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Employers and the real Living Wage – responding to civil regulation

Conference Paper

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Summary

This article presents survey responses from employers that pay the 'real Living Wage', a voluntary wage standard promoted by the Living Wage Foundation. It reports that the primary reasons for adopting the Living Wage are to act in accordance with values and to promote both a corporate and employer brand. It also reports that owners and senior managers have played the main role in the adoption of the Living Wage, with HR professionals also being involved in larger employing organizations. The article concludes by assessing whether there is a 'business case' for the Living Wage and identifies a series of performance and reputational benefits that employers feel they have obtained by paying the Living Wage.

Introduction

A growing phenomenon in the UK labour market is the growth of 'civil regulation', that is, the spread of labour standards, norms and codes of good practice that are formulated by civil society organisations and promoted for voluntary adoption by employers (Williams et al 2011). The voluntary or 'real' Living Wage is a striking example of civil regulation of this type. It is an hourly wage standard, promoted by the Living Wage Foundation and based on independent research into the expenditure needs of low-income workers, which is designed to provide employees with a modest but decent standard of living. The Foundation accredits organisations that agree to pay the Living Wage to their direct employees and to the employees of contractors who normally work on their premises. The Living Wage has to be paid to all workers aged 18 and above who are not on training contracts and who have worked for the employer for at least six weeks. Accredited employers give an undertaking to increase wage rates within six months of the annual announcement of the Living Wage each November. Separate rates are calculated for London and for the remainder of the UK. In early 2018, these rates stood at £10.20 and £8.75, respectively. At the same time, the Government's confusingly titled National Living Wage, the statutory minimum wage for those 25 and over, was £7.50.

Although the Living Wage campaign in the UK dates back to 2001, accreditation of employers by the Living Wage Foundation only began in 2011 (Wills and Linneker 2013). Since then the scheme has achieved considerable success. By November 2017, the impact data collected by the Foundation indicates that there were 3,752 accredited Living

Wage Employers (LWEs) who directly employed 1.5 million workers, 5% of the UK employed workforce. Across these employers, approximately 135,000 workers have benefited directly from the Living Wage, with the total transfer of value to low-wage workers amounting to about £400 million. In addition, the standard has been adopted by other employers that have not sought accreditation, often as a result of trade union pressure (Prowse and Fells 2016). There is a substantial non-accredited Living Wage that has amplified the impact of the standard in industries such as local government, the NHS, museums and galleries, and the arts.

The impact data indicates that Living Wage campaigners have been successful in persuading employers to sign up to this particular form of civil regulation. In what follows, we examine why employers have chosen to adopt the standard, who within their organisations has played the main role in taking the decision to adopt, and what the consequences have been for employers. With regard to the latter, we pay particular attention to the positive business benefits of the Living Wage. The Living Wage Foundation promotes the Living Wage to employers on the basis that there is a strong 'business case' for higher wages (Heery et al 2017) and we assess the strength of this claim.

The research instrument that we have used to address these questions is a population survey of all accredited Living Wage Employers carried out in late 2016. The purpose of the survey was to obtain representative data across the full range of experience of accredited employers, including their reasons for adopting the standard and their perceptions of its effects. The survey was carried out with the co-operation of the Living Wage Foundation and was completed by the latter's named contact in accredited organisations. In smaller organisations these contacts tended to be managing owners, directors or executives, while in larger organisations they tended to be specialist managers, working in HR, communications, procurement or corporate responsibility. The survey was distributed in hard copy and through the LWF's email list to a total of 2,851 accredited organisations, 845 of which (29.6%) responded. Responses were broadly representative of the survey population in terms of size, sector and geographical location, and the resultant dataset provides a strong foundation from which to generalise about the employer experience of the Living Wage.[1]

Reasons for introduction

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

[1] A full account of the survey and a presentation of the complete results can be found in the following report, *The Living Wage: Employer experience*, available from: www.cardiff.ac.uk/__data/assets/pdf_file/0008/722429/The-Living-Wage-Employer-Experience-Report.pdf

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?

Figure 1 shows the pattern of replies to questions on why employers 'decided to become a Living Wage Employer', with responses placed in rank order of frequency. It demonstrates that for many organisations the key justification for signing up to the Living Wage 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.

Figure 1: Reasons for becoming a Living Wage Employer

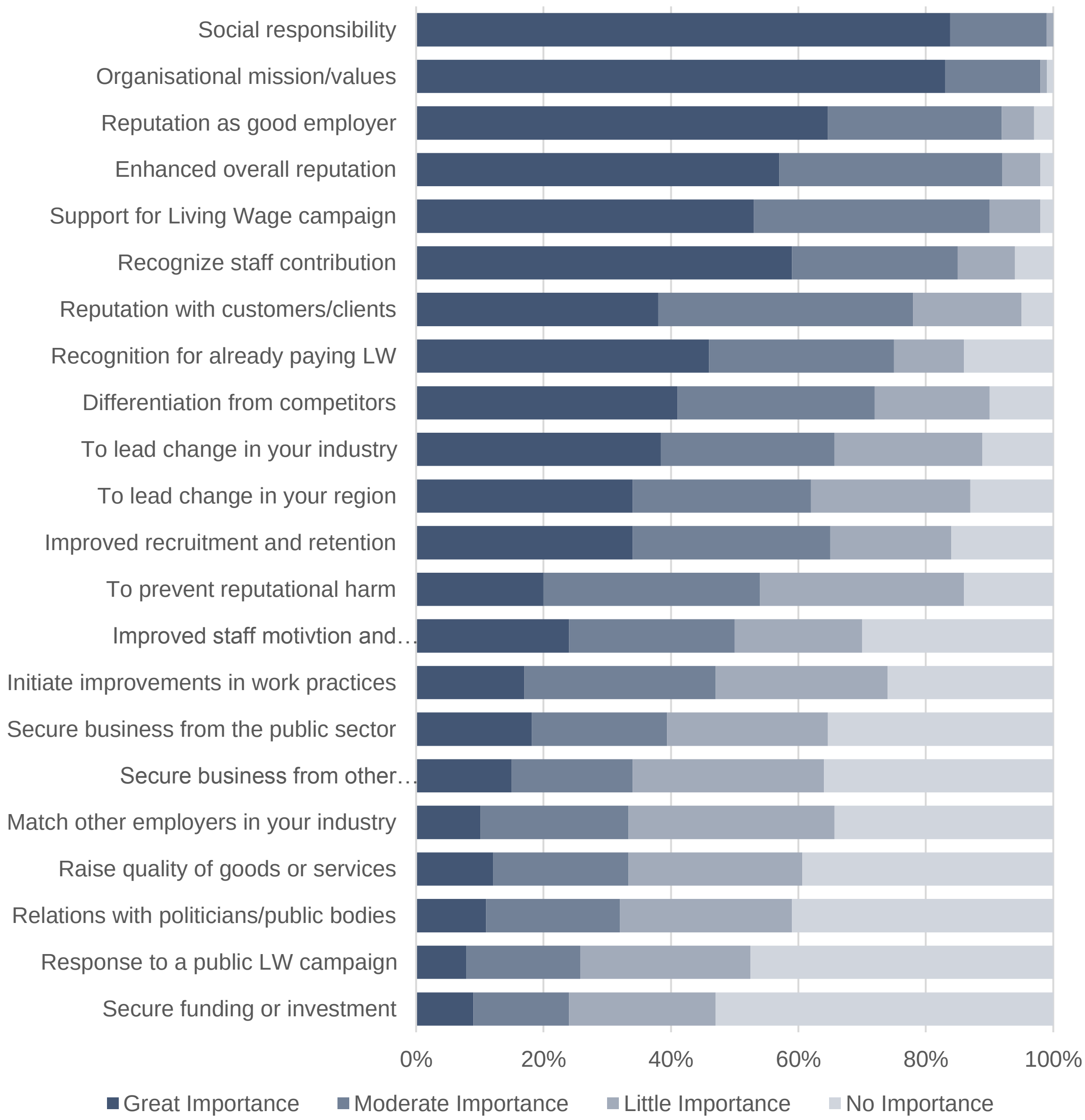


Figure 1 also demonstrates that the Living Wage has been introduced for instrumental reasons. Prime amongst the latter is a concern to manage the reputation of the organisation, with many employers reporting that they had adopted the Living Wage to improve their reputation as an employer, their corporate reputation or to differentiate themselves from their competitors. In addition to reputation management, many employers declared an HR motivation, especially with regard to securing improvements in recruitment and retention. Other instrumental reasons for introducing the Living Wage were reported less frequently. In some cases, becoming an accredited employer has been driven by business considerations and a desire to secure new contracts or to access funding. Supply-chain pressures of this kind, however, have been significant only for a small proportion of Living Wage Employers.

Two other findings presented in Figure 1 are also noteworthy. First, it is apparent that in many cases employers have sought accreditation because they were already paying the Living Wage and, in fact, for about a third of organisations signing up there were no immediate beneficiaries: all employees both direct and indirect were already being paid at or above the Living Wage rate. This finding echoes those from research on Investors in People and other voluntary HR standards, which demonstrates that conforming businesses are often already compliant and likely to incur minimal additional costs in accepting civil regulation (Hoque 2003).

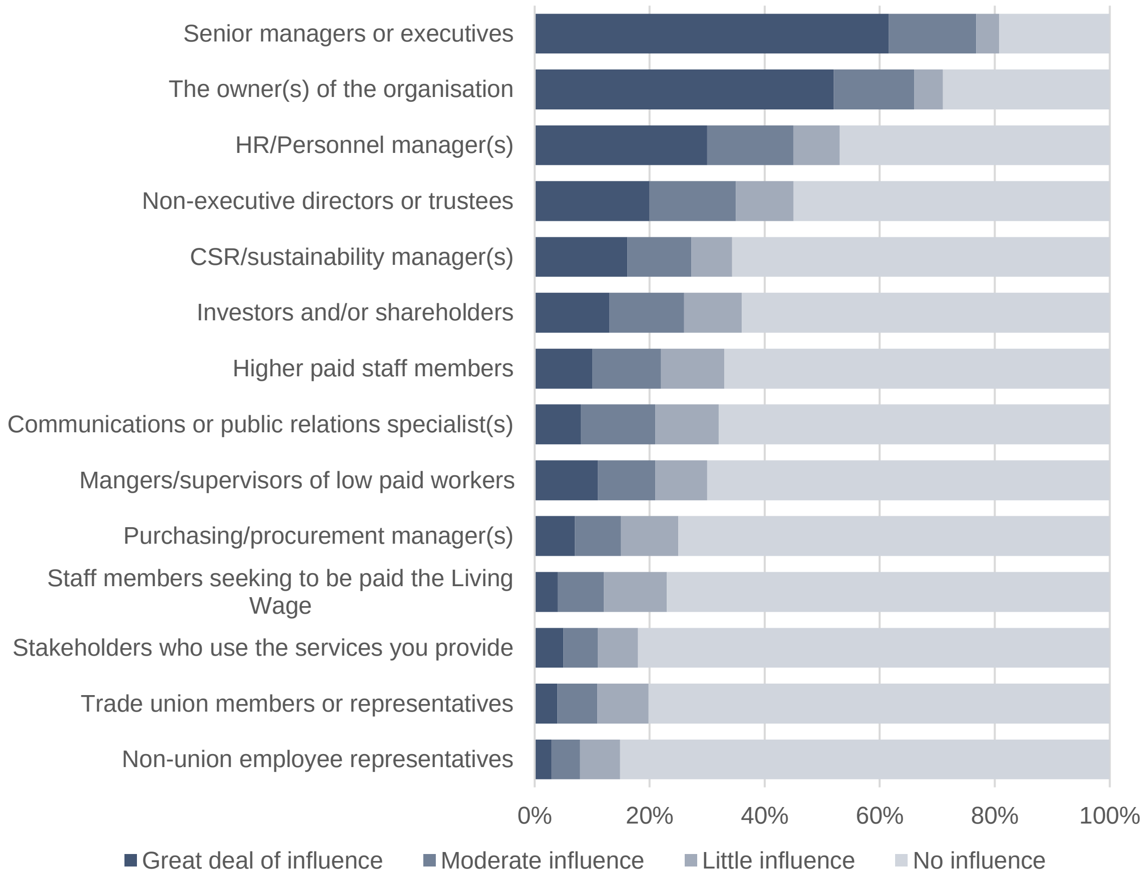
Second, it is also noteworthy that very few employers report that they have been pressured into signing up to the Living Wage by a public campaign. In some cases pressure from external campaigners has been significant and on occasion employers have been targeted through demonstrations, media exposé and other ‘agitational methods’ (Bunyan 2016). In the main, however, campaigning has not taken this form but rather has appealed directly to the responsibility and enlightened self-interest of business owners and managers. In many cases, it has assumed the form of peer-to-peer encouragement, with similar organisations in the same industry or region appealing to other employers to pay the Living Wage.

Internal influences

The evidence in Figure 1 deals with the reasons *why* the Living Wage was adopted, but it is also important to know *who* was involved: who are the key internal decision-makers taking the decision to become accredited? In particular, is it a management decision, involving senior leaders from within the organisation? Or has it flowed from upward pressure, with employees and employee representatives playing a significant role? Figure 2 shows the responses to this issue collected through the survey, again placed in rank order.

It is clear from Figure 2 that senior managers and the owners of organisations have been the primary internal decision-makers. The decision to seek Living Wage accreditation in most organisations, therefore, has reflected the established structure of authority. 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 organisations have played a role; board members in educational, charitable and cultural institutions have often been centrally involved in the decision to adopt the Living Wage.

Figure 2: Internal influences on the decision to become accredited



In some organisations, specialist managers have also been centrally involved, such as purchasing, communications, CSR and HR specialists. In fact, because many accredited organisations are small enterprises without an elaborate management structure, the evidence in Figure 2 underestimates the involvement of specialists. If the analysis is confined to organisations in which specialist managers are found, their influence stands out more clearly, with the influence of HR specialists being particularly apparent. Amongst employers that reported the presence of a specialist HR function, 51% said that HR had exerted a great deal of influence over the decision to become accredited and 86% said that HR had had at least some influence. Other specialist managers have also been involved, but amongst specialists primary responsibility for Living Wage accreditation has been with HR.

The final thing to note from Figure 2 is that upward pressure from employees and employee representatives has very much been a secondary influence upon accreditation.

In some cases the low-paid themselves have pressed for the introduction of the Living Wage, or other groups, such as line managers, higher-paid workers or organisational members who consume services, such as students and religious congregations, have spoken on their behalf. Trade unions have also been involved in the decision to accredit in the minority of organisations where they are present (18%), but even in these cases their influence has been secondary to that of senior managers – a pattern that is attested to in some of the published case studies of Living Wage campaigns (Johnson 2017, Lopes and Hall 2015). The overall picture presented very starkly in Figure 2 is of a top–down decision with minimal expression of upward employee voice.

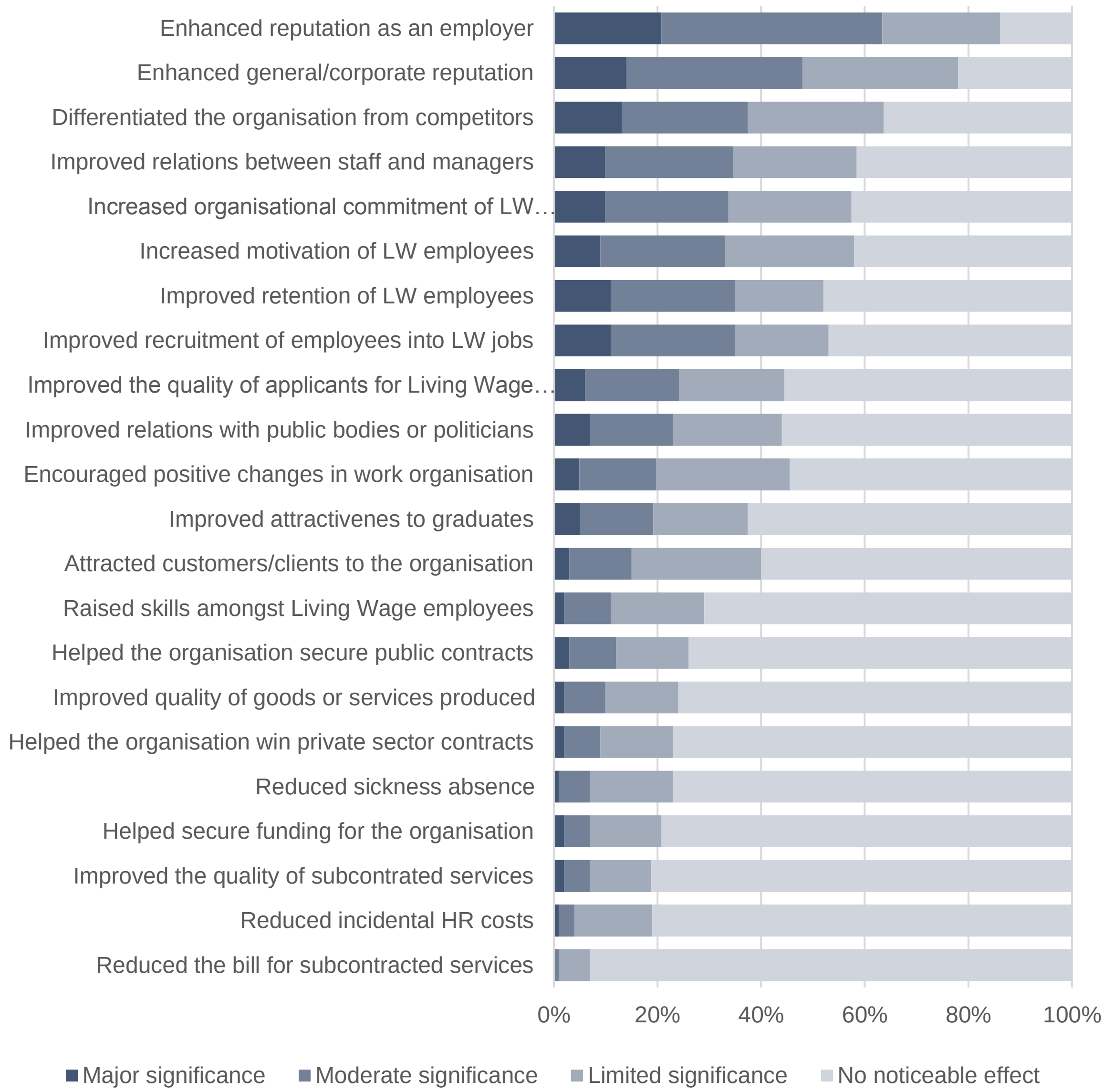
Benefits and challenges

Civil regulation, like the Living Wage, is often promoted on the grounds that it can serve the interests of employers as well as employees. It is suggested that there is a compelling 'business case' for progressive management and, as we have seen, the Living Wage has often been promoted to employers on this basis. Accordingly, in this section we consider the extent to which employers believe they have reaped positive benefits from the Living Wage, the types of gain that are most likely to be reported, and the depth of the benefit achieved, that is, whether it is modest and incremental or major and transformative. We also consider the challenges that flow from the Living Wage and assess whether these outweigh the positive gains from being a Living Wage Employer.

Figure 3 shows employer estimates of the positive effects of the Living Wage on their organisations, with effects ranked according to the average 'score' across the sample of employers. It is clear from the figure that most employers believe that they have benefited from Living Wage accreditation. The vast majority of employers (93%) 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 organisations. The average number of beneficial outcomes reported across all employers was 8.7. Clearly, those employers that have adopted the Living Wage are convinced there are business benefits.

There is an important qualification to this judgement apparent in Figure 3, however. While the latter shows widespread positive effects for employers, it also shows that the scale of change is generally modest, albeit 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% or more report that the effect was of 'major significance'. The overall pattern is therefore of a broad but relatively shallow positive effect. On this evidence, Living Wage accreditation appears to operate as a benign but not transformative change within employing organisations – an effect which in many cases reflects the facts that only a minority of employees are covered by the standard and that the main beneficiaries have been workers in contracted-out support functions, such as cleaning, catering, security and grounds maintenance.

Figure 3: Benefits of paying the Living Wage



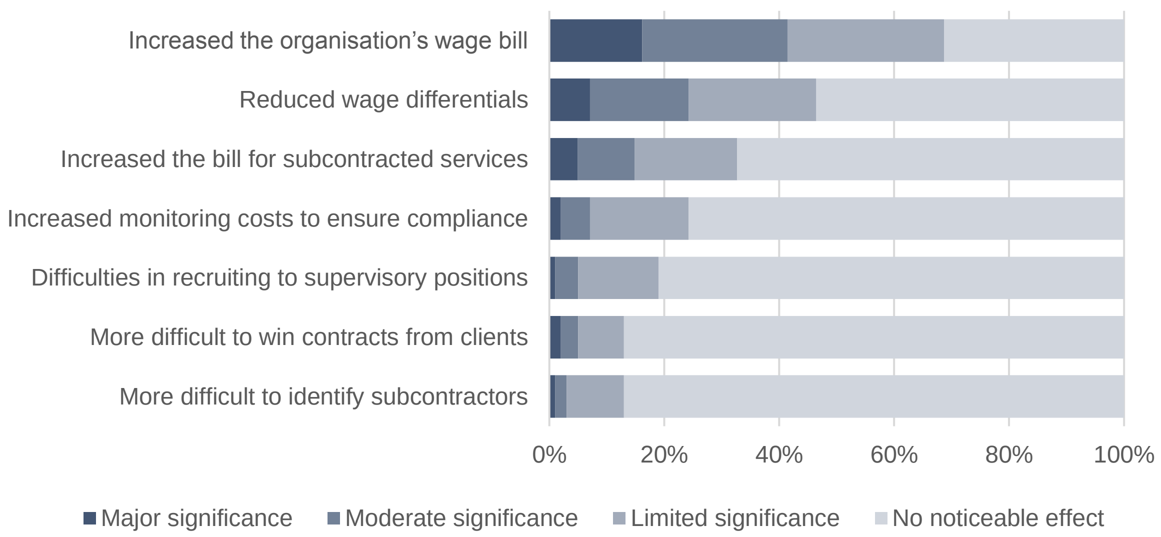
It is also apparent from Figure 3 that some positive effects are stronger than others, and that employers are likely to report that the Living Wage has generated certain types of beneficial outcome. The most commonly reported positive change was enhancement of the organisation's reputation, with a clear majority of employers reporting effects of this kind. 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 organisations.

The next most commonly reported benefit were positive HR effects. Most notable in this regard were benefits to labour supply; over half of employers reported that the Living Wage had improved both recruitment and retention, while nearly half (45%) 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 organisation 'more attractive to graduates and higher employees', reinforcing the belief that conforming to civil regulation, like the Living Wage, can enhance the employer brand.

The least most commonly reported gains were in the area of wider business operations, though for some organisations effects of this kind clearly were important. Living Wage accreditation has helped some organisations obtain contracts with public and private clients. It has also helped some organisations secure funding, particularly in the charity sector, and has helped raise the quality of service provided to client companies from their contractors. Commercial and operational benefits of Living Wage accreditation of this kind may become more significant in the future; across much of the UK public sector there is an increasing appetite to use procurement as a means of leveraging labour standards. At present, though, the gains that can accrue to organisations from responding to pressures of this kind remain less significant than the reputational and HR benefits of paying the Living Wage.

The survey also asked employers about the challenges of paying the Living Wage. They 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'. The pattern of responses is shown in Figure 4.

Figure 4: Challenges of paying the Living Wage



All of these potentially challenging consequences were reported by at least some of the sample, though in only a single case – increasing the organisation's wage bill – did a majority of employers report the effect. The overall pattern shown in Figure 4 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 and limited in scale and scope.

There is also evidence that for most employers they do not outweigh the positive consequences of the Living Wage. The average ‘challenge score’ across all of the items listed in Figure 4 was higher than the average ‘benefit score’ calculated from the items listed in Figure 3 for about a fifth of employers (23%). A small proportion of organisations have abandoned Living Wage accreditation and it is likely that they fall within this group, for whom benefits are modest or uncertain while the increase in costs is tangible and significant. This group constitutes a minority, however, and for most employers (71%) there was evidence that the perceived benefits of the Living Wage outweighed the challenges.

Conclusion

This paper has used the case of the ‘real’ Living Wage to examine a growing phenomenon within the UK labour market: the promotion of voluntary regulation by civil society. There is now a substantial number of codes, norms and conceptions of good employment practice that are promoted by civil society organisations and which employers are encouraged to voluntarily adopt. The experience of the Living Wage indicates that many employers are receptive to activity of this kind. There are now nearly 4,000 accredited Living Wage Employers, a number which includes many of the leading organisations within British business.

Our survey of Living Wage Employers has provided insight into why organisations sign up to standards of this type. It suggests that compliance stems from a complex of reasons, but that a desire to act in accordance with positive labour market norms stands out as the primary motivation. To be sure, many employers are alive to the potential business benefits of becoming a Living Wage Employer, but a motivation of this type often appears to be secondary, providing legitimation to a values-based decision in instrumental terms.

The survey also provided insight into who is involved in signing up to civil regulation and demonstrated very forcefully that accreditation typically is a top–down decision made by the senior leadership group within organisations. Where they are present, HR and other specialist managers have also often been centrally involved. The influence of workers or of worker representatives on the decision, in contrast, has typically been modest. This pattern is suggestive of a contemporary return to a very old theme in HRM, in which the employer accepts a responsibility to promote the welfare of employees including, in the case of the Living Wage, indirect employees formally contracted to supplier businesses. It is suggestive of a new paternalism.

The final insight from the survey is that there is evidence to support the business case for the Living Wage. Employers believe that accreditation has enhanced corporate reputation, generated HR gains, particularly in the field of labour supply, and in some cases helped in the winning of new contracts and funding. For most employers, moreover, these benefits outweigh the costs and challenges associated with the Living Wage. It remains, though, that the benefits reaped through accreditation are often relatively intangible and typically modest in scale. Accreditation emerges from the research as a benign, not transformative, event for most employers. There is a business case for civil regulation but its significance should not be exaggerated either as a motivation for or as a consequence of compliance.

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