



Living Wage Employers: evidence of UK Business Cases

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in partnership with the Living Wage Foundation*

Foreword



Barclays has supported the Living Wage since 2003, and we were proud to announce our formal accreditation as a national Living Wage Employer in 2013. This development, as well as making good business sense, demonstrates how our Purpose and Values permeate our day-to-day decisions and make a positive contribution to society. Not only is paying people who work on our behalf a wage that supports a decent standard of living a responsible thing to do, there are also clear business, societal and economic benefits to doing so. The perceived costs of paying this higher wage are, in our experience, outweighed by increased productivity and morale and reduced recruitment costs. Paying a higher wage encourages workers to stay and explore different career opportunities. We have also heard first hand from our contracted staff how receiving the Living Wage improves their quality of life both at work and home.

We are pleased to support this knowledge exchange project conducted by the University of Strathclyde and the Living Wage Foundation which investigates further the qualitative and quantitative benefits to businesses of paying the Living Wage, and hope that the Living Wage continues to gain increased support from the business community.

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Executive summary

This report has been prepared by the University of Strathclyde in partnership with the Living Wage Foundation (LWF) and a number of Living Wage Employers to contribute to the growing 'business case' for the Living Wage in the UK. This project reported details the business cases of 5 Living Wage Employers - Aviva, Barclays, KPMG, Penrose Care and SSE - and a member of the LWF's Service Provider Recognition programme - Enhance Office Cleaning.

An historic approach was undertaken, providing where available evidence of employers' long term commitment (pre- and post LWF accreditation) to the Living Wage. The report begins by documenting the formation of the Living Wage Foundation and its accreditation process within the context of the living wage movement in the UK, and is followed by a review of core literature on the evolution of the business case. The subject of our attention within each case organisation then turns to the nature and recognition of value and how it is created in connection with Living Wage adoption. Evidence is provided of the business costs and benefits of Living Wage adoption, and in each case the employer's perceived impact on employees.

Introducing the Living Wage is foremost a reflection of the core values of a business. It can be adopted from the first day of business, or introduced as part of a change management programme. Becoming a Living Wage Employer accredited by the Living Wage Foundation requires a commitment to pay all direct employees, and all third-party on-site contract employees, the Living Wage. Continued debate exists on the degree to which the costs of adopting the Living Wage can/should be absorbed by the business and its stakeholders.

Evidence detailed in the case studies highlights the following points:

Living Wage adoption reflects social objectives in core business values

- The impact of implementing the Living Wage is far more than the wage rate to be measured in monetary values alone.
- Evidence is drawn from financial and non-financial information and representation of 'value' which can be created for a business and its stakeholders.

Covering costs of the Living Wage is fundamental to the business case

- Direct financial cost to the business is undeniable. A cost mitigation strategy is needed.
- Case evidence provides examples of how the financial costs of Living Wage adoption can be offset by cost mitigation strategies, and considered alongside investment commitments designed to achieve value creation.
- There are a number of potential benefits that specific businesses can realise from implementing the Living Wage which include financial savings such as: reducing staff turnover; increasing worker morale and loyalty; reducing absenteeism; productivity improvements; strengthening recruitment opportunities and providing reputational benefits.

A business case is developed based on value creation

- In the first instance, adopting the Living Wage encourages organisations to re-evaluate their business model, and to adjust conditions and working practices of employees – such as moving to day shifts work that has previously been done on night shifts, utilising workers to undertake other tasks that are more socially convenient for them, and offer more job variability/skill development. Such changes potentially deliver both financial value creation and social welfare improvements.
- Of particular note from a profit perspective, our cases provide emergent evidence of investment in the Living Wage leading to brand value creation.

Change can be phased in

- The Living Wage can be adopted from the first day of business, or introduced as part of a change management programme.
- Case evidence highlights the importance of including the Living Wage within interactions and interdependencies within the value chain – the need for clients, customers, service providers and others to ensure that the maximum value is derived for this strategic implementation or change programme.
- For example, when introducing the Living Wage businesses can utilise the change as an opportunity to achieve efficiency gains and to introduce new policies, such as recycling in the workplace, into working practices.

Create value with service providers and contractors

- Evidence suggests there is a varying degree of awareness and implementation of the Living Wage reflected by service providers and contractors.
- Momentum on Living Wage adoption and expectations are changing. With now over 1,000 Living Wage Employers in the UK paying the Living Wage, this is a requirement of doing business with them where on-site contracts are served.
- Case evidence is provided of the changing expectations of our case study businesses and how value can be created by working with service providers and contractors.

Pursue objectives of social welfare through employee impact

- Employee engagement is central to adopting the Living Wage. Asking employees how their lives can be improved by action taken by their employers is critical to improving social welfare.
- Evidence is provided of ‘packages’ of employment benefits that reflect fair compensation for workers and extends beyond the Living Wage to improved terms of employment and working conditions, and hopefully social welfare gains.
- Case evidence includes secondary data from service providers that demonstrates Living Wage initiatives have the potential to empower low-paid workers by providing them with new skills and training and improve standards of living.

Stakeholder engagement is critical in managing knowledge gaps

- Engagement is particularly important to manage any potential knowledge gaps which exist between a business and its stakeholders around perceptions of the business case for the Living Wage.
- Investor engagement and support for Living Wage adoption is critical to the business case.

Our findings highlight the importance of building a business case based on both financial objectives and social commitments. Inherent within the change management programme or business start-up case supporting the adoption of the Living Wage is the need to manage both the financial and non-financial impact of the Living Wage on value creation. The challenge of integrating varied performance considerations and valuing the business narrative, however formalised, alongside financial criteria become central to the formation of a business case going forward.

The Living Wage Foundation and accreditation

The living wage campaign in the UK: 2001- 2011

The living wage¹ movement in the UK evolved as a campaign launched in 2001 by the broad-based community group The East London Communities Organisation (TELCO – a forerunner to London Citizens, and eventually part of Citizens UK) to tackle the growing issue of ‘in-work poverty’. Working with UNISON and TELCO the York University Family Budget Unit produced a report in 2001 that established the income required for workers to support a family in East London with a “low cost but acceptable living standard”². The study Mapping Low Pay in East London by Wills & TELCO (2001) gathered evidence of poor working conditions and pay rates that fell below this threshold, and began to directly target public and private sector organisations in the capital to address this.³

With the campaign successful in signing up a number of organisations in London to commit to paying a living wage to employees, the Greater London Authority (GLA) were engaged in 2005 to set up the Living Wage Unit to work on setting an agreed hourly rate – the London Living Wage (LLW). By 2011

a number of other Living Wage campaign groups, such as the Scottish Living Wage Campaign, had evolved around the UK. Along with Citizens UK the campaigns came together to develop a standard model for a national living wage for employees outside London – the UK Living Wage (UK LW). The UK LW rate was modelled and set by the Centre for Research in Social Policy (CRSP) at Loughborough University.



TELCO Assembly that voted to launch the Living Wage Campaign in 2000

¹ It is important to note that the distinction between a *living wage* (a philosophical concept about the essence of a living wage) and *the Living Wage* (capitalised, and used to refer to the pay rate and associated campaign) is sometimes unclear, and arguably mistakenly used at times. In this report we have focused on *the Living Wage* advocated by the Living Wage Foundation (prepared by the Greater London Authority, and the Centre for Research in Social Policy).

² Parker (2001).

³ See Littman, Donne & Wakefield (2010).

The Living Wage Foundation: 2011 onwards

In 2011 the Living Wage Foundation (LWF)⁴ was established as a distinct initiative of Citizens UK, providing support and guidance to employers to voluntarily⁵ implement the Living Wage, with the ambition to afford employees the opportunity to provide for themselves and their families, improving lives and hopefully taking them out of in-work poverty⁶. With the support of its Principal Partners⁷ one of the Foundation's primary objectives is to develop a standard accreditation process and 'kite mark'⁸ for Living Wage Employers. From its launch in 2011, the accreditation scheme progressed quickly to having around 100 accredited Living Wage Employers in November 2012 and over 350 by October 2013⁹.

A valuable resource detailing the chronology of the Living Wage campaign is provided by Professor Jane Wills, Queen Mary University of London¹⁰. In terms of development of the Living Wage campaign, and the nature and composition of Living Wage Employers, Jensen and Wills (2013:p11) in their survey of accredited Living Wage Employers identified an uneven split in the geographical location of accredited organisations – in October 2013 51% of the 359 Living Wage Employers were based in London.

It is worth noting that the Jensen and Wills (2013) survey found that introducing the Living Wage did not have any direct (financial) impact for a number of the organisations involved in the study, as wage levels had already been at, or exceeded, the Living Wage rate. Accreditation was undertaken as a method to reflect employers' efforts to pay fair wages, and/or to protect wage levels in the future.

The LWF has also developed a Service Provider Recognition Scheme¹¹ for contractors that provide a service (such as cleaning, security, etc.) to other organisations – but feel they are unable to implement the Living Wage in all of their contracts. To attain the award, these organisations commit to paying all of their own head office staff the Living Wage, and to always supply a Living Wage bid alongside a market rate bid to all of their current and prospective clients.

During the period the project was undertaken to October 2014, the number of Living Wage Employers with the LWF had increased to over 900¹², paying the UK LW rate of £7.65 per hour or, where relevant, the LLW of £8.80 per hour. On the 3rd of November 2014 the LWF announced an increase to the UK LW to £7.85 per hour and the LLW to £9.15 per hour – and that over 1,000 organisations had signed up to be accredited Living Wage Employers¹³.

4 Website: www.livingwage.org.uk

5 Citizens UK and the LWF, as well as their Principal Partners, advocate a voluntary Living Wage. While the National Minimum Wage (NMW) has been established since 1999 as a legal floor rate that workers in the UK must be paid, the Living Wage is a voluntary undertaking by organisations to pay their workers a rate based on the cost of living in the UK. For perspectives on the difference between the NMW and the Living Wage see, for example, Jensen & Wills (2013); Wills & Linneker (2012) and Wills (2009).

6 Living Wage Foundation, *What are the benefits?* [online]. Available from: www.livingwage.org.uk/what-are-benefits [Accessed 2 August 2014].

7 Ten Principal Partners provide financial and strategic support to the LWF. They are: Aviva, Joseph Rowntree Foundation & Joseph Rowntree Housing Trust, KPMG, Linklaters, Nationwide, Nestle, Queen Mary University of London, Resolution Foundation, Save the Children, and Trust for London.

8 See Jensen & Wills (2013) and Living Wage Foundation, *What we do* [online]. Available from: www.livingwage.org.uk/what-we-do [Accessed 10 August 2014].

9 See graph in Jensen & Wills (2013:p10).

10 Wills, J. *A chronology of the London living wage campaign 2001-2009* [online]. Available from: www.geog.qmul.ac.uk/livingwage/chronology.html [Accessed 16 August 2014].

11 Living Wage Foundation, *About the Service Provider Recognition* [online]. Available from: www.livingwage.org.uk/about-service-provider-recognition [Accessed 10 August 2014].

12 As a further indication of increasing interest in the Living Wage, analysis using the 'Google Trends' tool revealed significant peaks in living wage searches during November of each year since 2012 – the month in which the LWF concentrates their marketing and campaigning through their annual 'Living Wage Week'.

13 For a list of Living Wage Employers please see www.livingwage.org.uk/employers.

The impacts

It was reported that by December 2011 at least 10,000 workers in London had been moved out of poverty as a result of the Living Wage campaign, having redistributed almost £100million since 2001¹⁴. By October 2013, it was calculated that this had increased to a figure of over £182 million having been added to the wages of almost 19,000 workers in the capital in the period from 2005- 2013¹⁵. By June 2014 the Living Wage Commission estimated that 45,568 employees had been brought up to the Living Wage by 712 accredited employers and the LWF recognised that over £210 million had been apportioned to low paid workers through the Living Wage campaign¹⁶. With over 1,000 accredited employers it is a reasonable assessment that around '60,000' employees have now been brought up to the Living Wage.

Despite these successes, it was reported in November 2014 that 22% of employees across the UK earned less than the Living Wage, an estimated 5.28 million workers (a rise of 150,000 since 2013) – and that 43% of part-time workers (compared to 13% full-time) in the UK earned below the rate¹⁷.

The UK has one of the highest proportions of employees in low paid work from advanced economies¹⁸. According to the OECD's (Organisation for Economic Co-operation and Development) definition¹⁹ the share of employees in the UK earning below the low pay threshold in the period 2010-2012 was 21%, higher than most other European counties – including more than twice the rate in Italy (10%) and Switzerland (9%), and four times that in Belgium (5%)²⁰. Furthermore, the proportion of workers in low pay in the UK, having risen from around 15% in 1975 to a peak of 23% in 1996, had not fallen at any significant rate to April 2013²¹.

14 Wills & Linneker (2012).

15 See Professor Jane Wills' calculations for clarification on the methodology used: Wills, J. *The London living wage: Numbers and money (2013)* [online]. Available from: www.geog.qmul.ac.uk/livingwage/numbersandmoney.html [Accessed 21 August 2014]. (Note- this figure does not include workers involved in the 2012 Olympics, in which up to 100,000 individuals were paid the Living Wage in the period 2007-2012, a benefit of an additional £50 million to these workers relative to receiving the National Minimum Wage.)

16 See Living Wage Foundation, History [online]. Available from: www.livingwage.org.uk/history [Accessed 10 October 2014] and Living Wage Foundation, 2014. *We are recruiting!* [online]. 28 August 2014. Available from: www.livingwage.org.uk/blog/we-are-recruiting [Accessed 10 October 2014].

17 Markit (2014:p5). (Additionally, this research indicates that bar staff, waiters/waitresses and kitchen and catering assistants are the workers most likely to be paid less than the Living Wage, and sales and retail assistants as the occupation with the highest total number of workers earning less than the Living Wage rate.)

18 Lansley & Reed (2013), Pennycook (2012), Wills & Linneker (2013), Corlett & Whittaker (2014).

19 Low pay is defined by the OECD as earning less than two-thirds of the national gross median hourly wage. As a relative measure (rather than absolute) this may be more about differentials than the Living Wage. See commentary in Pennycook (2012) and Wills & Linneker (2013).

20 Corlett & Whittaker (2014:p20).

21 Corlett & Whittaker (2014:p6).

Evolution of the business case

The focus of this report is to review evidence of the business case for the Living Wage in the UK. The following review of literature highlights business cases which have to date primarily been framed in terms of business ‘costs’ and ‘benefits’. We add to this the importance of recognising the business case within the context of its historical and geographical development, and with important reference to the stakeholders and socio-economic impacts of living wage campaigns.



Community campaign to persuade employers to pay a living wage 2005

Wage Framework²⁶ and adopt living wages ‘relevant’ for municipalities; Australian²⁷ union campaigns have focused on ensuring the country’s long standing minimum wage legislation provides an appropriate living wage²⁸.

While these international movements are significant, the development of the living wage campaign in the UK since 2001 has been notable for a number of reasons. These include its efforts to develop consistent rates for use across the country as set by external bodies (i.e. the Greater London Authority, and furthermore the Centre for Research in Social Policy); political support from the London Mayors; a focus beyond solely government contracts

An increasingly global issue

The modern living wage movement can generally be traced to Baltimore in the USA in 1994, and the resulting development of city wide and municipality living wage ordinances across the United States²² – growing to at least 140 such ordinances in the country by 2007²³. While these campaigns generally only extended to local government employees, and in some cases other employees receiving public funding, they brought attention to the principles of a living wage²⁴.

Since then a number of other initiatives have evolved: the Living Wage Movement Aotearoa, New Zealand²⁵ was developed by civil society campaigners and includes an accreditation scheme for employers; Canadian communities and employers have worked together to form the Canadian Living

²² See Macpherson (2004), Gallet (2004), Levi et al (2003), Luce (2005), Pollin et al (2008).

²³ Pollin et al (2008).

²⁴ Figart (2004), Wills & Linneker (2013).

²⁵ See Living Wage Aotearoa, www.livingwage.org.nz

²⁶ See Living Wage Canada, www.livingwagecanada.ca.

²⁷ Maloney & Gilbertson (2013), Wills & Linneker (2013).

²⁸ Australian Unions, *Increase the Minimum Wage* [online]. Available from www.australianunions.org.au/minimumwage [Accessed 15 October 2014].

to include other employers from the public and private sectors; and the involvement of employers and other stakeholders (i.e. the LWF's Principal Partners) to widen the impact of the campaign²⁹. Further increasing the UK living wage movement's visibility and impact has been the evolution of various other city-based living wage campaigns around the country outside London – including the Glasgow Living Wage³⁰ and others in Brighton, Norwich and Oxford³¹ – as well as the formation of the Living Wage Commission, a high profile 12 month independent inquiry set up in 2013 to explore issues around implementing the Living Wage in the UK³².

Evidence of business benefits

Studies examining the business case for the Living Wage in terms of impact on employers are limited and varied, with at best a common focus on the 'costs' and 'benefits' to employers.

Research conducted to identify the 'business benefits' of a living wage from the perspective of the employer³³ have included evidence of reduced staff turnover, reduced absenteeism, reputational benefits, recruitment and retention of staff, worker morale, and productivity benefits – all being linked to organisations paying a living wage³⁴.

Business benefits frequently cited from UK studies

In research by the Equality and Human Rights Commission (2014), cleaning firms that have undertaken the Living Wage in the UK have reported benefits of reduced absenteeism and staff turnover (some reporting staff turnover falling to less than 1%), as well as clients indicating improved service and higher productivity rates since moving to the Living Wage.

In a comparative study of employees receiving the London Living Wage (LLW) and non-LLW employees, Flint, Cummins and Wills (2013:p190) found that 50.3% of LLW workers registered above average scores for psychological well-being, a sign of good morale, compared to 33.9% of non-LLW employees³⁵.

Research by Wills and Linneker (2012) found that the impact of organisations moving to the LLW resulted in a 25% reduction in staff turnover on average – while organisations also reported positive reputational impacts, aiding their ability to recruit staff and (in one response) helping to win business. Additionally, following the introduction of the LLW by their employers, over half of the workers surveyed (54%) felt more positive about their employment, 52% felt more loyal towards their employer, and 17% indicated that their work was more productive.



Sugru being awarded London Living Wage Champions LW Week 2014

²⁹ Wills & Linneker (2013).

³⁰ The Glasgow Living Wage has more than 130 employers signed up across the city – see Glasgow Living Wage, *Glasgow Living Wage* [online]. Available from: www.glasgowlivingwage.co.uk [Accessed 15 October 2014].

³¹ See Hirsch & Moore (2011).

³² Website: www.livingwagecommission.org.uk

³³ See for example Dutton et al (2014), Fairris et al (2005), London Economics (2009), Reich et al (2003), Thompson & Chapman (2006), Wills & Linneker (2012), Wills et al (2009).

³⁴ Arguably the small sample size in a number of these studies, particularly those from the UK, may undermine their significance – but are noteworthy.

³⁵ However, this study is caveated to state that causality cannot necessarily be implied from the results – and it is noted that at an employer level support for the Living Wage may be correlated with other workplace benefits that boost employees well-being: e.g. employment rights, flexible working practices, improved benefits, etc.

In LLW employer focused research by London Economics (2009) for GLA Economics, more than 80% of employers believed that introducing the LLW had enhanced the quality of the work of their staff; a majority recognised an impact in reducing absenteeism and sick leave amongst workers (with one organisation reporting a 25% reduction in absenteeism); 70% reported the LLW had reputational benefits through increased consumer awareness of their commitment to being an ethical employer; and a majority of employers reported a benefit for recruitment and retention of staff, with two-thirds indicating a significant impact to their organisation.

Given the London Living Wage was established before the UK Living Wage it is unsurprising to find London has been the focus of most research³⁶. Accessing data on core issues such as the number of contracted workers employed by Living Wage organisations on the Living Wage rate can be difficult, a point stated in the conclusions of the study of accredited organisations by Jensen and Wills in 2013. However, and in line with one of their recommendations for the LWF to introduce greater oversight and monitoring when accrediting organisations, the Foundation has begun to collect such data and is an important partner in our study.

As the LWF seeks to increase the numbers of accredited organisations across the UK, it is important that literature and studies that account for the conditions and issues in different regions of the country are developed to encourage organisations in these locations to sign up. By providing several in-depth case studies established through engagement with Living Wage Employers from different sectors and locations in the UK, this study aims to provide some input here.



Boris Johnson, Mayor of London announcing the new London Living Wage rate at Great Ormond Street Hospital, 4 November 2013

from organisations that had not introduced the Living Wage (or were unaware if their organisation had), 55% could not identify any benefits of (hypothetically) introducing the Living Wage, whereas only 16% of those companies that had incorporated the Living Wage identified “no benefits”. Of the employers that had introduced the Living Wage, business benefits identified included improved corporate reputation, employee loyalty/motivation, and higher productivity. This study offers some evidence that there may be a ‘knowledge gap’ of the benefits of the Living Wage between those organisations that have introduced it, and those that have not.

This complements more recent studies which have emerged providing evidence of the Living Wage in practice, or exploring its potential impact, in regions such as Glasgow³⁷, Northern Ireland³⁸, Bradford³⁹, Manchester⁴⁰ and Wales⁴¹. (For example, an exploration study for the implementation of the Living Wage in Wales was commissioned by the Welsh Assembly Government in 2010.)

Furthermore, in 2012, the Chartered Institute of Personnel Development (CIPD) included some questions on the Living Wage as part of a wider survey of their UK membership⁴². This study indicated that from those organisations contacted around 13% (129 organisations) had adopted the Living Wage as a conscious policy decision. Of those representatives

³⁶ Jensen & Wills (2013) assert that the uneven proportion of accredited London based Living Wage Employers relative to other UK regions could also be attributed to the distribution of economic activity focused on the capital, public awareness of the Living Wage movement through the LWF in London, and political endorsement of the campaign by London’s Mayors.

³⁷ Dutton et al (2014).

³⁸ Oxford Economics (2014).

³⁹ City of Bradford Metropolitan District Council (2013).

⁴⁰ Holden & Raikes (2012).

⁴¹ Marsh et al (2010).

⁴² Chartered Institute of Personnel and Development (2013:p28). Note that survey was of just over 1000 employers, around two-thirds of which were from the private sector.

In addition to these wider studies literature has included reference to a number of quotes/ testimonials from individuals on the business benefits of the Living Wage. These secondary sources, both from organisations/ businesses and other relevant stakeholders, offer a useful understanding and insight of the impacts, and potential benefits, of the Living Wage at a specific organisational level⁴³.

Evidence of business costs

Some of the identified costs and potential barriers to implementing a living wage include increased wage costs and expenditure, reduced profits/margins, impact on prices, issues around employee pay scales, decision making about wages being transferred to other agencies, negative impact on the morale of those not receiving a pay rise, and issues around the re-negotiation of employee or contractor contracts⁴⁴. However, it is claimed that increased wage costs of moving to a living wage does not necessarily impact significantly on overall salary costs⁴⁵, and that some costs could be mitigated by efficiency savings such as reviewing work practices⁴⁶. Furthermore, it has been argued that if costs were to be passed onto consumers these would be relatively low compared to the cost of the services⁴⁷.

Nevertheless, fears remain that the costs of implementing the Living Wage are unaffordable and/ or could lead to a loss of employment, hindering development and growth⁴⁸. These are often linked to sectors such as retail, hospitality and social care that arguably have a higher proportion of employees subject to in-work poverty, or small businesses. However, it is notable that the Federation of Small Businesses (FSB), in a survey of its members in September 2013, found that half (49%) of small firms already pay all their staff at, or above, the Living Wage⁴⁹. Consumer related research below shows consumers are willing to help meet the costs of the Living Wage for responsible retailers.

It is this business case, from the point of view of the employers, that this report seeks to primarily build. However, as noted previously, the business ‘costs’ and ‘benefits’ are often articulated through reference to the impact of employer actions on employees and to a lesser extent the socio-economic situation. The need to recognise the business case in context becomes apparent and helps to justify the case study approach taken when gathering evidence from Living Wage Employers in the UK.



October 2008 local citizens campaign in Whitehall for cleaners to be paid a Living Wage

⁴³ See, for example, NUS/UNISON (undated).

⁴⁴ For example see City of Bradford Metropolitan District Council (2013), London Economics (2009), Wills & Linneker (2012).

⁴⁵ Maloney & Gilbertson (2013), Pennycook (2012).

⁴⁶ QMUL & Trust for London (2012).

⁴⁷ Wills & Linneker (2012) from Thompson & Chapman (2006).

⁴⁸ Living Wage Commission (2014). Also consider Ray et al (2014) and Philpott (2014).

⁴⁹ Federation of Small Businesses, 2013. *FSB says firms are increasing wages for staff* [online]. (22 September 2013). Available from: www.fsb.org.uk/News.aspx?loc=pressroom&rec=8260 [Accessed 17 October 2014].

Taking a multi-stakeholder perspective

The argument for a living wage can be considered from a variety of different positions based on: social welfare; responsible business; economic ‘development’; public policy and more. At the centre of each position is a potentially different ‘stakeholder’, but the positions are not mutually exclusive. The business case may be argued from one or more of these perspectives.

At national and international levels it is significant that a number of campaign groups and bodies advocate the payment of an appropriate living wage to workers in developing nations, with the focus of attention on global business and/or sector specific supply chains. For example, the *Clean Clothes Campaign*⁵⁰ (an alliance campaigning for the garment industry to pay a living wage to workers); *Ethical Trade Initiative* (an alliance that promotes workers’ rights around the world, and supports moving towards a living wage for all); *Labour Behind the Label*⁵¹ (a charity and campaign group that have several campaigns focused on promoting a living wage in the garment industry, as well as producing the Tailored Wages UK report in 2014 that asked high street retailers and brands if they paid workers in their supply chain a living wage); *War on Want*⁵² (who support the UK Living Wage campaign, as well as pushing for the extension of a living wage obligation by companies to workers in their international supply chain).

Despite clear ethical and moral cases for organisations to pay a living wage, there is a need to present a convincing business case for its implementation⁵³, with proponents required to present a clear and coherent business case for a living wage to complement their moral and social arguments⁵⁴.

From a business/economic perspective, a number of research studies⁵⁵ have included reference to the employee impact of implementing a living wage, and in many cases the growth of living wage movements have been based on enhancing social benefits/returns. Employee benefits noted in these studies include, for example, increased income, improved standard of living, job ‘quality’ and motivation to work, increased bargaining power, better career opportunities, improvements in health and well-being, benefits to family life. However, these studies have also highlighted some of the potential costs to workers such as increased workloads, reduced hours and job losses.

These, and other, studies have also questioned the wider socio-economic impact of adopting a living wage including, for example, potential mitigation of in-work poverty and related child poverty, potential for both positive and negative changes in consumer pricing, impact on economic growth, effect on returns to local and/or foreign investors, impact on revenue generated from taxes and redistribution. An example of this research is a recent study by Oxford Economics for NICVA/Northern Ireland Council for Voluntary Action (2014) that estimated the economic impact of introducing the Living Wage across all employers in Northern Ireland using labour market data, and highlighting the importance of research with a regional focus.

50 Clean Clothes Campaign, *A Living Wage - A Human Right* [online]. Available from: www.cleanclothes.org/livingwage [Accessed 20 August 2014].

51 Labour Behind the Label, *Dignity needed*. [online]. Available from: www.labourbehindthelabel.org/campaigns [Accessed 20 August 2014].

52 War on Want, *Living Wage, a global battle* [online]. Available from: www.waronwant.org/campaigns/living-wage [Accessed 20 August 2014].

53 Pegram, T. & Sullivan, R., 2014. Why the moral case for the living wage is not enough. *The Guardian* [online], 29 April 2014. Available from: www.theguardian.com/sustainable-business/moral-case-living-wage-not-enough [Accessed 25 August 2014].

54 See Maher (2013): “Many campaigners interviewed for this report said that the business case for a living wage needs to be more strongly emphasised by its proponents around the world. These arguments are important, but need to be promoted alongside the moral and social justifications for a living wage... the available evidence leaves no doubt that a company can be successful, productive and profitable and still pay a living wage to all its workers.”

55 For example: City of Bradford Metropolitan District Council (2013), Lawton & Pennycook (2013), London Economics (2009) Wills et al (2009), Wills & Linneker (2012).

In a survey of consumers undertaken in May 2014, Censuswide asked over 1,000 people about their potential consumption choices in relation to employers that pay the Living Wage in the UK. The results indicated that 52% of shoppers were willing to pay higher prices if staff were paid the Living Wage; 61% would recognise the benefits in service from staff in pubs, restaurants and hotels if they were paid the Living Wage; and 4 in 10 would consider shopping elsewhere if their preferred store does not pay the Living Wage⁵⁶. This evidence points towards a positive consumer case for the Living Wage in the high street despite the relative absence of retailers as Living Wage Employers. Communicating the specific benefits for businesses of paying the Living Wage, particularly to non-Living Wage employers, is required to encourage uptake of the Living Wage, and to tackle a potential knowledge gap between employers who have not implemented the Living Wage, and those that have.

Given our interest in the business case, an obvious point of review was rating agencies and financial indexes for specific evidence of inclusion of the Living Wage as a metric in their rating criteria. No specific evidence was found of the Living Wage being included as criteria at this stage – other than the Business in the Community’s CR Index that does identify the Living Wage as a key issue in its CR Index 2014 Insight Report⁵⁷. Further transparency of evidence of the business case for the Living Wage is also needed to meet investor demands for information and manage any potential knowledge gap which exists between employers and their shareholders.

⁵⁶ See Living Wage Commission (2014:p36), and KPMG, 2014. *Customers threaten to shop elsewhere unless businesses pay fair wage* [online]. 18 June 2014. Available from: www.kpmg.com/uk/en/issuesandinsights/articlespublications/newsreleases/pages/customers-threaten-to-shop-elsewhere-if-businesses-fail-to-pay-a-fair-wage.aspx [Accessed 25 August 2014].

⁵⁷ Business in the Community (2014).

Evidence gathering and case selection

This report has been prepared by the University of Strathclyde in partnership with the Living Wage Foundation and a number of Living Wage Employers to contribute to the growing ‘business case’ for the Living Wage in the UK.

The project reported details the business cases of 5 Living Wage Employers – Aviva, Barclays, KPMG, Penrose Care and SSE – and a member of the LWF’s Service Provider Recognition programme – Enhance Office Cleaning. Evidence is provided of the business ‘costs’ and ‘benefits’ of Living Wage adoption and the employers’ perceived impact on employees.

It has been undertaken for the purpose of knowledge exchange and creation and includes case evidence gathered from June to September 2014 through a series of face-to-face, telephone and email interviews with key personnel in each organisation and review of relevant documentation, both public and private⁵⁸.

Given a focus on the business case, and inherent profit motive, only private sector employers were approached to take part in the project⁵⁹. The cases were selected from the Living Wage Foundation’s database of Living Wage Employers as of June 2014. The rationale for case selection and composition is driven by a desire to contribute to evidence from the point of view of new and established Living Wage Employers (pre and post the LWF’s accreditation process) and Service Providers, those with UK wide operations and/or those with a significant regional presence, and allowed for variation in business size, sector and nature and significance of the supply chain. Each case is individual, and while comparison and contrast may be drawn between some cases, the project is not intended to provide a general position of Living Wage Employers but emphasise individual “stories”. Given the significance of on-site service providers/contractors to the impact of the Living Wage Employers studies, we have included where available and feasible third party evidence drawn from engagement with their contractors/ services providers, and included the case of a Service Provider.

The 6 case studies which follow present a mixture of quantitative indicators and qualitative information from the organisations. Emphasis has been placed on contributing to the ‘costs’ and ‘benefits’ of implementing the Living Wage identified in our review of the literature. Furthermore, narratives are provided by individuals in the organisations who are involved in implementing the Living Wage to draw attention to Living Wage practicalities and complexities, and offer advice and inspiration to other established Living Wage Employers and Service Providers, those thinking of adopting the Living Wage, and significant stakeholders.

⁵⁸ The scope of the project does not extend to verification of internal data provided for review by individual case study organisations but, in the spirit of knowledge exchange, is reliant on evidence which case study organisations are willing to share and place in the public domain.

⁵⁹ It is notable that Corlett & Whittaker (2014) assert that low pay is more prevalent in the private sector than in the public or third sectors, however, this may well be because the public sector outsources many low paid services to the public sector. Furthermore, the Social Mobility & Child Poverty Commission (2014:p156) report that 86% of those earning below the Living Wage in the UK are employed in the private sector.

Aviva PLC

2005

London Living Wage employer since 2005

2013

Living Wage Employer accredited for London operations
August 2013

2014

Living Wage Employer accredited for UK operations April 2014

Background, motivation and implementation

Aviva plc⁶⁰ is a British multinational insurance company headquartered in London. It is the largest general insurer, and a leading life and pensions provider, in the UK and has a significant regional presence with c.17,000 employees in the UK and Ireland.

Aviva's approach to the Living Wage has been one of gradual implementation. Aviva adopted the London Living Wage (LLW) in the first instance and then the UK national Living Wage to recognise its social responsibility to stakeholders and to manage the significant reputation, political and brand risks which emerged around living wage issues.

Aviva first adopted the Living Wage in London in response to campaigns aimed at the FTSE 100 by TELCO and the Greater London Authority in 2005⁶¹. Joanne Goddard, Head of CR Governance and Engagement at Aviva noted "we signed up without much hesitation. The upside was hugely beneficial to the employees affected and the impact on costs was minimal. It was also the right thing to do."

In 2010, Aviva recognised that a living wage was of increasing importance to stakeholders with campaigns starting to target specific companies. In particular, FairPensions (who later became ShareAction) started talking about the importance of a living wage in the media, and asking questions on behalf of shareholders at AGMs. Aviva took a proactive stance ahead of its 2011 AGM and engaged directly with FairPensions. This meant when questions on adopting a living wage were asked the CEO and Board were able to answer with knowledge. They perceived there was a case to look at for adopting a living wage across Aviva's UK business.

⁶⁰ Website: www.aviva.com

⁶¹ Aviva, 2012. *Aviva supports the Living Wage* [online], 5 November 2012. Available from: www.aviva.com/media/news/item/aviva-supports-the-living-wage-17034 [Accessed 2 September 2014].

Aviva and FairPensions continued to meet to discuss reward structures including pay scales, differentials and regional differences. This engagement led to an increased understanding of living wage benefits and impacts, and Aviva were able to move the agenda further forward as a result. Engagement with the City and campaigners has since taken place on a regular basis addressing living wage issues both directly and indirectly, and ensuring a socially responsible business case for a living wage was developing.

Of particular significance to Aviva, rolling out the Living Wage across the UK was recognition of its high number of staff and associated community involvement in Norwich⁶² and York⁶³ and the desire to expand their living wage commitment outside London.

In adopting the Living Wage outside London Aviva was also responding to direct political pressure in the regions and therefore managing their political risk. For example, a couple of years ago Rachel Reeves (Labour – Norwich MP) asked numerous questions on the Living Wage. For Aviva, the Living Wage campaign is an important public policy issue and an important subject of political engagements with MPs. Engagement around a living wage as a public policy issue has helped Aviva to develop its position, and contribute to public debate on the issue. Indeed there have been comments in The House of Commons specifically referring to Aviva on the Living Wage.

In 2012 Aviva became a Principal Partner of the Living Wage Foundation, and in 2013 gained London accreditation as a Living Wage Employer. By 2014 its accreditation as a Living Wage Employer has been extended to all full time direct employees in the UK, and included a commitment to roll out the Living Wage with all its on-site contractors⁶⁴. During the new round of tendering for facilities contracts Aviva asked for all tenders to be priced to include the Living Wage as a minimum standard and are engaging with contractors to consider the impact of this.

Impact

London Living Wage

Aviva implemented the payment of the LLW some years before national accreditation was developed by the Living Wage Foundation. The experience proved what a positive step this was and Aviva, and their supplier at the time, quickly noticed the impact on:

- lower attrition rates;
- the ability to recruit better calibre cleaning operatives;
- the opportunity to provide longer term training as opposed to core basic task training for what was at the time an ever changing workforce;
- ability to work with our cleaning force on pay and conditions with unionisation.

After implementation of the LLW, cleaners from other firms tenanted in Aviva's head office were requesting to work for Aviva. This provided a management issue for the cleaning contractor as there was dissatisfaction that one set of employees were paid what was considered a preferential rate. Over time this situation dissipated as more and more tenants realised the benefit of the LLW, and converted their contracts too.

⁶² Previously Norwich Union until 1 June 2009.

⁶³ Anon., 2014. Aviva set to pay its entire workforce living wage. The York Press [online]. 1 May 2014. Available from: www.yorkpress.co.uk/business/news/11186531.Aviva_set_to_pay_its_entire_workforce_living_wage [Accessed 2 September 2014].

⁶⁴ Living Wage Foundation, 2014. Aviva extends Living Wage commitment [online]. 30 April 2014. Available from: www.livingwage.org.uk/blog/aviva-extends-living-wage-commitment [Accessed 2 September 2014].

UK Living Wage

In July 2014 when Aviva became nationally accredited, and implemented the Living Wage to other Aviva offices in the UK, this proved highly popular with suppliers operatives who were at the time being paid industry regional pay rates. However, this move did not come without its challenges. For example, increasing the hourly pay rates for cleaning operatives now meant that almost all cleaning supervisors were being paid the same as their team members. Without an increase in the pay differential the supervisors would either leave or request demotion to a cleaning operative role with less responsibility but at the same hourly pay rate.

The biggest issue Aviva faced after implementation was the impact on the relative pay scales up the organisation in our supply chain. There is a need to maintain difference between pay grades, without a pay differential for supervisory roles overall cleaning costs would have increased by 3.81% per annum. With the agreed increase reflecting the differentials in pay scale the actual overall increase was 4.42% per annum. Aviva found an unanticipated impact on employees who were being paid above the Living Wage and had their pay uplifted – and gained positive feedback in general from all staff.

Another area of note is that of the three locations where Aviva premises are cleaned overnight, but there is still a day time housekeeping presence, the night time cleaning role previously attracted an enhanced pay rate. Now, almost everywhere, all cleaning operatives and day time housekeepers earn the Living Wage. This has been challenged by the night time cleaning operatives and a workable solution for all is currently being considered.

During a recent cleaning and security tender Aviva announced the contract would be awarded to a National Living Wage accredited company. Of the tender submissions Aviva were pleased to note the following statements and comments:

Bidder A

“Overall, we believe the Living Wage has many positive impacts including individual well-being, commitment, enhanced family and community life which in turn improve loyalty, performance and standards.”

Bidder B

“We are committed to setting pay rates on the Aviva contract in accordance with the Living Wage and, in doing so, we will provide Aviva with the following benefits:

- Creating an opportunity for people to provide for themselves and their families;
- Improved levels of service;
- Improved employee’s opinion of and commitment to their role;
- Improved productivity;
- Increased motivation and morale;
- Reduced absenteeism (c.25%);
- Minimised disruption to your business;
- Substantial positive impacts on recruitment and retention;
- Support your CR strategy and targets.”

Bidder C

“Where our clients have elected to implement the Living and London Wage we have seen a reduction in employee turnover, improved engagement and enhanced performance as we are able to attract the best calibre people in the market to these contracts. In one small study of a group of contracts that pay the Living Wage versus a group of similar contracts that did not, we saw a 4% decrease in employee turnover.”

The business case for Aviva

Aviva considers that adoption of the Living Wage will be beneficial to service levels and cost effective in the long term. Engagement with investors and stakeholder representatives on the Living Wage and managing investor expectations is critical to a private sector ‘business approach’.

Being Living Wage compliant allows Aviva to be a more effective advocate of issues such as poverty and human rights. For example, dialogue around the Living Wage has extended to issues linked to human rights internationally and has led to a number of wider discussions where a ‘seat at the table’ is a direct result of our progress with the Living Wage.

Barclays PLC

2003

Initial engagement with TELCO on living wage campaign in 2003

2004

Launch in 2004 of leading edge employment package for cleaning contract workers at new Canary Wharf headquarters – extended to UK network of premises in 2006

2007

London Living Wage commitment recognised by TELCO in 2007

2013

Living Wage Employer accredited UK operations October 2013

Background and motivation

With over 300 years of history and expertise in banking, Barclays⁶⁵ operates in over 50 countries and employs approximately 135,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Barclays' initial engagement with the living wage movement began in 2003, and consequently through a meeting with London Citizens/TELCO in 2004⁶⁶, who were, as part of their living wage campaign, targeting financial services organisations moving from the City of London to the new Canary Wharf.

Taking account of concerns raised by the campaign, Barclays made a commitment to increase the rate of pay and improve the working conditions of its contracted service provision in its new Canary Wharf HQ – including catering, cleaning, engineering, security, logistics, front of house and health and fitness services. It began by promoting an employment package as part of its cleaning contract for the new Canary Wharf property designed to “give priority to the welfare, development and retention of employees, plus rewarding good performance”⁶⁷. This was considered to be a significant differentiating factor in maintaining a high quality workplace.

⁶⁵ Website: www.barclays.com

⁶⁶ Barclays, 2013. *Barclays supports National Living Wage Week* [online]. 4 November 2013. Available from: www.newsroom.barclays.com/Press-releases/Barclays-supports-National-Living-Wage-Week-ac7.aspx [Accessed 29 September 2014].

⁶⁷ See for example Barclays, Johnson Controls & Rentokil Initial UK Cleaning, 2004. Barclays Canary Wharf HQ Cleaning Contract Awarded to Rentokil Initial. 26 November 2004.

In 2006 Barclays and its cleaning contractors extended a “fair wage” package to front line cleaners working across the bank’s branch network.

After a period of on-going engagement with stakeholders, in July 2007 Barclays fully committed, in an important partnership with its union Unite, to extend its employment package for contracted workers to pay above the London Living Wage (LLW) rate. This involved paying over the LLW (£7.50 an hour) to all 1,000 cleaning, catering, mailroom and gym workers in London. In so doing, Barclays became the first high street bank to adopt the LLW.

Barclays formally rolled out its Living Wage commitment across the UK, achieving accreditation as a Living Wage Employer from the Living Wage Foundation in October 2013, and announcing that all permanent and subcontracted staff in the UK, regardless of their role or location, will be paid at least the relevant Living Wage rate. As part of this commitment Barclays is working closely with its facilities management contractor, ISS, to ensure all of their 3600 staff assigned to Barclays are paid the Living Wage.

Dominic Johnson, Employee Relations Director, states “Our UK Living Wage accreditation represents a commitment to ensure that people working on Barclays’ behalf are paid enough to enjoy a decent standard of living. Having supported the Living Wage for over ten years, we know that it can improve productivity, morale and retention rates. This is not just an expression of our corporate Values or an issue of social impact, but good business sense”. As in 2007, UK-wide accreditation was a commitment made in partnership with Barclays’ recognised trade union, Unite.

The business case for Barclays

Barclays has been measuring and assessing the business benefits associated with paying the Living Wage since its initial commitment to the LLW in 2007. Barclays recognises that paying the Living Wage alone will not necessarily lead to immediate benefits; it needs to be combined with effective, fair and responsible management of employees and contractors. Those organisations that do not take this approach may just raise their costs. The differentiator is in looking at the value of paying the Living Wage as well as managing the cost increases. As Dominic Johnson, Employee Relations Director explains, “When you look at employee engagement and what drives organisational performance, there’s a rational dimension and an emotional dimension. Pay is part of the rational dimension, but it is the emotional dimension of ‘do I feel valued’ that drives people’s behaviour ... Paying at or above the Living Wage is a key part of that.”

Barclays considers paying the Living Wage to staff and contractors to be a core part of their Purpose and Values and an important reputational management issue. The Living Wage commitment has helped improve relationships with key stakeholders, as follows:

- **Unions:** Becoming a Living Wage Employer has enhanced Barclays’ relationship with Unite, which recognises Barclays’ leadership in this area – this is important as the Living Wage and addressing low pay is a campaigning priority for the union, and they are a key partner for Barclays.
- **Media/politicians** There has been longstanding recognition of Barclays’ approach in the media, by leading politicians from different parties, and from other stakeholders with an interest in low pay – such as the Church of England.

- **Employees:** Barclays highlights Living Wage news and developments to its broader workforce via a variety of internal channels, including its corporate intranet and posters and notices displayed in bank premises. Moves such as increased daytime cleaning allow colleagues to get to know the person that cleans their office and this helps build working relationships and maintain awareness of the issue.
- **Shareholder/SRI community:** Barclays is often asked to complete socially responsible investment (SRI) questionnaires, and includes payment of the Living Wage in employee relations and union membership related questions.
- **Clients:** Barclays' clients are increasingly asking about information about the bank's approach to the Living Wage, especially those in the public sector, such as local authorities and universities. In tender documents Living Wage accreditation can be highlighted as a differentiating factor.

Impact

Barclays' commitment to pay the relevant Living Wage to its entire facilities management contractors (cleaners, catering, security, and mailroom) means there is an increased need to track and monitor the business benefits associated with doing so. Working in partnership with ISS, Barclays is developing a set of robust indicators to track issues such as absenteeism, health and safety/sickness, employee engagement and productivity of different roles. Some of these indicators already have established data baselines, others are under development. The following section details currently available statistics and commentary:

Pay rates

		Cleaning	Catering	Security	Mailroom	Landscaping/ other services	Gym	TOTAL
London	LLW	0 (all paid above)	0 (all paid above)	0 (all paid above)	53	0		53
	Above LLW	336	190	63	50	0	14	653
Rest of UK	UK Living Wage	1455	131	35	0	0		1621
	Above UK LW	138	39	60	0	39		276
							TOTAL	2603

A total of 3,717 people are employed by ISS on the Barclays contract. The table above refers to non-managerial staff (2,603 people). A further 1,114 staff members in managerial positions are paid on a monthly basis and are paid above the LLW and the UK Living Wage (UK LW). Barclays' contract with ISS is relatively new and has meant a restructuring of the bank's service provision to bring together a large number of smaller contracts under one umbrella. This restructure, plus the closure of some UK premises over the past 18 months has resulted in a reduction in the number of sub-contracted workers from 4,300 to 3,717. This reduction is unrelated to the Living Wage issue but means that it is not possible to provide topical year on year data on contracted employee retention rates and turnover.

Turnover

Turnover for ISS frontline contractors working for Barclays was unusually high in the preceding 12 months (30.54% during Quarter 1, 2014), due to the headcount reduction outlined above. However, ISS estimates that turnover among staff that were not affected by the restructure is nearer 25%. This figure was estimated using all ISS' living wage contracts and the industry average. As turnover among Barclays' contracted workers prior to this period was lower than the industry average, the bank expects this figure to reduce over the next 12 months as the new structure stabilises. ISS' Living Wage contracted staff (all, not solely those allocated to Barclays) have a turnover rate that is over one third lower than staff on non-Living Wage contracts.

Employee relations

ISS contractors working for Barclays took part in the annual employee Net Promoter Score engagement survey (issued by ISS) for the first time in 2013. Of the 3,717 staff members, 1,368 (37%) completed the survey.

The top five scoring statements were	
I know who is in charge of my team	90%
I know what is expected of me in my job	85%
H&S is taken seriously	79%
I feel able to make the decisions needed to do my job well	78%
My job makes good use of my skills and abilities	73%

When comparing the ISS Living Wage contracts with other non-Living Wage contracts, 83% of the former score higher on the engagement survey (on average 8% higher) than comparable non-Living Wage contracts. Whilst pay is not a direct driver of engagement, the benefits of higher pay (reduced turnover, a more stable team, more time to invest in that team and greater sense of wellbeing) are demonstrated by these results.

Career opportunities

The ISS-Barclays contractor relationship offers a fully integrated model (ISS delivers 22 different service streams) and, as a result, staff have more opportunities to work in different areas and improve their skills and development opportunities. ISS intends to start collecting data on career development and promotions from December 2015.

ISS has engaged with employees to explore their response to working with Barclays as a Living Wage Employer. One ISS employee noted "ISS promised us that we would have the opportunity to progress particularly because of the integrated model and this year I started a new role working with the welcome team. It was a big decision as I loved working in catering, but this opportunity has really changed my life as I never thought that I could get this type of job. I love being with customers and helping them each day and every day. I have been taught so much in the small time I have been with the welcome team. My aspirations now are to become a supervisor and then maybe higher."

Overview – costs and benefits

Philippa Birtwell, Head of Reputation Risk Management, summarises “Over the decade Barclays has been associated with the living wage issue the human story has been positive and constant and has always been subject to senior management interest and support. Engagement with our contractors over the years has highlighted small changes – apart from the Living Wage – that can make a big difference to individuals’ lives at little or no cost (e.g. moving more to daytime cleaning). These would not have come to our attention before the Living Wage issue catalysed a more proactive approach. The reputational benefit to the bank has also been a remarkable and sustained by-product that was not anticipated at the outset and is a helpful offset to the additional cost of paying the Living Wage. Being an accredited Living Wage Employer is a practical demonstration of our values in action”.

KPMG LLP UK

2005

Initial engagement with TELCO on living wage campaign in Q3 of 2005

2006

Rolled out the London Living Wage (LLW) in London, and a living wage rate to all other UK employees by October 2006 (based on the established LLW rate)

2012

Living Wage Employer accredited UK operations April 2012

Background and motivation

KPMG in the UK⁶⁸ is a leading provider of professional services including audit, tax, and advisory. They are part of KPMG's global network of professional firms providing these services- employing over 155,000 individuals in 155 countries, of which includes 11,335⁶⁹ partners and staff in the UK.

KPMG in the UK first became involved in the Living Wage in 2005 after engaging with a campaign by The East London Communities Organisation (TELCO) at their Salisbury Square office, putting forward the merits of a London Living Wage (LLW). In 2006, following consultation with TELCO's and cross functional management, the KPMG Board adopted the LLW in London, and a rate based on the LLW, and advice from Joseph Rowntree Foundation work in York and London Citizens personnel, for employees in the rest of the UK⁷⁰. As a leading provider of professional services KPMG operates in a high margin industry. Implementing the Living Wage involved ensuring all of the business's own staff and more significantly contracts for all third-party on site contractors - including, for example, that cleaning, security, catering and front of house, were based on the LLW rate⁷¹.

68 Website: www.kpmg.com/UK

69 KPMG (2013).

70 The LLW rate was paid to employees based in London. In the rest of the UK, the LLW was 'discounted' by about £1 per hour, and applied across the country- so that all workers got the same percentage increase.

71 Fundamental to KPMG's broader commitment to the Living Wage and wider engagement is the role of Michael Kelly, Head of Living Wage KPMG and chair of LWF Advisory Committee, and secondee to the LWF (May 2013-present). Guy Stallard, Head of Facilities KPMG, has also been a member of the Living Wage advisory group through Trust for London since 2009 and is a member of the technical policy group advising on the rate methodology. For the last 12 months Guy has also sat on the Living Wage Commission, an independent time bound group, reviewing the progress in the Living Wage.

Implementation

Guy Stallard, Head of Facilities and key to successful implementation of the Living Wage in KPMG, stressed adopting the Living Wage was about going through a “change management programme considering how we redefined service levels... in terms of values, not just what we paid”. Engagement with stakeholders was seen as critical – employees were asked what changes they would like, unions were engaged on professionalism and training and some tough conversations took place with suppliers. Guy Stallard recounts that “some FM contractors were mystified in early days, but they have moved to realising the benefits of the Living Wage, and become positive about it”.

Adopting the LLW also included the consideration of more flexible shift patterns to suit employees – including the organisation of a pool of workers who can work more established hours (i.e. during the day), at convenient locations – with sick pay, training and role development as a career, and pension considerations (although there was found to be little demand for this).

By 2006 KPMG had rolled out a living wage rate to all direct and full time UK employees and on-site contractors that was based on the LLW, and applied for LWF accreditation, when available, in 2012.

Impact

The following examples highlight some of the experiences KPMG and various employee groups in the business affected by the Living Wage that go beyond simply increasing wage rates⁷².

Employee group	Employee impact	Organisation impact
Cleaners: Engagement undertaken with cleaning staff prior to the introduction of the Living Wage in 2006, including consultation around what aspects of their job they liked/disliked, shift patterns, etc.	New Living Wage contract terms included changing shifts to more social hours, removing under desk bins and introducing centralised recycling systems ⁷³ .	Changes improved efficiency, staff retention and employee motivation and flexibility. During the first year of implementation turnover in cleaning staff fell from 44% to 27% (data collected by contractors and validated by company). Helped to manage resource use.
Mailroom staff: Responsibilities of mailroom staff were increased so that individuals had a wider organisational role in the hours out with their core mail sorting and delivery times (9am, lunchtime, and at the end of the day).	Individuals were given more varied roles – additional tasks to undertake at low demand periods in their shifts such as re-stocking stationery cupboards and setting up materials for conference rooms. In addition, they were paid more.	This resulted in better, and more efficient, use of labour as well as skills development. The additional necessary tasks undertaken assist in the efficiency and smooth running of the business.
Catering: Apprenticeships and more flexible working introduced for catering teams.	Catering has become more of an established function of the business – with wider training, flexibility, skills and job variability for individuals.	The recruitment and retention of catering staff has improved, and training and development have become easier because employees are there longer.

⁷² These have been identified through conversations with Mike Kelly and Guy Stallard.

⁷³ “KPMG have more day time cleaners than we had at the start of the process, but less total hours due to efficiencies - but this might cause some issues with unions on basis that there are potentially drops in hours for workers (though this is not through redundancies it is natural wastage)”, Guy Stallard.

Recent performance data collected by KPMG from its three main facilities service providers on key organisational metrics over the last few years are detailed below. This includes evidence from employee surveys conducted by each service provider⁷⁴.

	Employee numbers ⁷⁵	Staff turnover	Absenteeism	Other
Contractor 1	4% reduction in employee numbers since 2012/13.	2012/13: 21%. Rates are 10% lower than company average.		Job quality: 44% of security officers acknowledge their earnings are comparable to the industry. Security staff in the 'North' reported tangible benefit to their lifestyle. In the 'South' staff did not feel rates kept up with inflation. ⁷⁶
Contractor 2	No change in employee numbers.	2011/12: 27%. 2013/14: 13.9%.	10% reduction from 2012/13 to 2013/14.	Performance and productivity remain consistently high amongst Living Wage employees. Non-Living Wage employees regularly ask for transfers to KPMG's Living Wage contract. Reputation gain as a Living Wage service provider has resulted in a greater number of job applications, and the retention of current contracts.
Contractor 3	No change in employee numbers.	3% - compared to company average of 10%.		Changes in expenditure have been funded by specific clients. No Living Wage contracts have been lost, and the KPMG contract has been extended. 7% (of circa. 1,900) employees were increased to the Living Wage on KPMG contract. This was a higher percentage change than for other clients, where employees already earning Living Wage rates were lower.

As of mid-2014 KPMG's Living Wage performance data collection has been formalised (a process catalysed as a result of reviewing the business case data as part of this project).

Michael Kelly, Head of Living Wage at KPMG, stated that "My advice to organisations becoming accredited would be keep data. We have learned that what was economically right for years 1 to 3 is fine - but 8 years on the institutional memory is lost."

⁷⁴ Contract details have been anonymised due to commercially sensitivity (an audit trail has not been tracked for this information).

⁷⁵ A reduction in staff numbers at KPMG has resulted in revised levels of service which service provider employees have had to adjust to.

⁷⁶ Survey carried out by contractor. 'North' includes Manchester and other Northern offices, as well as Scotland.

KPMG have now developed and implemented a comprehensive list of questions to be posed to all contractors/ service providers. This list was designed from experience gained with service providers in Canary Wharf when negotiating the London Living Wage and rolling out the Living Wage rate across the UK:

KPMG Living Wage performance data collection framework (abbreviated version)

Quantified impacts (expressed in percentages, with comparatives)

- Staff turnover, absenteeism, change in employee numbers, employee and wage transfers to Living Wage contracts, change in cost of service.

Other impacts (to be answered Yes/No - with further details requested)

- Has presence, or lack of Living Wage, affected any reputational gains or losses for the company?
- Have there been changes in working conditions for Living Wage employees?
- Have there been changes in workload for Living Wage employees?
- Has there been career progression for employees?
- Has paying the Living Wage had an impact on employee relations?
- Has paying the Living Wage had an impact on performance and productivity?
- Has paying the Living Wage had an impact on employee morale?
- Number of contracts gained/lost/secured since previous year - and which of these were Living Wage?

Covering the costs

Although the cost of going Living Wage was originally borne by the organisation (against profit), KPMG has recorded evidence of improvements in productivity and positive changes of value to employees and the organisation.

Overall the total cost of providing all KPMG's Workplace Services on an annual basis is now more than £1million below the comparative costs in 2006. In the first years of introduction the increased cost of wages and other benefits was offset by the reductions in recruitment costs, increased skills and productivity of staff and changed business practices, such as using waste paper to generate an additional income stream. Whilst initial individual contract impacts varied all showed improvements in bottom line performance in both financial and non-financial indicators, such as employee engagement and customer satisfaction levels. As in most sustainability strategies the biggest opportunity to effect positive change comes at the design stage. For KPMG the move to new premises enabled them, working collaboratively with their key suppliers, to use the opportunity to create empowered and flexible staffing models.

Overall

Michael Kelly stresses "If you start from the premise that the whole change management programme is just a pay differential program you are at a loss even before you have got going." He advises other organisations should "treat going Living Wage as a change management programme; phase it over a reasonable term 1 or 2 years." Also, "Never underestimate the amount of positive engagement you generate from employees already above the Living Wage who will never see any change because of it."

Penrose Care Ltd

2012

Commitment to pay all employees the London Living Wage (shortly after the company was founded)

2012

Living Wage Employer accredited in October 2012

Background and motivation

Penrose Care⁷⁷ are a small privately owned London based business established in 2012 in the home care sector – providing a range of services from short visits, to live-in care. They deliver elderly care, disabilities care, domestic services and childcare agency services.

With the view that there was/is a need to “fundamentally reform the home care sector in the UK to help improve elderly care and disabilities care”⁷⁸ the co-founders Robert Stephenson-Padron, Managing Director, and Dr Matthew J. Knight, Non-Executive Director, of Penrose Care wanted to integrate core moral values into their business model. These included treating vulnerable people with human dignity, and to act ethically in their business.

Mr Stephenson-Padron and Dr Knight identified that if the business was to adequately deliver its primary service as a care provider, and fulfil its purpose to look after people, then this obligation should be extended to employees. Mr Stephenson-Padron affirms that “if a care provider wants to sustainably be a centre of workers that support vulnerable persons with the human dignity they deserve, the workers themselves must be treated with dignity.”

Penrose Care became an accredited Living Wage Employer in October 2012 (three months after the company was founded in July 2012)⁷⁹. In doing so they were 1 of only 3 accredited Living Wage Employers in London’s home care sector (of around 745 agencies), and just 1 of 4 in the whole of England (of almost 6,000 agencies) at the time of their accreditation in 2012. They remain 1 of 4 accredited home care providers in London, now of over 1,000 agencies (September 2014)⁸⁰.

⁷⁷ Website: www.penrosecare.co.uk

⁷⁸ Penrose Care, *Who we are* [online]. Available from: www.penrosecare.co.uk/who_we_are.html [Accessed 2 October 2014].

⁷⁹ Homecare.co.uk, 2013. *Outstanding CQC inspection report of Penrose Care shows ethical standards can drive excellence in care* [online]. 15 July 2014. Available from: www.homecare.co.uk/news/article.cfm/id/1560477/outstanding-cqc-inspection-report-of-penrose-care-shows-ethical-standards-can-drive-excellence-in-care [Accessed 7 September 2014].

⁸⁰ Penrose Care, 2014. *Penrose Care one of only four home care organisations in England named as an accredited Living Wage Employer* [online]. 5 November 2012. Available from: www.penrosecare.co.uk/penrose-care-one-of-only-four-home-care-organisations-in-england-named-as-an-accredited-living-wage-employer-4 [Accessed 7 September 2014].

Implementation

Recognising that workers in the home care sector are particularly subject to low pay rates, including in some cases below the minimum wage, the founders established Penrose Care as a Living Wage employer from the outset. In doing so they included the payment of the London Living Wage (LLW) in their business model when establishing their organisation.

Furthermore, to meet their objectives to provide a personal level of service, they aimed to employ the best professionals in the sector⁸¹, and linked this objective to the payment of the Living Wage. “Our Living Wage commitment stems from our belief that core to successfully delivering excellent home care with compassion is having the best staff, selected for their human touch as well as their professional qualities.”⁸²

While the organisation did not directly/actively seek ethical investment to fund the start-up of their business, Robert Stephenson-Padron has offered his view that all of the business’s “owners are personal owners and I do believe that some, if not all of them, decided to become co-owners of Penrose Care as a result of its pioneering commitment to ethics and the extremely high regard it has for integrity”.

Impacts

In addition to being a notoriously low paid sector, home care is recognised for a high turnover of staff. Robert Stephenson-Padron has identified that many care workers in the UK lack basic skills, and that the high turnover of staff is damaging to quality of care⁸³. Indeed, Mr Stephenson-Padron identifies that the Equality and Human Rights Commission have linked low pay with high staff-turnover and the non-continuity of care staff, and an issue that is regarded as significant threat to the human rights of the elderly⁸⁴. “By reducing staff turnover and thereby improving continuity, we have become able to deliver a better service to those for whom we care, at the same time as reducing the costs and disruption associated with constant appointment of new staff.”⁸⁵

Furthermore, Mr Stephenson-Padron asserts that paying the Living Wage makes employees feel more secure, and are consequently better able to make people in their care feel safe⁸⁶. In addition to paying the Living Wage, Penrose Care compensates workers for their travel time – something that over 80% of other independent care sector employers reportedly do not do⁸⁷.

81 Penrose Care, *Who we are* [online]. Available from: www.penrosecare.co.uk/who_we_are.html [Accessed 2 October 2014].

82 Penrose Care, *Our values* [online]. Available from: www.penrosecare.co.uk/our_values.html [Accessed 2 October 2014].

83 Homecare.co.uk, 2013. *London Living Wage Increase Effective Immediately at Penrose Care* [online]. 4 November 2013. Available from: www.homecare.co.uk/news/article.cfm/id/1561473/london-living-wage-increases-effective-immediately-penrose-care [Accessed 9 September 2014].

84 Knight, M. & Stephenson-Padron, R., 2013. *Care in Times of Crisis: Does 'the Living Wage' help?* [online]. 22 November 2013. Available from: www.thomasmoreinstitute.org.uk/care-in-times-of-crisis-does-the-living-wage-help [Accessed 2 September 2014].

85 Ibid.

86 Learner, S., 2013. Pressure mounts for better pay for homecare workers. *The Guardian* [online]. 4 December 2013. Available from: www.theguardian.com/social-care-network/2013/dec/04/pressure-mounts-better-pay-homecare-workers [Accessed 15 September 2014].

87 Hathway, N., 2013. *London home care provider raises carer pay* [online]. 6 November 2013. Available from: www.homecare.co.uk/news/article.cfm/id/1561502/london_home_care_provider_raises [Accessed 15 September 2014].

Other impacts

- Feedback from users of the organisation's services has expressed high satisfaction with the service provided (evident from an average feedback score of 4.9 out of 5 from a customer satisfaction survey, and also numerous positive testimonials).
- The business has had no care worker voluntary leavers since it was founded in 2012, although Mr Stephenson-Padron notes that, at some point, Penrose Care expects this to change to a more sustainable "extremely low staff turnover".
- The level of sick days taken by employees is "negligible".
- The business has been able to recruit staff without the need to actively advertise positions⁸⁸.

Covering the costs

It was recognised that paying the Living Wage would impose an extra cost on the business relative to competitors. This required, in some cases, a slightly more expensive cost of service – but it was believed that users would be willing to pay a premium to receive "outstanding levels of care".

Robert Stephenson-Padron stated that "We incorporated the London Living Wage into our business model from the very beginning. It meant we were going to have a higher cost base than our competitors but we had the firm belief, and this has been confirmed by our success to date, that there would be users of home care services willing to pay a little bit more than average to secure better care workers, with excellent training and high morale, from a provider that genuinely cares for them."

The decision to incorporate the Living Wage on the basis that users would be attracted to the business as a result is backed up by some external evidence – a poll by Censuswide identified that "73.5% of the general public agreed that 'when choosing a care provider for a loved one, I would like to know that the people looking after them were being paid a Living Wage.'"⁸⁹

Other measures to cover costs

- The managers of the business decided to pay themselves less than the average rate for their roles in order to cover the cost of the Living Wage for their staff⁹⁰.
- Employees are required to be more efficient in their working practices. This includes utilising the abilities of a number of staff that have multi-disciplinary skills and are competent in a number of roles, as well as adopting a state of the art IT system to maximise the time workers can undertake care activities over administrative tasks⁹¹.
- Realising the benefits of increased efficiency through multiple roles for staff, limiting idleness and reducing administrative costs, and furthermore developing the skills and competencies of workers⁹².

88 Knight, M. & Stephenson-Padron, R., 2014. Does the 'Living Wage' make sense in this age of financial crisis? [online]. 10 February 2014. Available from: www.homecarelondon.org/2014/02/10/does-the-living-wage-make-sense-in-this-age-of-financial-crisis [Accessed 5 September 2014].

89 Censuswide poll cited in Living Wage Commission (2014:p36).

90 Drury, F., 2013. Care bosses take salary cut to ensure staff receive fair income. *Wood and Vale* [online], 21 November 2013. Available from: <http://edition.pagesuite-professional.co.uk/launch.aspx?eid=2ac0a850-ffb9-49ad-9416-1cf3b1aab64d> [Accessed 20 October 2014].

91 Hathway, N., 2013. Profile: 'To promote a caring workforce, the organisation itself must be caring' says Penrose Care managing director [online]. 4 December 2013. Available from: www.homecare.co.uk/news/article.cfm/1d/1561802/to_promote_a_caring_workforce [Accessed 5 September 2014].

92 Ibid.

2013

Living Wage Employer accredited UK operations September 2013

Background and motivation

SSE⁹³ is a FTSE100 utility company based in Perth, Scotland – and operating in the UK and Ireland. It has, over time, been formed by the merger of Scottish Hydro Electric and Southern Electric and the acquisition of SWALEC (Wales) and Airtricity (Northern Ireland) from different regions in the UK and Ireland, and become one of the UK's largest FTSE listed companies. It is involved in the generation, transmission, distribution and supply of electricity, and in the production, storage, distribution and supply of gas and in other energy services. In support of this role, it is the largest generator of renewable electricity in the UK. It is furthermore involved in a wide range of energy related businesses. It has a large mechanical engineering business that provides energy services throughout the UK, and is the only energy company to retail a high street presence through its electrical supply stores in the north of Scotland.

Embarking on the Living Wage is an issue of values – moral and financial – for SSE. It was an issue the company decided was the right thing to do, and also aligned with the organisation's values. This was highlighted by Rachel McEwen, Director of Sustainability, in a statement at the time of the Living Wage launch "For SSE, being a Living Wage employer is about doing the right thing for people who work for us. That's good for our employees and it is good for business too. But just as importantly, it is a symbol of the type of company we want to be: being responsible in all that we do in order to make a difference to people's lives."⁹⁴

⁹³ Website: www.sse.com

⁹⁴ SSE, 2014. *SSE plays its part to help more workers benefit from the Living Wage* [online]. 24 June 2014. Available from: www.sse.com/newsandviews/allarticles/2014/06/sse-plays-its-part-to-help-more-workers-benefit-from-the-living-wage [Accessed 20 September 2014].

SSE's commitment to the Living Wage comes from the top down. It has established Management Board Commitment to become an accredited Living Wage employer with support from a short life multi-functional working group from core corporate departments comprised of Rachel McEwen (then) Head of Sustainable Development, Kirsty Curry Head of Performance and Compliance and Robert Macdonald Head of HR Projects. Together they have outlined a definitive business case for the Living Wage detailed below:

Business case for the Living Wage

1. It is consistent with SSE's values

Paying a living wage is a sustainable policy: it rewards employees fairly for the contribution they make to SSE's success. It demonstrates our responsible approach to employment.

2. Improves employee retention, loyalty and employee engagement

We are convinced there is considerable evidence that in return for fair pay, employees reward their employer with increased loyalty and increased engagement.

3. Enhance SSE's public reputation

The Living Wage Foundation (LWF) accreditation is the 'official' way to have a quality mark around our position as a responsible Living Wage Employer.

4. Competitive differentiation – SSE stands out from the rest

Being the only Living Wage accredited energy/ utility company in the UK is an important differentiator which marks us out from our competitors.

5. The Living Wage matters to many of SSE's customers

The general public and SSE's business customers, many of whom are from public sector, are increasingly expecting enhanced social standards from their contactors.

SSE's position on the Living Wage is highly visible outside the organisation. The Living Wage has dedicated web space on its responsible business pages⁹⁵, was a case theme in SSE's 2013/14 AGM, including being the focus of a short film⁹⁶ and featured within SSE's Annual Report 2014 under the Sustainability Overview and strategic report on People, Values and the Environment⁹⁷. Details of SSE's position on the anniversary of its accreditation are detailed on a blog by Rachel McEwen⁹⁸.

Implementation and impact

All of SSE's 20,000 employees were being paid at least the Living Wage in September 2013, with those earning less than the Living Wage rate receiving a backdated pay rise to April 1st 2013. While the organisation has over 20,000 employees, due to their business very few (only 148 of the total) direct employees fell below the Living Wage rate when the organisation stated paying the Living Wage.

⁹⁵ SSE. *Being Responsible*. Available from: www.sse.com/beingresponsible [Accessed 20 September 2014].

⁹⁶ SSE. 2013. *Being responsible, making a difference* [video, online]. Available from: www.vimeo.com/100974142 Accessed 20 September.

⁹⁷ SSE. (2014). See Living Wage references on p:30, 53, 54, 56.

⁹⁸ McEwen, R., 2014. *The Living Wage: One year on* [online]. 26 September 2014. Available from: <http://sse.com/newsandviews/allarticles/2014/09/the-living-wage-one-year-on> [Accessed 2 October 2014].

Implementation of the Living Wage rates within SSE had an impact on the following:

- 148 full and part time staff receiving a pay rise of which 49 are men, 99 are women;
- They included: 65 Cleaning staff from the south of England, 40 Hydro Shop staff in the north of Scotland, 36 Airtricity staff including meter readers and admin staff in Northern Ireland and 7 others including tour guides at power stations in the north of England.
- The average annual increase in salary for those affected is £1,000;
- The total cost to SSE to increase these wage rates to the Living Wage rate was around £200,000. SSE has increased its costs by giving its staff a pay rise because, as stated by Rachel McEwen, they “believe paying our lowest paid staff a living wage is simply the right thing to do”.

Formal engagement on going Living Wage was undertaken with all trade unions leaders within SSE: Unite, Prospect, Unison and the GMB. There is evidence that all trade unions welcomed this move and engagement on Living Wage remains ongoing.

SSE trainee and apprentices have been excluded from the Living Wage rate but receive wages which are at or above the rates of pay accredited by the relevant trade bodies. While these are not at the level of the Living Wage, that reflects the age and experience of the trainees and apprentices. Evidence from SSE official correspondence with the LWF confirms the LWF recognise the training package and qualifications received by all SSE trainees and apprentices are sufficient to demonstrate real training value and therefore this group is excluded from the reach of the Living Wage.

To communicate the details of the Living Wage implementation, and keep it visible, SSE has adopted an ongoing communications plan for all SSE staff detailing why the Living Wage is important, and linking it directly to SSE core values. Further it cascades this message through its business units and account managers to key customer groups highlighting SSE’s commitment to the Living Wage and its accreditation as a Living Wage Employer.

With regards to Living Wage accreditation SSE agreed a formal detailed plan with the Living Wage Foundation to phase the Living Wage into its UK supply chain. The essence of this was that from 1st April 2014, all new eligible contracts tendered would include a Living Wage clause, and require the contractor to pay any person who works on an SSE site for two hours or more, for at least eight consecutive weeks, to be paid at least the Living Wage. Rachel McEwen states that “We are unable to implement these clauses retrospectively, but in due course, the whole supply chain (where appropriate) will be covered by the Living Wage clause.”

SSE signed its first Living Wage compliant contract with 3 suppliers in August 2014 to pay at least the Living Wage to over 100 employees directly involved in delivering an energy efficiency project in Perth, Scotland. Sandy Ferguson, Managing Director of one of these suppliers, Cameron and Ferguson, indicated that signing up to the Living Wage has improved the attitude and output of labour force⁹⁹.

⁹⁹ SSE, 2014. *SSE rolls out the Living Wage across its £2bn supply chain* [online]. 5 August 2014. Available from: www.sse.com/newsandviews/allarticles/2014/08/sse-rolls-out-the-living-wage-across-its-%C2%A32bn-supply-chain [Accessed 20 September 2014].

SSE most significant Living Wage impacts are likely to come from the organisation's commitment to work with its supply chain to roll out the Living Wage.

- SSE's annual supply chain bill is over £2billion; of which around £1.5bn is spent on service contracts and SSE awards around 1,500 contracts each year.
- By August 2014 high level analysis of SSE data demonstrated Living Wage contracts had been signed with an associated contract value in excess of £473,272,408 for 16 contracts awarded with suppliers based the length of the UK from Shetland to Portsmouth.

Further availability of information on the impact of SSE's supply chain going Living Wage is limited to that which contractors place in the public domain themselves. SSE does not intend to request Living Wage impact information from suppliers. The reason for this is that they expected it to be built into the contract thus, as Rachel McEwen explains, "it would be too onerous a task to our suppliers to go through hypothetical cost calculation for each contract as if it had not included a Living Wage rate, particularly as we were only interested in Living Wage compliant bids".

Given the scale and importance of SSE's supply chain, it was vital for both SSE and the LWF that SSE developed an action plan for implementation of the Living Wage in procurement. This involved integrating the Living Wage principles into their core procurement policy and developing and launching a new Responsible Procurement Charter¹⁰⁰. SSE suppliers were given an early indication to SSE suppliers that SSE were considering the 'principles of the Living Wage' through strategic engagement and included information uploaded to the corporate website for potential suppliers.

SSE are working closely with their supply chain to help them implement the Living Wage. They won't impose this on suppliers retrospectively, but paying staff the Living Wage who work on SSE sites in the future will be a feature of the contract SSE awards. Rachel McEwen notes "We believe the majority of workers in our sector are paid above the Living Wage, but there are areas where contractors may need to increase the wages of their staff – just as SSE did".

There are however likely to be challenges of going Living Wage. The nature of some of the contracts and supply chain inherent to SSE's business includes some complexity in establishing the Living Wage in contracts.

¹⁰⁰ SSE. *Responsible Procurement Charter* [online]. Available from: www.sse.com/media/210941/Responsible-Procurement-Charterv2.pdf [Accessed 5 October 2014]. (In terms of procurement, SSE is governed by the Utilities Regulation Code for its activities relating to its networks businesses. SSE has inserted a Living Wage clause as a social criterion into their procurement contracts.)

Overview

Rachel McEwen summarises that “The business argument for going Living Wage is overwhelming. When SSE was accredited in September 2013 there were only three FTSE 100 companies accredited as Living Wage Employers. While this number is increasing, it is fair to say that the private sector has not been as quick to adopt the policy as the public sector. SSE is happy to be leading the way among publically-listed companies in introducing the Living Wage.

The Living Wage is important to SSE because it is a symbol of what it stands for. But there is room for more development in ensuring SSE is sustainable in the long term. Understanding more clearly the way in which we can develop and enhance our social and environmental impacts is key to our business growth. Shortly we will publish new research that will quantify the development of human capital and the importance of that to business growth, individual development – and the wider contribution to society too. The publication of these non-financial impacts is important to SSE as we seek to become increasingly transparent about all our impacts on the economy, the environment and on society”.

Enhance Office Cleaning Ltd

2010

Proposal to introduce the Living Wage taken to clients in August 2010

2013

Service Provider Recognition since November 2013

Background and motivation

Enhance Office Cleaning¹⁰¹ are a medium sized private facilities management and commercial cleaning business, providing services to a range of organisations, predominately in central London.

Sandy Aird, Managing Director, initially sought for Enhance Office Cleaning to introduce the Living Wage in 2010 on the basis of a moral obligation to employees. “We decided to become a Living Wage Employer because we believed it was morally right; taking the decision was not easy as many of our competitors only offer rates around the National Minimum Wage... We were fortunate that all of our clients agreed it was the right thing to do and most of them paid the extra cost associated with achieving this.”¹⁰²

Implementation

Having decided to seek to implement the Living Wage, Mr Aird undertook discussions with the business’s trade association, the Cleaning Support Services Association, in 2010. This led to engagement with Neil Jamison, Director at London Citizens, and consequently Mr Aird making a proposition to the business’s 28 clients in August 2010 to pay the London Living Wage (LLW). Following these initial efforts to pursue the Living Wage, Mr Aird continued to have contact with the Living Wage Foundation (LWF) from when it was established 2011. Additionally his support for the Living Wage included being quoted in the published press, involvement in a study of the business costs and benefits of the Living Wage and, in 2013, involvement in organising and speaking at an evening presentation to 150 facilities managers in London on the Living Wage at an event sponsored by the British Institute of Facilities Management and KPMG.

¹⁰¹ Website: www.enhanceofficecleaning.com

¹⁰² Trust for London, 2012. *100,000 increase in London jobs paying poverty wages* [online]. 15 October 2012. Available from: www.trustforlondon.org.uk/media/press-release/100000-increase-in-london-jobs-paying-poverty-wages-2 [Accessed 28 August 2014].

Furthermore, the business was one of the first three building service providers¹⁰³ recognised by the LWF's Service Provider Recognition programme initiated in 2013 – awarded to organisations that commit to paying all of their own head office staff the Living Wage, and to always supply a Living Wage bid alongside a market rate bid to all of their current and prospective clients at the point of tender.¹⁰⁴

Impacts

Mr Aird's decision to embark on introducing the Living Wage was based on specific, and clear, objectives. These are/were as follows:

- To make sure that his staff would be earning pay rates that they could reasonably live off.
- To encourage and attract more people to apply for work with the business.
- To have better staff retention, and that staff would have a more flexible attitude towards working.
- That the business would attract enquiries from likeminded organisations.
- To break the mould in the UK cleaning industry which has a very large number of companies who offer a very similar service and, as a result, often compete predominantly on cost.

Reflecting on these defined objectives, Mr Aird has identified corresponding outcomes from each of these aims. These are summarised as follows:

- In March 2010, 21% of staff were receiving the Living Wage. In March 2014, 85% received the rate. (By September 2014, this figure remains at this level – the 15% not paid the LLW are all part-time staff, working less than 22.5 hours per week, and earn between £7.65 and £8.75 per hour.)
- The business attracts more people seeking to apply to work for them, with a high number of speculative enquiries for employment. However, this is not specifically recorded.
- There is evidence of improved staff retention. In the year to March 2010 the business experienced an average of 8 leavers per month, dropping to 6 leavers per month in the year to March 2014 (and which was based on a 50% increase in the workforce). The reduced staff turnover makes the business easier to run, saves on management time, and furthermore reduces administrative costs in areas such as the recent legal requirement to provide an auto-enrolment pension scheme for employees.
- While the business has had significant media coverage in relation to its support of the Living Wage, this has not apparently directly translated into winning work, with business enquires continuing to come from existing client referral rather than media coverage of the company's support for the Living Wage.

¹⁰³ Enhance Office Cleaning. *Living Wage Recognised Service Provider* [online]. Available from: www.enhanceofficecleaning.com/about_us/living_wage.html [Accessed 28 August 2014].

¹⁰⁴ Living Wage Foundation. *About the Service Provider Recognition* [online]. Available from: <http://www.livingwage.org.uk/about-service-provider-recognition> [Accessed 29 August 2014].

Other impacts

- The implementation of the Living Wage has resulted in a more motivated and productive workforce¹⁰⁵.
- There is a benefit to existing client relationships. Sandy Aird states he believes “our existing clients respect us more for taking a firm stance on this and looking after the people who are most important to them – our staff who work in their premises. I’m certain that we have a much stronger business relationship with our clients as a result of paying the Living Wage.”
- With pay rates pegged to an externally set rate (the annual Living Wage calculation), it is easier for the business to keep pace with, and for clients to accept, inflationary cost increases.

Sandy Aird has also communicated the positive impacts for his business, employees and clients publically – challenging other contractor and employers who pay low pay rates to their workers “Enhance has proved that paying fair wages has attracted good staff with a service-oriented attitude. They view cleaning as a longer-term opportunity with promotion prospects - that’s good for client, employee and contractor.”¹⁰⁶

Financial impacts

- From March 2010 to March 2014 financial turnover increased by 67% – however, undertaking the Living Wage in likelihood restricted expansion over the period.
- Percentage gross profit on total turnover decreased between March 2010 and March 2011 from 26% to 20% (a 23% decrease) from considerably higher than market average, to slightly below market average. Higher pay rates for employees increased pressure on lowering the margins achievable to cover overheads, off site administration, management and profit. Since March 2011, and after most staff had achieved the Living Wage, gross profit percentages have increased from 20% to 23% (a 15% increase).
- Due to staff being mostly recruited through word of mouth, there are no significant direct savings on actual recruitment costs. There are some savings on management time, including organising, inducting and training new staff – though this is relatively insignificant.

¹⁰⁵ Enhance Office Cleaning. *Living Wage Recognised Service Provider* [online]. Available from: http://www.enhanceofficecleaning.com/about_us/living_wage.html [Accessed 28 August 2014].

¹⁰⁶ Nixon, N., 2011. *Living wages for London cleaners* [online]. 18 July 2011. Available from: www.cleaninghub.net/news/view/living-wages-for-london-cleaners [Accessed 2 September 2014].

Covering the costs

As well as the benefits, Mr Aird makes it clear there are challenges and costs associated with his business committing to the Living Wage – and highlights some of these from his experience:

- The difference between the labour costs of a competitor paying the minimum wage, and Enhance paying the LLW, means that they are starting from a point where their costs are 40% higher. While some of this can be mitigated through organisational creativity, productivity, and reducing other costs – a total cost of around 20% higher than the client would normally pay is expected.
- While clients are generally in support of the Living Wage, and interested in undertaking it considering the CSR benefits, they are often constrained by the extra cost.
- Significant time can be spent preparing Living Wage compliant tenders, which are then unsuccessful. Mr Aird states that “as a true Living Wage supporter the business needs to work harder to achieve tender success”.

Overall

Mr Aird summarises that implementing the Living Wage in his sector requires a balancing of the costs incurred, with the benefits it brings. “There is undoubtedly a financial cost in supporting the Living Wage for both clients and contractors, and it is simply a matter of weighing up the extra cost against the benefits. Entrepreneurs who want to maximise turnover and profit might pay lip service to supporting the Living Wage but it is not practical for them to actually support it. It makes it more difficult to be cost competitive and it adversely affects the gross profit that can be achieved.”

Discussion and conclusions

Living Wage adoption reflects social objectives in core business values

Evidence in each case highlights that the Living Wage is adopted based on core values of a business – both social concerns and economics. Central to the business case is recognising the financial cost of adopting the Living Wage and the potential impact on the financial capital of a business alongside value creation in terms of social welfare and arguably human ‘capital’. Fundamental to the business cases detailed in this report is both long

term value creation and as highlighted by Rachel McEwen’s realisation as Director of Sustainability at SSE that *“paying our lowest paid staff a living wage is simply the right thing to do”*.

Building a dialogue on the Living Wage around core business values positions the social responsibility of business in engagement on public policy issues around both poverty alleviation and recognition of human rights. In particular, there is evidence from the case of Penrose Care that this dialogue is critical in high impact sectors such as social care. Robert Stephenson-Padron, Managing Director, Penrose Care identifies that the Equality and Human Rights Commission have linked low pay with high staff turnover and the non-continuity of care staff – an issue that is regarded as a significant threat to the human rights of the elderly.



A photo call celebrating the House of Lords and the House of Commons both becoming Accredited Living Wage Employers 2014

Covering costs of the Living Wage is fundamental to the business case

It is undeniable that implementing the Living Wage is undertaken at a financial cost to the organisation concerned – inasmuch as the organisation is required to meet the direct costs of uplifting wage rates below the Living Wage to meet the set rate, and the indirect costs of administering this. Our evidence has shown how this cost will vary between organisations both in terms of the number of employees affected and the ability of the organisation to absorb or pass on these costs. The business case for the Living Wage is broadly understood as building on fundamental principles of costs recognition and absorption and considering the extent to which Living Wage adoption is considered an expense to the business, or an investment in value creation. In this respect a financial business case is relevant to all organisations: private, public, third sector and charities.

As Sandy Aird, Managing Director of Enhance Office Cleaning summarises – implementing the Living Wage requires a balancing of the costs incurred, with the benefits it brings. *“There is undoubtedly a financial cost in supporting the Living Wage for both clients and contractors, and it is a simply a matter of weighing up the extra cost against the benefits”.*

A business case is developed based on value creation

The focus of this study is on the private sector (recognising the inherent profit motive) and creation of ‘value’ through Living Wage adoption in addition to recognition of the costs of adopting a living wage rate. The nature and recognition of financial value and social welfare improvements and how ‘value’ is created in connection with the Living Wage has been the subject of our attention within each case organisation. A central issue in a ‘business case’ is cost mitigation and business differentiation in connection with the Living Wage to create value. The question for the private sector is how to incorporate the Living Wage into its value chain and ultimately its brand and recognition – and that this position is changing as more organisations adopt the Living Wage, and it is becoming an expectation of doing business rather than a differentiating factor.

Our findings highlight the importance of building a business case on both financial and non-financial performance criteria, quantitative and qualitative evidence. The challenges of ‘integrated’ performance considerations as a basis for value recognition become central to the formation of a business case going forward.

Change can be phased in

With the exception of Penrose Care who adopted the Living Wage on business formation, other Living Wage Employers have practices which reflected a phased implementation of the Living Wage as part of a broader change management programme. Employers considering Living Wage adoption should consider how to phase in changes.

Michael Kelly (KPMG) stresses *“If you start from the premise that the whole change management programme is just a pay differential program you are at a loss even before you have got going.”* He advises other organisations should *“treat going Living Wage as a change management programme; phase it over a reasonable term of 1 or 2 years.”*

As highlighted by Enhance Office Cleaning, for smaller established organisations the business case for a Living Wage may require a more disruptive business model to do things differently.

Sandy Aird, Managing Director of Enhance Office Cleaning noted *...“taking the decision was not easy as many of our competitors only offer rates around the National Minimum Wage ... We were fortunate that all of our clients agreed it was the right thing to do and most of them paid the extra cost associated with achieving this.”*

Case evidence illustrates how implementing the Living Wage can help to differentiate a business from its competitors and also build brand value through organisational transformation over time. The importance of including the Living Wage within interactions and interdependencies within the value chain is key to ensuring that the maximum value is derived for this strategic implementation or change programme.

Create value with service providers and contractors

Evidence suggests there is varying degrees of awareness and implementation of the Living Wage by service providers and contractors. This has led in some instances to unhappiness among employees who perceived they were being paid different rates for essentially the same job by different contractors (some were Living Wage employers, some were not). One of the objectives of the Living Wage Foundation’s Service Provider scheme is to help to resolve this issue by ensuring employees are paid a Living Wage on all contracts irrespective of the contractor’s Living Wage status.

Momentum on Living Wage adoption and expectations are changing. With now over 1,000 Living Wage Employers in the UK, this is a requirement of doing business with them where on-site contracts are served.

Evidence from SSE highlights the degree of change with respect to contractors related to just one Living Wage Employer: By August 2014 high level analysis of SSE data demonstrated Living Wage contracts had been signed with an associated contract value in excess of £473,272,408 for 16 contracts awarded with suppliers based the length of the UK from Shetland to Portsmouth.

Pursue objectives of social welfare through employee impact

Paying the Living Wage is about seeking to improve the lives of employees in some small way. There is case evidence to suggest that, if value is to be created from Living Wage adoption to offset the direct costs to the business, emphasis needs to be placed on working with relevant employees and empowering them with the right to influence business changes to that which suits their individual family circumstances (i.e. different employees may prefer night to day shift or vice versa). KPMG emphasised this by asking employees what they would like as part of their Living Wage adoption. They also identified what Living Wage employees in general were not interested in – they had little appetite for pension provision.

There is some evidence of employee dissatisfaction around Living Wage implementation. Tensions were recognised around local pay differentials, for example between ‘staff’ and supervisors, day and night shift workers – and these required careful consideration. Engagement with unions has been significant for a number of case study organisations to avoid and/or manage such experiences.

Stakeholder engagement is critical to managing knowledge gaps

Building on evidence of the importance of stakeholder support identified in the literature review, the significance of engagement with stakeholders is highlighted through the case studies with different emphasis depending upon the nature of the business. Engagement is particularly important to manage any potential knowledge gaps which exist between a business and its stakeholders around perceptions of the business case for the Living Wage.

Investor engagement and support for Living Wage adoption is critical to the business case. A number of cases noted here were motivated to adopt the Living Wage by market based campaigns. This is highlighted by Aviva’s proactive positioning on engagement on the Living Wage with shareholder representatives around their AGM. Engagement with the City and public policy makers has continued to take place on a regular basis addressing the Living Wage, both directly and indirectly, and ensuring a socially responsible business case for the Living Wage was developing.

Aviva’s position is: ...engagement with investors and stakeholder representatives on the Living Wage and managing investor expectations is critical to a private sector ‘business approach’.

The case study evidence presented highlights the scale of the implementation challenge which Living Wage Employers may face, but also the potential social impact which they can have, and the ‘value’ they can create for their business and its stakeholders.



*Selfie at Google HQ during the announcement of the 2014 London Living Wage Rate, November 2014
Robert Stephenson-Padron, Guy Stallard and Neil Jameson*

Endnote



We are very grateful to all the individuals and organisations who have contributed so much in producing this report.

The Living Wage campaign was started 14 years ago by a group of citizens whose communities were in membership of London Citizens. They had the courage and belief that by working together they could change the market for the poorest and in some cases most marginalised in our society.

We have come a long way since then and our ambition to consign poverty pay to history is now closer to happening than ever before. There is the growing realisation that a society which can be divided into ‘the makers’ and ‘the takers’ is fundamentally flawed and cuts immense segments of society off from meaningful participation in social, political and economic life.

That is why this report is so important. It provides a catalyst for change. I hope it will inspire other employers to start their own journey to becoming accredited Living Wage Employers. We know that changing the way work is valued will not happen overnight, but a journey of a thousand miles starts with the first step.

Our member communities will continue to press all responsible employers to embrace the Living Wage on a voluntary basis and we will celebrate when they do so. We will bring this campaign onto the High Streets of our nation and show the power that citizens and their communities acting together for the common good can wield when they have purpose, passion and a plan.

**Neil Jameson, Executive Director,
Citizens UK**

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Thanks

Aviva Interviewees

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Stuart Wright	Group Property and Facilities Director
Simon Baldry	Head of Property and Facilities Service Delivery
Julien Kiddell	Property and Facilities Supplier Relationship Manager

Barclays Interviewees

Dominic Johnson	Employee Relations Director
Terry Waldron	European Head of Facilities Management
Philippa Birtwell	Head of Reputation Risk Management
Vicky McAllister	Reputation Risk Manager

KPMG Interviewees

Michael Kelly	Head of Living Wage
Guy Stallard	Head of Facilities

Penrose Care Interviewee

Robert Stephenson-Padron	Co-founder and Managing Director
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SSE Interviewee

Rachel McEwen	Director of Sustainability
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Enhance Office Cleaning Interviewee

Sandy Aird	Managing Director
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We are also grateful for advice received on the nature of the project and its development from: Julie McGahan and Peter Kelly, Poverty Alliance; Members of the Scottish Living Wage Accreditation Initiative's Leadership Group; Janette McKnight, Quaker Service; Anne Hinchley, Wales and West Housing; Tony Ruddy, Ark Housing; David Banks, Ben Willmott and Charles Cotton, Chartered Institute of Personnel and Development; Katie Schmuecker and Alice Rowland, Joseph Rowntree Foundation; Matthew Dutton, Edinburgh Napier University; Eoin Rooney, NICVA.

Please cite this report: Coulson, A. B. and Bonner, J., 2015. *Living Wages Employers: evidence of UK Business Cases*. January. London: Citizens UK on behalf of the Living Wage Foundation.

If you are interested in learning more about the Living Wage please contact The Living Wage Foundation or visit www.livingwage.org.uk

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