences. The experience of paying the Living Wage was reported to be relatively challenging by employers in retail and wholesale and in employers operating in the main low-pay sectors of the economy, identified by the Low Pay Commission; that is retail, hospitality, social-care and cleaning. These findings, once again, suggest that where the bite of the Living Wage is relatively powerful, as is likely in low-wage industries, then more challenges ensue.

The other industry that reported a relatively challenging experience was public administration. This result may partly reflect the impact of austerity on public service organizations and the resulting difficulty experienced in seeking to pay the Living Wage. However, it may also reflect the existence of more formalized pay structures in public service, based on job evaluation, which are more prone to disruption than are the looser, less systemized arrangements for pay that exist elsewhere in the economy.

## The Government's National Living Wage

In July 2015, the Conservative Government announced the introduction of the National Living Wage, effectively introducing a higher statutory minimum wage for those employees aged 25 years or over. This National Living Wage will be gradually increased so that it reaches 60 per cent of median UK earnings by 2020. Although it uses the same terminology as that of the Living Wage Foundation, the National Living Wage is not based on a calculation of the amount that employees and their families need for a decent standard of living.

The introduction of the Government's National Living Wage in 2015 posed a potential threat to the Living Wage campaign, generating concern that the identical terminology may lead to confusion of brand. For this reason, the survey considered the extent to which Living Wage accreditation still offered value to accredited employers in light of the legal compulsion to now offer a 'National Living Wage' to staff of 25 and over.

### The continuing value of Living Wage Foundation Accreditation

The findings of the survey suggest that the introduction of the Government's National Living Wage has had limited impact on the role of the Living Wage Foundation in the eyes of its accredited employers.

Table 2 shows that 83 per cent of organizations agree, either somewhat or strongly, that their commitment to the accredited Living Wage has not changed since the introduction of the National Living Wage. Indeed an overwhelming majority of respondents report that their organizations have become even more proud to be an accredited Living Wage employer (87 per cent) and speculate that they would still have accredited even if the Government's National Living Wage had existed prior to their joining (84 per cent). Since the introduction of the Government's National Living Wage, accredited employers see a clear and growing importance of their role in serving as an example to other employers (88 per cent). The survey responses indicate that accredited employers feel that the Foundation's Living Wage delivers more than the Government's National Living Wage and demonstrate that accreditation still holds value for employers.

Although the findings broadly suggest that the Government's National Living Wage has not decreased the commitment of employers to the real Living Wage, a caveat is warranted. A significant minority (26 per cent) of accredited employers feel that the Government's National Living Wage has led to a decline in the value to their organization of Living Wage accreditation. The role of the Living Wage as a point of differentiation from competitors either in the same industry or from organizations that pay a lower hourly wage has also been reduced. The data suggest that nearly half of employers (45 per cent and 43 per cent respectively) agree that as a result of the introduction of the Government's National Living Wage, Living Wage Foundation accreditation is now less effective at differentiating

them from others. In short, although accreditation is still of value to employers the Government’s National Living Wage has detracted in some respects from the real Living Wage standard.

**Table 2 - Employer Assessments of the Effects of the National Living Wage**

	Strongly Disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
Since the NLW became law, my organization has become even more proud to be a Living Wage Employer	3	10	49	38
Since the NLW became law, setting an example as a Living Wage Employer has become even more important	2	10	44	44
Since the NLW became law, being a Living Wage employer has been less effective at differentiating my organization from others in the same industry	12	43	36	9
Since the NLW became law, being a Living Wage employer has been less effective at differentiating my organization from companies that pay a lower hourly wage	14	43	34	9
Since the NLW became law, paying the Foundation’s Living Wage is less crucial to reducing in-work poverty	37	44	18	2
Since the NLW became law, my organization’s status as a Living Wage Employer has become less valuable to my business	28	47	21	5
Had the NLW existed before my organization became accredited, we would have been less likely to become a Living Wage accredited employer	47	37	14	2
The new NLW has made little or no difference to my organization’s commitment to paying the Living Wage	9	8	28	55

### Patterns of variation

In analysing employer perceptions of the National Living Wage, it was decided to focus on those employers who were most likely to report a negative effect; that the Government’s National Living Wage was eroding the value of accreditation by the Living Wage Foundation. To this end, a scale was created derived of responses to three items: that the introduction of the NLW had reduced the effectiveness of accreditation in differentiating the employer from others in the same industry; that the NLW had reduced differentiation with regard to low-wage employers; and that since the introduction of the NLW, the value of Living Wage accreditation had been reduced.

The main structural factors affecting employers’ scores on this scale were sector and industry. Employers reporting that the NLW was having a negative effect on the value of Living Wage accreditation tended to be found in the low wage segment of the economy and to be concentrated disproportionately in manufacturing, retail and wholesale trade, and hospitality. In these industries paying a higher wage seems to have been a particularly

valuable differentiating factor and the value of that factor has diminished as the statutory pay floor has risen.

There were also industries in which employers were significantly less likely to report that the NLW was eroding the value of Living Wage accreditation. This was the case in public administration and the wider public sector and was also the case in arts, sport and recreation and in 'other services' (i.e. amongst membership organizations). In several parts of the economy, and perhaps critically in public services, the erosive effect of the NLW on the value of the Living Wage has been notably less severe.

## Conclusion

The purpose of this report has been to present preliminary findings from the survey of Accredited Living Wage Employers that was carried out on behalf of the Living Wage Foundation by researchers from Cardiff Business School in late 2016.

The main findings which stand out from the report are as follows:-

### **1. Reasons for accreditation**

Respondents to the survey provided multiple reasons for becoming Accredited Living Wage Employers and it is clear that the decision to seek accreditation is in many cases a complex one. What is most striking, however, is that the principal type of reason is the desire to act responsibly in accordance with a set of values. Employers have also sought accreditation for instrumental reasons, to secure benefits, but considerations of this kind have typically been secondary. When they have come into play the main objective has been to enhance the reputation of the accredited organization with more specific, instrumental goals, such as improving HRM or opening new business opportunities, being of lesser significance.

### **2. Influencing the decision**

In most organizations, according to survey respondents, the decision to become accredited has been taken by senior management and others in formal positions of authority. Other organizational members, including employees in low-paid employment, have played a secondary role. The same is true of groups beyond the organization. While many employers acknowledge the part played by Citizens UK/Poverty Alliance and the Living Wage Foundation/ Scottish Living Wage Accreditation Initiative, other institutions have not been extensively involved in the decision to seek accreditation.

### **3. Associated changes**

Living Wage accreditation does not appear to have been a highly disruptive or challenging event to the majority of participating organizations. Most employers have absorbed the cost of accreditation without making adjustments or seeking offsetting savings elsewhere. There is virtually no evidence of employers clawing back the cost of the Living Wage by cutting other employment provisions and neither is there much evidence of a negative impact on investment, employment or prices. Where associated adjustments have been made, they have most frequently taken the form of changes to payment structure, together with some wider upgrading of HR management.

#### **4. Contractors**

Where accredited employers contract aspects of their operations to business service firms then it has been common to renegotiate those contracts, such that the client business funds the cost of the Living Wage. Use of Approved Living Wage Service Providers is found amongst a substantial minority of Living Wage Employers and there is very limited evidence of previously contracted services being brought back in house as a result of the cost advantage of outsourcing being reduced or eliminated through Living Wage accreditation. One of the most encouraging findings of the survey was that a substantial number of Living Wage Employers have encouraged contractors to pay the Living Wage, even when workers are not permanently located on their premises, and to adopt other good employment practices.

#### **5. Benefits and challenges**

The main positive effects of the Living Wage identified by employers were reputational gains. The Living Wage, according to respondents, had enhanced the employer brand, differentiated the organization from competitors and improved corporate reputation. Many other types of positive outcome were also reported, including improving relations with customers, clients, politicians and public agencies, upgrading HR management, and securing commercial benefits, such as access to contracts or funding. In many cases, though, these more tangible benefits were reported by only a minority of accredited employers and when they were reported the scale of impact was often said to be modest. The latter was also true of reported negative consequences. A substantial proportion of employers admitted that the Living Wage had raised direct and indirect labour costs and had disrupted pay structures. Challenges of this kind, were typically limited in scale, however, and seemed to be less significant outcomes than were positive benefits. The balance of outcomes, according to the survey results, lie very firmly on the positive side.

#### **6. The National Living Wage**

The introduction of the Government's National Living Wage has created some challenges for the Living Wage campaign given the similar terminology. Most accredited employers, however, report that the new statutory minimum has not affected their commitment to the Living Wage, with many reporting that it has increased their pride in accreditation, though for some Living Wage employers the value of accreditation has been reduced. Continuing strong employer support for the Living Wage, notwithstanding the Government's initiative, is a primary finding of the survey.

## 7. Patterns of variation

Throughout the report an attempt has been made to identify patterns of variation, uncovering the characteristics of particular groups of Living Wage Employers whose experience has been distinctive or who value particular developments in the Living Wage campaign. This aspect of the analysis is the most preliminary and has relied throughout on simple bivariate tests, such as correlation and comparison of mean scores between groups of Living Wage Employers. Findings of this type, which are reported in the text, are very much provisional and will be refined, in due course, by use of more sophisticated statistical analysis. Although provisional, the findings themselves are of interest. They suggest, *inter alia*, that employer experience of the Living Wage has varied in accordance with size, sector, industry and other characteristics, including the 'bite' of the Living Wage; that is the number and percentage of employees who have received an increase in pay. The analysis indicates that not all Living Wage Employers are the same and that experience of the Living Wage has been variable.

### A sustainable campaign.

The evidence in the survey and the supporting evidence from the employer dataset shows the Living Wage campaign in good health. Employers continue to be recruited and the rate of recruitment has increased notably in the past two years. Despite the threat posed by the Government's National Living Wage, most employers remain committed to the Living Wage. The reasons for this continuing commitment, arguably can be found in the pattern of survey findings. Most employers report a normative commitment to the Living Wage but also report benefits to their organization. Becoming accredited is believed to enhance corporate reputation and for a substantial proportion of employers has led to tangible improvements in HRM and in wider business performance. In many cases the positive effects reported are modest but they are widespread and, critically, are not counter-balanced by major negative reported effects. This pattern suggests strongly that the Living Wage is sustainable and that employer adherence to the standard can both be maintained and expanded in the future.

## Appendix – The Research

The idea of surveying living wage employers was first mooted in late 2015 and the questionnaire was developed by the Cardiff research team in close collaboration with the Living Wage Foundation during the following year. To maximise the response rate a dual strategy was employed with all respondents being sent a printed copy of the questionnaire in addition to an electronic version of the survey that was available online. The survey was distributed to 2789 Living Wage Employers and 62 service providers in mid-September 2016. Follow-up letters and emails were sent in October and November and at the time of writing 843 responses have been received, which represents a response rate of 30 per cent.

**Table 3 - Characteristics of the Sample of Living Wage Employers**

	Sample		Population	
	Number	Percent	Number	Percent
<b>Region</b>				
East Midlands	21	3	92	3
East of England	37	5	121	4
London	231	28	926	33
North East England	14	2	52	2
North West England	66	8	232	8
Northern Ireland	4	1	12	0
Scotland	201	24	618	22
South East England	85	10	246	9
South West England	60	7	169	6
Wales	29	4	70	3
West Midlands	32	4	113	4
Yorkshire and the Humber	45	5	138	5
<b>Sector</b>				
Private Sector	422	51	1446	55
Public Sector	63	8	199	8
Not-for-profit Sector	346	42	1001	38
<b>Organization Size (number of employees)</b>				
Micro (<10)	220	27	556	27
Small (10-49)	344	42	804	40
Medium (50-249)	144	18	388	19
Large (250-499)	28	4	91	5
V Large (500+)	88	11	192	10

Table 3 indicates the composition of the sample by geographic region, industrial sector and organizational size and compares it to the population of accredited employers that were surveyed. The data show that the sample is broadly representative of the wider population. The slight caveats to this are that employers in London are under-represented in the sample, whilst those in Scotland are marginally over-represented. In terms of economic sector, private sector employers are under-represented whilst those from the third or not-for-profit sector are over-represented. Finally, in terms of organization size, the

presence of small organizations is slightly over-represented in the sample. Overall, however the sample is robust and should lend confidence to the external validity of the analysis that is presented in the report.

The development and administration of the survey has been a collaborative effort between the research team in Cardiff and the Living Wage Foundation. In particular, Emma Kosmin and Tess Lanning at the Foundation have played a central role in undertaking this research. The authors would also like to acknowledge the contribution of Brita Cooper of communication consultants, BDO, in developing the section of the questionnaire on the National Living Wage.

The strength of the survey, we feel lies in its national coverage and the relatively high response rate to a survey of this kind. The survey has provided a broad brush picture of employer experience of the Living Wage, which complements more detailed research work carried out by others on particular employers or particular types of business. The limits of the survey arise from its broad-brush character: it focuses on the broad outline of Living Wage experience and relies upon a single-respondent within accredited organizations. It is hoped, in time, to offset these limitations through more focused case research, examining the varying experiences of Living Wage employers in greater detail.

## Other Research

In addition to the main survey the report is informed by other research that has provided context and background to the survey of Living Wage Employers. This additional research has comprised two main elements: the creation of a database of accredited employers and an interview survey of trade union and employers' representatives that has focused primarily on the industrial relations of the Living Wage.

**Living Wage Employer dataset.** The dataset contains information on more than 3,000 employing organizations. The vast majority are Accredited Living Wage Employers though also included are Approved Living Wage Service Providers and a small number of organizations whose accreditation has lapsed either as a result of a change of policy or because the organization has ceased to exist or has merged with another. The dataset has been assembled since March 2015, drawing upon information provided by the Living Wage Foundation, Companies House data, information contained on employers' own websites, and other publicly available data on employer characteristics.

The characteristics of employers included in the dataset are shown in Table 4. This shows, inter alia, that while Living Wage Employers are found across the UK, they are concentrated in London and in Scotland. It also shows that Living Wage accreditation is concentrated amongst private sector employers, though with a very strong and disproportionately high representation of not-for-profit organizations. The ranks of accredited employers include many charities, social enterprises, community-interest-companies, and other not-for-profits, such as universities and colleges of education.

**Table 4 - Employer Dataset**

	Number	Per cent
All	3183	100
Accreditation status		
Accredited Living Wage Employer	3004	94.4
Approved Living Wage Service Provider	84	2.6
Accreditation lapsed	95	3.0
Nation and region		
England	2349	73.8
Scotland	736	23.1
Wales	87	2.7
Northern Ireland	11	0.3
London	1029	32.3
South East	319	10.0
North West	246	7.7
South West	174	5.5
Yorkshire and Humberside	163	5.1
East of England	133	4.2
West Midlands	126	4.0
East Midlands	105	3.3
North East	61	1.9
Sector		
Private	1764	55.4
Not-for-profit	1185	37.2
Public	234	7.4
Main industries		
Healthcare and social work	439	13.8
Professional services	410	12.9
Administrative and support services	373	11.7
Other services	353	11.1
Education	254	8.0
Information and communication	212	6.7
Manufacturing	195	6.1
Retail and wholesale trade	184	5.8
Public administration	146	4.6
Construction	135	4.2
Size		
0-9	866	27.9
10-49	1236	39.8
50-249	575	18.5
250-499	133	4.3
500+	299	9.6
Year of accreditation		
2011	20	0.6
2012	108	3.4
2013	334	10.6
2014	631	20.0
2015	1083	34.3
2016	978	31.0

The table presents evidence on the industry distribution of Living Wage Employers, listing the ten main industry divisions in which the latter are concentrated. It is clear that no single sector predominates but there are particularly large concentrations of accredited employers in healthcare and social work, professional, scientific and technical services, administrative services (where Living Wage Service Providers are concentrated), and 'other services'. The latter category includes many religious organizations, political parties, and membership organizations of business, charities, and professionals. It also includes many trade unions. Representative, membership institutions have been notable supporters of the Living Wage.

It is apparent from the table that most Living Wage Employers are small organizations, directly employing fewer than 50 people. Accreditation is concentrated in small businesses and small not-for-profit organizations. However, there is a substantial body of large organizations, which have signed up either to the Living Wage or to the Service Provider standard and Living Wage employment is concentrated in these large, accredited organizations. The latter include many international businesses, publicly quoted organizations that form the core of the corporate sector within the British economy. It also includes many large public service organizations, with local authorities being particularly strongly represented, especially those in London and in Scotland. Living Wage accreditation, it is clear, has spread across all size categories of business as well as across all industry divisions and all nations and regions.

The final thing to be noted in Table 4 is the rapid growth of accreditation since the creation of the Living Wage Foundation in 2011. The successful recruitment of the past two years is particularly notable, with almost two thirds of Living Wage Employers added to the accreditation roster since the beginning of 2015.

**Interview survey.** The other piece of additional research that has been carried out has been an interview survey, which was initiated in the summer of 2015, which is ongoing and which to date has resulted in more than 40 recorded interviews. The interviewees who have been included in this survey are Living Wage campaigners, senior managers at organizations which pay the Living Wage and representatives of trade unions and employers' organizations that have developed policy on the Living Wage. The main focus of the survey has been on the industrial relations of the Living Wage and the growth of the 'non-accredited' Living Wage in unionized organizations; that is organizations which pay the Living Wage to direct staff but which typically have not sought accreditation or extended the standard to employees of contractors. The interviews were broadly framed, however, and have provided valuable contextual information for interpreting the results of the survey of Living Wage Employers.

