

RESEARCH REPORT

Putting the Living Wage to Work: *Strategies and Practices in Small and Medium Sized Enterprises (SMEs)*



Andrea Werner & Ming Lim



This report was supported by the Barrow Cadbury Trust, an independent, charitable foundation, committed to bringing about socially just change. This report was funded under the Trust's 'Economic Justice' programme, a key remit of which is to explore and support policy, research and practical interventions to build sustainable and socially just economic systems.

www.barrowcadbury.org.uk

Charity number 5836950

This report was researched and written by Dr. Andrea Werner (Middlesex University Business School) and Dr. Ming Lim (University of Liverpool Management School).

Contact: a.werner@mdx.ac.uk

Acknowledgments

The authors gratefully acknowledge the Living Wage Foundation for their assistance during the course of the research, and, in particular, Tess Lanning and Emma Kosmin, for their help in providing us with access to accredited SME Living Wage employers and their constructive feedback on our research survey design.

We would also like to thank all those SME employers who took part in our study, especially those who agreed to give up some of their valuable time to talk to us about their experience of adopting the Living Wage in their organisation.

Published October 2016

Contents

Executive Summary.....	4
Background to the Living Wage	7
The Research.....	9
Research Gaps and Questions.....	9
Research Design and Methods	9
Survey Findings	11
Motivations.....	11
Implementation and Challenges	12
Benefits	14
Communication and Future Strategy.....	15
Interview Findings.....	16
Motivations.....	17
Benefits	18
Challenges and Overcoming Them	21
Making the Living Wage Work Even Better	25
Summary, Conclusions and Recommendations.....	28
APPENDIX: SME CASE STUDIES	31
CASE STUDY 1: LETSA care company	31
CASE STUDY 2: PLAYCO hospitality and staffing agency.....	33
CASE STUDY 3: TREND specialist retailer	34
CASE STUDY 4: SITKA construction company.....	36
References	38

Executive Summary

This report focuses on the Living Wage and its implementation by small and medium-sized enterprises (SMEs) across the UK. Whilst the spotlight in recent years has largely been on large Living Wage employers (corporations and public sector institutions), very little is known about the operational and strategic decisions made about the Living Wage by SMEs. This is despite the fact that SMEs make up over half of the 2,800 employers who have signed up voluntarily to pay the Living Wage and, further, that 99.9% of all private sector businesses are SMEs, employing more than 15.6 million workers. As such, SMEs have a potentially important role to play in promoting the Living Wage in the UK economy.

This research report seeks to close this gap. Our report draws on survey research and in-depth interviews with Living Wage accredited SMEs. Broad coverage of the UK was achieved, with companies in the Midlands, North East, North West, South, South West, London, Wales and Scotland represented in the sample. The companies in the research sample came from a wide range of sectors, with the vast majority operating in so-called low-waged sectors such as hospitality, retail, social care and manufacturing. A particular value of our report therefore derives from the fact that we were able to gather the views of companies from sectors that are typically perceived as not being able to afford to pay higher than legally required wages.

We asked our respondents about their motivations for adopting the Living Wage, and benefits and challenges of implementing the Living Wage in their organisations. We also included a question of the impact of the recently introduced National Living Wage (a higher legal minimum wage rate for over 25s) on our respondents' commitment to paying the full Living Wage.

Our research found that the main reason for Living Wage accreditation among SMEs is related to ethics and values, whilst an emerging rationale for accreditation is also the expectation to derive business benefits, in the form of obtaining public sector contracts, for example. We also found that more than half of the Living Wage SMEs surveyed already paid the Living Wage rate or above to all or most of their staff prior to accreditation, an indication that many SMEs would find it easy to get accredited.

SMEs are also aware of benefits that Living Wage accreditation brings. Top of the list are reputational benefits, but also benefits related to employee motivation and productivity, staff retention, employee relations, ability to attract high quality staff and cost savings (savings in recruitment and training costs, for example).

Whilst a substantial proportion of SMEs seek to absorb the cost of the Living Wage without making any organisational changes, and possibly accepting lower profits, others engage in seeking operational efficiencies, changing pay structures or raising prices. A substantial proportion of survey respondents felt that higher staff productivity helped absorb the cost of the Living Wage. Our research found that implementation of the Living Wage is easiest

when the Living Wage is adopted from the very beginning in business start-ups and in times of business growth and expansion.

Challenges of Living Wage implementation relate to planning to accommodate annual rises in the Living Wage and, linked to this, maintaining pay differentials across the whole of the organisation.

The introduction of the government-mandated National Living Wage appeared to have little effect on SMEs' commitment to paying the voluntary Living Wage. However, a number of respondents stated that they felt the Government had 'hijacked' the concept, leading to confusion among the company's stakeholders, and also 'weakening' the value of their Living Wage accreditation.

In order to encourage and sustain Living Wage accreditation, we recommend to **current and future SME Living Wage employers**:

- they develop clear moral and strategic rationales as to why they would wish to be accredited Living Wage employers
- they are clear as to which benefits from Living Wage accreditation are relevant and important to their organisation and its success
- they are prepared to make organisational changes to sustain their commitment to Living Wage accreditation, particularly in view of the annual Living Wage rate increases
- they clearly communicate their commitment to paying the Living Wage to their staff, particularly if implementation of the Living Wage requires organisational changes affecting their employees
- they publicise their commitment to paying the Living Wage externally, using several available channels (logo displayed on company premises, company website, social media etc), to enable customers, local governments and the public at large to reward the company's effort to be a socially responsible employer, and to recruit new staff.

Our research also has recommendations for those organisations able to promote and strengthen Living Wage accreditation among SMEs.

The Living Wage Foundation can further support Living Wage adoption among SMEs by:

- publicising more widely the importance and benefits of the Living Wage to increase awareness among the public, particularly potential customers and staff of SMEs
- seeking out ways to make the Living Wage more distinctive from compliance with the higher minimum wage (National Living Wage), which may include a possible rebranding and the introduction of a 'Fair Employer Mark'
- continuing to encourage public sector institutions and politicians to act as catalysts for Living Wage adoption, especially among SME employers.

The work of the **Living Wage Commission** (LWC 2016) is also vital in sustaining and strengthening SMEs' commitment to paying the Living Wage, by:

- ensuring a continuing robust calculation of the Living Wage to sustain SMEs' trust and confidence that they are paying a fair wage
- ensuring there will be a mechanism in the calculation of the Living Wage rate that will manage the impact on the rates of any extreme year-to-year variations from general rises in living costs, to keep the Living Wage affordable for SMEs.

Public sector institutions such as local councils, universities and hospital trusts have been recognised as having great potential to contribute to the creation of progressive economies by driving economic, social and environmental benefits through their procurement. As such, public sector institutions can encourage adoption of the Living Wage among SMEs by:

- promoting the Living Wage through their procurement and
- actively recognising the potential for SME suppliers to be Living Wage employers.

Politicians at local, regional and national levels can become effective catalysts for Living Wage adoption among SMEs by:

- promoting Living Wage adoption within their spheres of influence and
- giving public recognition to SMEs that are Living Wage accredited.

Finally, **SME membership organisations**, such as the Federation of Small Business or local Chambers of Commerce, can help grow Living Wage adoption among SME employers by:

- encouraging Living Wage accreditation among their members, particularly those that are, or are close to, paying the Living Wage already and those starting new business ventures
- promoting the reputational and employee-related benefits of Living Wage accreditation as identified in this report
- sharing good practice with regards to Living Wage implementation as outlined in this report

Background to the Living Wage

This report focuses on the Living Wage and its implementation by small and medium-sized enterprises (SMEs) in Britain.

The Living Wage is promoted by the Living Wage Foundation, which was formed in 2011, following successful Living Wage campaigns in London in the 2000's led by civil society coalition London Citizens (now Citizens UK). The Living Wage Foundation accredits employers that are willing to pay at least the Living Wage rate to their direct employees and their on-site sub-contractors.

The premise for a Living Wage arose from people being unable to make their ends meet if they are paid the legally required National Minimum Wage (currently set at £6.70 per hour). The Resolution Foundation estimates that 5.7 million individuals in the UK are paid less than the Living Wage (Corlett and Gardiner 2015).

The Living Wage is based on the amount an individual needs to earn to cover the basic cost of living. Since living costs vary in different areas of the country, the amount is set at a higher rate for workers in London than elsewhere in the country. It is currently calculated at £9.40 for London and £8.25 in the rest of the United Kingdom.

In a somewhat confusing turn of events, the former Chancellor of the Exchequer, George Osborne, introduced the National Living Wage in April 2016. This was a legally enforceable minimum wage for the over-25s of 7.20 an hour – but this rate is not based on the cost of living. We were, thus, also keen to find out if this requirement had any bearing upon employers' decisions to pay the voluntary Living Wage.

Currently, over 2,800 organisations are accredited by the Living Wage Foundation. They include FTSE 100 companies such as Barclays, HSBC, Pearson and Legal and General, as well as county and city councils, local authorities such as Southwark and Newcastle Upon Tyne, charities, universities and diverse private sector companies of different sizes and scales of operation and management.

Private sector SMEs constitute over half of all accredited Living Wage employers. SMEs are typically defined as independent businesses that have fewer than 250 employees, with companies that employ 50 employees and more being regarded as medium-sized, those employing between 10 and 49 staff being regarded as small, and those employing fewer than 10 employees regarded as micro businesses (Ward and Rhodes 2014).

The large proportion of SMEs among accredited Living Wage employers is a somewhat surprising fact, given that small businesses are usually perceived as having fewer resources available (Carland et al. 1984) and thus less able to afford paying higher wages to their staff.

Our report is unique in several respects: first, it is the first piece of research to examine in depth the motivations and strategies SMEs have for introducing the voluntary Living Wage into their organisations. Second, our remit covered a large territory, taking in England, Wales and Scotland. This coverage thus makes our report of interest and value not just to SMEs in London but also to those outside its immediate environs. Third, we have taken care to study a diverse sample of organisations, across sectors ranging from manufacturing, construction, consultancy, media and communications, domiciliary and child care services to hospitality, cleaning, retail and wholesale. Fourth, a significant number of businesses surveyed operate in what are regarded as low-waged sectors, thus enabling us to gather the views of companies that are not typically expected to pay above legally required wage levels.

The Research

Research Gaps and Questions

At present, very little is known about the operational and strategic realities of how the Living Wage is perceived, implemented and managed within SMEs in Britain. This fact is surprising, given that 99.9% of all private sector businesses are SMEs, and SMEs contribute £1.8 trillion to Britain's economy, employing over 15.6 million workers (Department for Business, Innovation and Skills 2015). For small and medium-sized businesses to continue to thrive over the coming decades – particularly after the result of the EU Referendum – a clear and detailed understanding of how management and other employees experience, manage and innovate upon the Living Wage is of vital importance: economically (for business growth and profitability), politically (to keep up with new regulatory and policy trends) and culturally (from the point of view of social justice, workplace ethics, employee mobility and wage equality). This piece of research is thus a timely intervention.

This research project focused on employers rather than employees. It is hoped that further research will be conducted on the latter's experiences of the Living Wage.

Research Design and Methods

Two key research questions were posed on the basis of the above gaps in theory and practice. First, we wanted to ask why employers in SMEs wanted to implement the Living Wage. What were their motivations? Second, we sought to understand the perceived benefits, as well as challenges, employers encountered in the process of adopting the Living Wage within their organisations. That is, what gains and what trade-offs accrued to the adoption of the Living Wage, in the view of employers. We also sought to identify emerging good practice.

In line with the questions posed, therefore, the research design was exploratory and emergent. The views and voices of SMEs were allowed to emerge naturally rather than imposed by a prior framework or model of explanation. To lend robustness and validity to the findings, two methods were used: a survey questionnaire and in-depth, semi-structured interviews with organisations. The survey was sent out to 250 SME Living Wage employers using the Qualtrics instrument and then coded.

The survey was used as a recruitment tool for our research interviews. 38 respondents indicated that they would be happy to grant the researchers an interview about their experience as a Living Wage employer. From these responses, 23 companies were selected for our interview study.

Subsequently, interviews took place between May and August 2016. Interviews were fully anonymised and transcribed almost immediately after the recordings took place. They were conducted in compliance with the codes of research ethics held by Middlesex University, London.

The majority of respondents were the organisations' managing directors, whilst in some (often somewhat larger) companies the interview was conducted with a director in charge of a particular business function (e.g. HR, Marketing). In a few cases the interview was conducted as a group interview, with several directors of the company being present. Interviews lasted on average between 30 and 45 minutes, with some interviews running close to one hour. Close to 30% of our interviewees were women.

The vast majority of the interviews took place on the respondents' company premises, which allowed the researchers to get a better 'feel' for the company. The interview would sometimes conclude with a tour of the company premises.

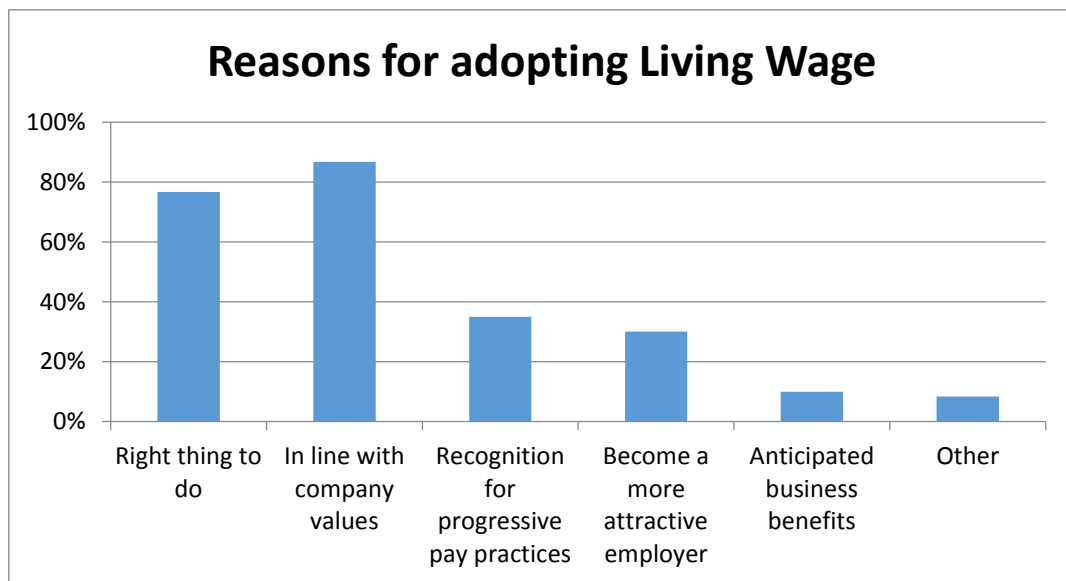
Survey Findings

60 organisations responded to the survey questionnaire sent out to a sample of the 250 SME Living Wage employers. In total, 15 questions appeared on the survey and a multiple-choice format was employed.

Among those who responded, the majority employed between 10-50 people (52%). 23% had fewer than 10 employees while 25% had 51-250 employees. Nearly 92% had been Living Wage accredited members for 1-2 years. Only 8% had been members for three years or more.

Motivations

To the question, ‘What were your main motivations for implementing the Living Wage?’ an overwhelming majority cited reasons related to ethics and values. ‘Because it was the right thing to do’ was cited by 77% of members and 87% said ‘because it is in line with our company’s values’. 35% said it was because they wanted ‘official recognition for our progressive pay practices’, whilst 30% stated they wanted to become a more attractive employer and 10% stated that anticipated business benefits guided their decision to become an accredited Living Wage employer.



In terms of the drivers or influencers for the decision, over 50% of members revealed that it was a ‘management decision’ while 30% credited the Living Wage Foundation as an active influencer of that decision. ‘Customers’ influenced 10% of SMEs while ‘Living Wage campaigners’ accounted for 5% of the responses.



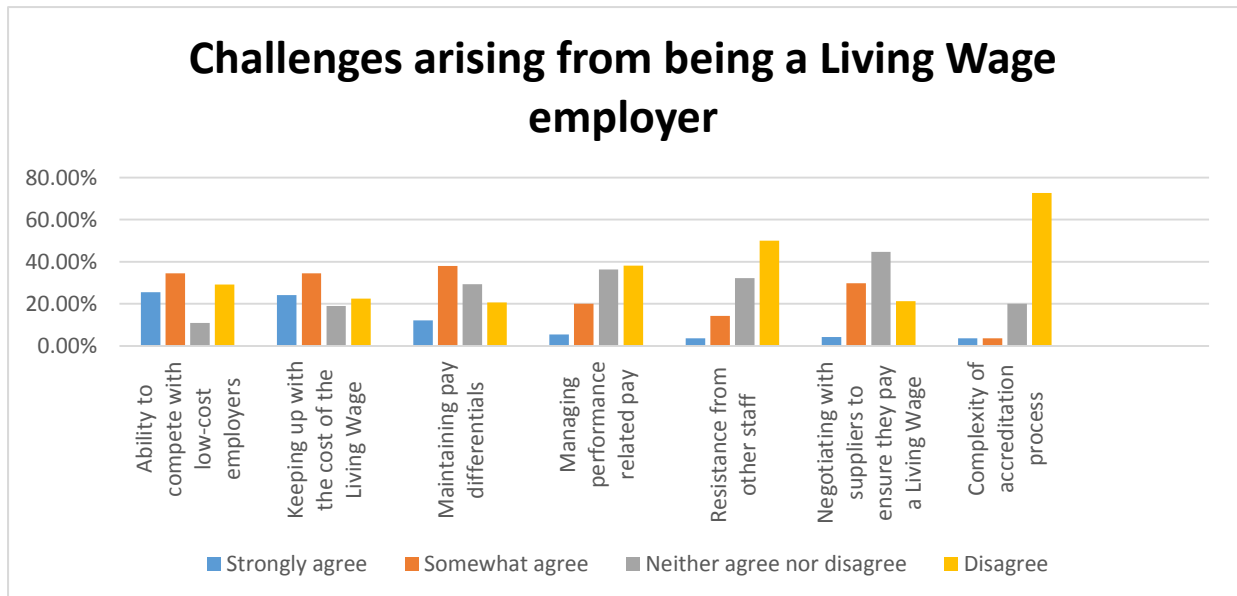
Implementation and Challenges

To the question, ‘what percentage of your staff were paid less than the Living Wage before accreditation?’ 50% said ‘none’ while 10% said ‘less than 10%’ and 13% of them said ‘10 to 25%’. In other words, half the organisations surveyed were already paying their staff the same or more than the Living Wage before accreditation.

In terms of how much the Living Wage had added to the wage bill for organisations, 15% said it had added ‘more than 10%’ to the bill. A substantial proportion, however, said it had not added to the wage bill (40%).

Several challenges of implementing the Living Wage emerged in our study. The ability to maintain competitiveness against low-wage employers was one of them, cited by 55%¹ of respondents. 57% said that ‘keeping up with the cost of the Living Wage’ itself posed a challenge for them while ‘maintaining pay differentials’ also emerged as an issue for SMEs (48%). The ability to manage performance-related pay (another factor in strategic and financial competitiveness) and dealing with the resistance of staff who do not get a pay rise due to the Living Wage, were also cited as challenges, albeit on a smaller scale.

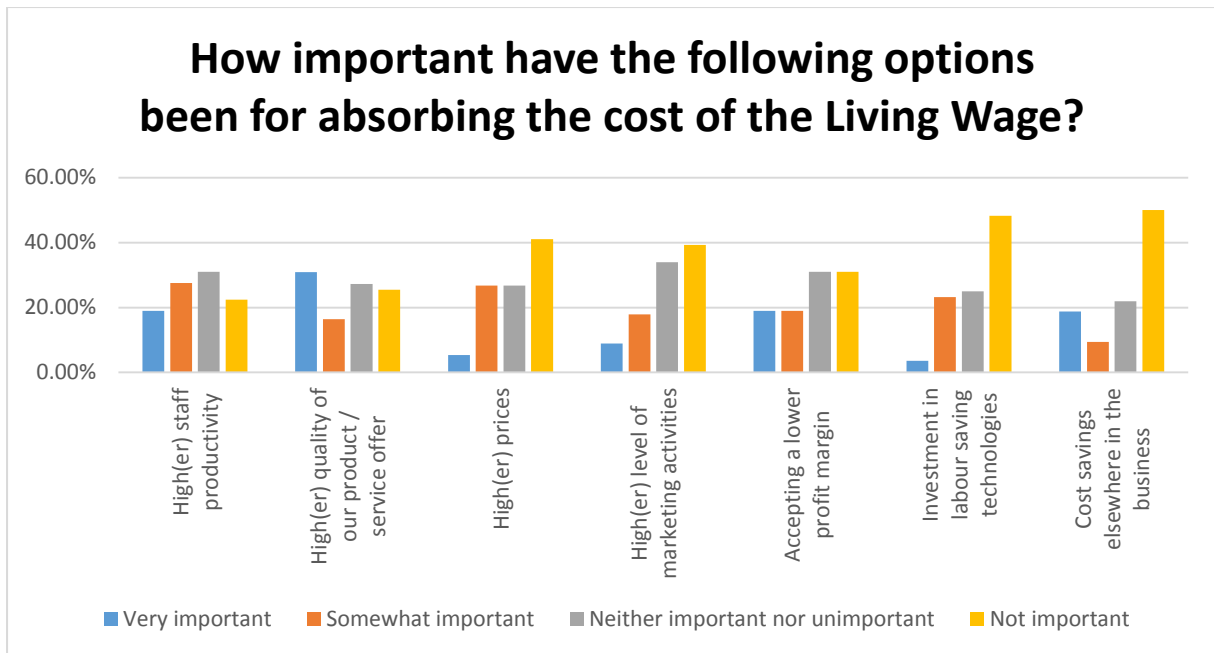
¹ ‘Strongly agree’ and ‘Somewhat agree’ responses combined.



The effect of the Living Wage upon employment practices was less marked. About half of the organisations surveyed said they had made no substantive changes to the way they hire, train and retain staff. Investing in skills training and upgrading was one effect while reducing pay differentials was another, accounting for about 16% and 13% of responses, respectively.

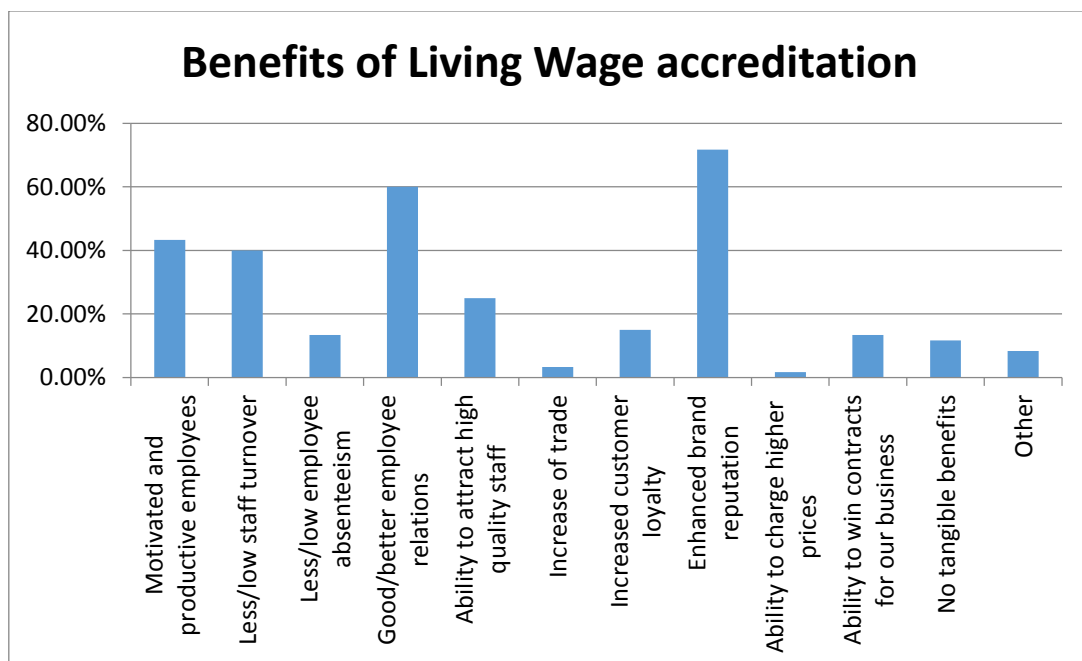
Another significant finding was the way organisations felt that ‘staff productivity’ (45%)² was a factor in helping them absorb the cost of implementing the Living Wage. Two other factors – being able to offer their customers ‘high product or service quality’ (43%) and ‘accepting a lower profit margin’ (37%) – were also ranked as important cost-mitigators for SMEs. 30% thought that charging higher prices was a possible way of alleviating the cost burden of implementing the Living Wage (although only 8% considered this a ‘very important’ option).

² ‘Very important’ and ‘Somewhat important’ responses combined



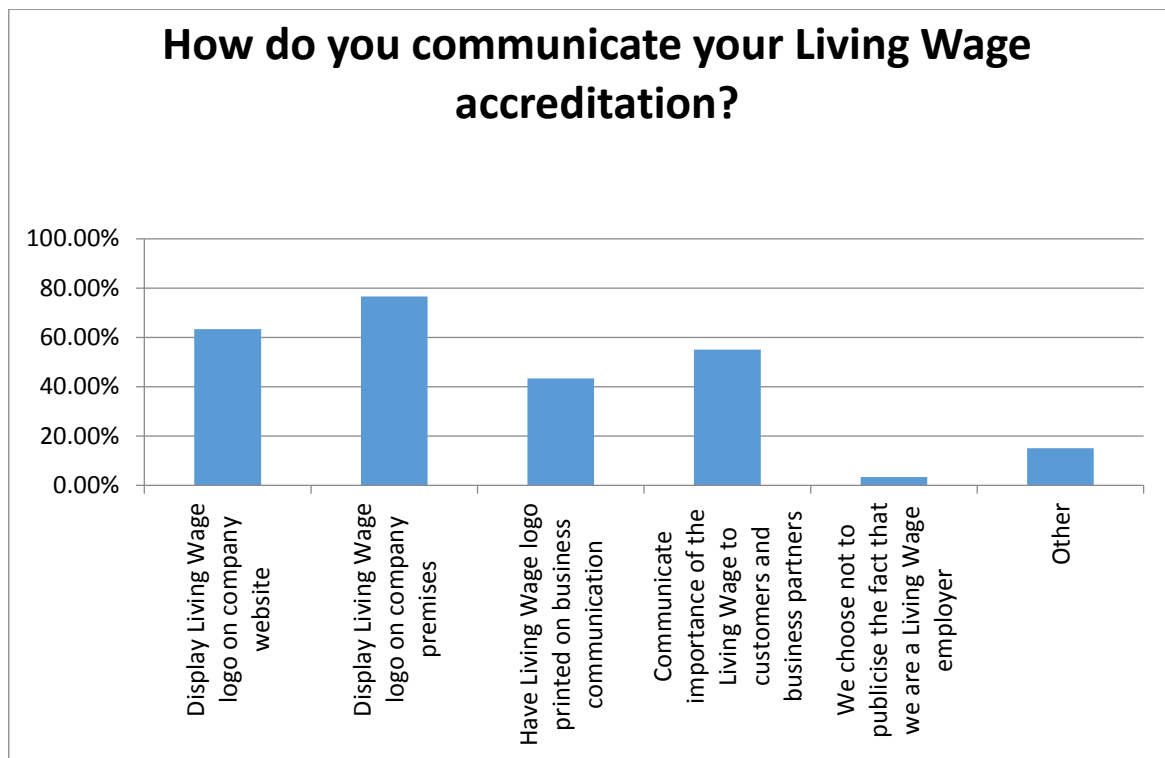
Benefits

The advantages of implementing the Living Wage were clearly evident to employers. When asked about the three main benefits of Living Wage accreditation, top of the list was the positive impact it had on the company’s brand reputation (72%) Also high on the list of benefits was the positive effect the practice had upon manager/organisation-employee relations (60%), employee morale, productivity and motivation (43%) and employee retention (40%). About a quarter of organisations credit the Living Wage with their ability to attract ‘high quality staff’.



Communication and Future Strategy

The vast majority of survey respondents stated that they communicate their Living Wage accreditation. 77% said that they display the Living Wage logo on company premises, whilst 63% said they displayed the Living Wage logo on their website, and 43% said they included the Living Wage logo in their business communications. Some respondents also mentioned that they used the logo in their email signature and on their packaging. Others mentioned that they communicated about their Living Wage accreditation on Social Media, in their newsletter, and also in public forums to which they were invited as speakers.



Asked to what extent the government-mandated ‘National Living Wage’ might have on their commitment to paying the full Living Wage, the overwhelming majority of respondents (82%) said this had no impact on their Living Wage accreditation, whilst 13% said that the National Living Wage had *strengthened* their commitment to paying the full Living Wage.

As to how employers saw the Living Wage evolving within their organisations, the vast majority of respondents declared a commitment to continuing to pay the Living Wage (or above), with some acknowledging that they needed to do more to publicise their Living Wage accreditation and a few saying that their commitment depended on their ability to absorb future increases of the Living Wage rates and customers’ willingness to accept this is the right thing to do. Some respondents said that they also sought to promote the Living Wage more widely to other employers.

Interview Findings

In total, 23 semi-structured in-depth interviews were conducted with British SMEs based in London, South England, South West England, the Midlands, the North West, the North East, Scotland and Wales. All interviewees were asked questions relating to their motivations for becoming accredited Living Wage employers, the benefits they have seen from implementing the Living Wage in their organisations, the challenges that have arisen as a result, the organisational practices they might have adopted, changed or discarded in order to ensure its smooth functioning within the organisation, as well questions as to how the Living Wage fitted in the overall strategy of their business.

The profile of respondents is shown in this table. All respondents stated that they employed a mix of full-time and part-time employees.

Interview no.	Sector	Number of employees	How long accredited (at time of interview)	Date of interview
1	Construction (specialist)	6	1 year 6 months	10 May 2016
2	Retail/wholesale	10	1 year 1 month	17 May 2016
3	Hospitality	13	2 years	18 May 2016
4	Care (domiciliary)	9	8 months	20 May 2016
5	Manufacturing	35	1 year 3 months	24 May 2016
6	Hospitality	580 (part-time staff)	3 years	27 May 2016
7	Care (domiciliary)	17	8 months	3 June 2016
8	Hospitality	23	9 months	3 June 2016
9	Cleaning	16	11 months	9 June 2016
10	Manufacturing	70	9 months	15 June 2016
11	Construction	140	1 year 3 months	16 June 2016
12	Manufacturing	36	6 months	17 June 2016
13	Manufacturing	120	1 year 5 months	23 June 2016
14	Retail	52	2 years	30 June 2016
15	Retail	10	1 year 10 months	11 July 2016
16	Retail	4	1 year	15 July 2016
17	Retail	5	9 months	19 July 2016
18	Care (childcare)	21	2 years	20 July 2016
19	Hospitality	37	9 months	20 July 2016
20	Construction (specialist)	31	1 year 6 months	21 July 2016
21	Construction	108	2 years	12 Aug 2016
22	Retail/wholesale	45	2 years	16 Aug 2016
23	Manufacturing	14	1 year 2 months	23 Aug 2016

Motivations

On the question of motivation, many respondents were clear that their core values or principles were the driving force for paying their employees the Living Wage, thus reinforcing the survey findings:

So the basis of our business, our guiding principles as people first, is very much about we've been employees ourselves ... We just understand the value of looking after your staff and making sure the right thing is done by themthis is one little step that we could take to ensure that ethically we are running a business with credibility, with respect for our staff as well as our clients and the Living Wage was not a, we didn't even have any arguments about it. [4]

An ethos of caring for individuals was a theme that came up many times among respondents:

I suppose it, a small business like this, the employees aren't just people that work for you. They're almost part of your family. So you don't want to put them into a position where any aspects of their wellbeing or lifestyle is jeopardised. [1]

Several respondents mentioned that they were strongly in favour of social and political justice for all, and especially those who are economically disadvantaged:

I've seen over the last 12 months a real difference in the problems that people are facing, the austerity policy and this is spilling over into their working lives. And, you know I understand that. ... So I think it's really important for that, you know, they come to work to do their 8 hours, they want that job security, times are tough, they want that understanding and they want to be rewarded for the effort that they put in. [13]

At the same time, a number of SMEs explained that they wanted to send out a reputational signal to the market, the sector, customers and current and potential employees, not just to get recognition for their pay policies but also to make a statement about the kind of philosophy that underpins their organisations:

I thought it would be a really good thing for us to get some recognition for [paying above the Living Wage], in part so that our customers know, but also in part so that more people in the [hospitality] industry recognise the importance of paying people reasonable wages. [3]

Interviewer: What prompted the decision to go accredited as a Living Wage employer?

Respondent: Well for me it was a couple of things. One is credibility as a business both to the market place and to our staff to say that we're investing in you. [4]

The point about credibility was raised particularly in relation to Living Wage *accreditation*. For some respondents it provided a 'benchmark' against which they were able to be held accountable:

It becomes a message that we can send out that we are not only giving lip service to this, we actually are being held to account on it. [7]

A number of respondents also saw in the Living Wage an opportunity to set themselves apart from the competition in some way:

I think that if we were just another generic agency that maybe paid a bit less, I think we would really struggle to differentiate ourselves in the market, because I think it's a really competitive market. It's a huge, I mean there are goodness knows how many, tens and tens of thousands of people working in hospitality and most of them are on minimum wage, so how do we differentiate from these. [6]

Their desire to differentiate themselves from their competition was also tied for some companies to their ability to successfully tender for public contracts (see case study 4).

In a number of cases, there was a moral dimension to what might appear to be a purely strategic motive; the organisations often spoke of their pride and desire in being seen to be 'good' employers:

*But we also, online and social media, in terms of recruiting, Facebook and so forth, all say 'as a Living Wage employer', **we are proud to be that.** [4]*

I think even though we're a small company we do have, we sell all across the UK, and worldwide, [and] it's nice to have, or it's good to have that positive association and it would be nice to be an example of a good employer. [10]

Benefits

The benefits of being an accredited Living Wage employer were, similarly, multi-dimensional. One of the most significant findings in this regard was social validation and approval.

I think it's given us the confidence to go to both potential clients and carers and say 'we've made this commitment.' [4]

It's been good for us, it's been, we've had a lot of PR externally and I think it's gone down really well with the staff as well. [11]

In addition to external validation and approval, some respondents talked about the benefit they gained for themselves, as individuals:

I work really directly with the staff so I have a fairly direct benefit in that I feel, it makes me feel better to know they're paid reasonably. We don't have staff coming in who can't pay their rent and can't afford to get the bus to work. [3]

The vast majority of respondents mentioned a number of benefits they experienced in relation to their employees.

A number of respondents reported how the Living Wage increased **staff morale, motivation and productivity**:

Productivity is increased. The people we're paying the Living Wage maybe as a result, I think they were already quite motivated, but I'm hoping that it continues to motivate them by the fact they're actually paid quite well for a job, you know, that can be a little bit mundane and repetitive, but they work hard and we are you know increasing sales and capacity and productivity. [5]

I guess morale is higher, pride in what we're doing. [And] productivity, last Christmas our productivity was up by about 40%. [15]

A number of respondents also mentioned how paying the Living Wage helped them to **attract better staff**:

As the HR manager, before I would get random CVs from people who'd not had experience in [our] sector and when obviously word got out that we were a voluntary Living Wage employer and obviously we pay a decent rate of pay, I was finding that people from [our] sector who had transferable skills or had the same skillset, were sending their CVs in. So it made the pool a lot easier for me. [13]

A number of employers felt how paying a decent wage impacted positively on their **relations with employees**. They would often talk about the Living Wage making their employees feel good and feel valued. Some respondents also reported that paying the Living Wage made communication of things 'that aren't that great for staff' much easier. One respondent said, for instance, when a client cancels a job and that means cancelling work for staff, his employees receive that news in a much more positive way because they believe the company is doing its best for them.

Employee retention was reported by a number of respondents to be a major benefit of being a Living Wage employer:

I don't have to recruit x number of people to fill the gap left by the people who are leaving because they're unhappy. We have not had a single person leave in a year in an industry which has 50 to 70% depending on the company of staff turnover in a year. We're getting on for a year old now and we've not had a single leaver. [7]

In a number of instances, respondents felt that paying a decent wage to their employees **definitely paid off in financial terms**. One respondent (who also, interestingly, mentioned that good wages kept theft among staff low) summed it up as follows:

I think it really is a net benefit rather than a net cost. Even financially, I think it's probably still a benefit. You know, if you add up all of the hours you spend training people, in advertising for people to work for you, in theft, in all these things ...at the end of it all actually paying staff more...you're going to come out on top anyway. [3]

Saving money because of lower recruitment and training costs was mentioned by a substantial number of respondents, with some interviewees also stating that they saved money because they avoided HR disputes because they treated their staff well.

The **ability to win business** because of their progressive approach to staff pay was also mentioned by a number of other respondents:

Why we win clients and why we keep clients is the fact that we have better motivated, happier, more experienced staff [6]

One respondent mentioned, interestingly, that the company's Living Wage accreditation also attracted a new clientele to the business:

It was interesting that once we put the plaque up and once we were kind of advertising that we were a Living Wage employer we got a lot more acceptance from a different sector of customer... who are familiar with the Living Wage logos and thought that it was a really positive thing that we were doing. [3]

The value of Living Wage accreditation was also particularly mentioned in relation to public sector contracts. Especially construction companies said that the fact that they were in a better position to bid for contracts was a definite benefit of Living Wage accreditation:

It's Council funded work that we mostly undertake, though we are sub-contractors to the main contractors. ... Quite often they have a criteria that you have to meet to be a sub-contractor for them. [They] look for Health and Safety confirmations [etc.] and obviously what you pay your staff is one of those criteria as well for a lot of these companies. Now I think it is the criteria for quite a few Councils now as well. [20]

Finally, some respondents appreciated the fact that their Living Wage accreditation enabled them to 'delegate' responsibility for ensuring a fair wage rate to an outside organisation, which was also seen as a benefit:

It saves you the job if you like of trying to go out and do a bit of research and thinking well should I do a wage increase this year or not? Do I keep in line with inflation or do I have to look at... No, you just say 'Living Wage has gone up, so our wages have gone up' and it's sort of a load off your mind isn't it? [2]

The breadth of both motivations for adopting the Living Wage and perceived benefits show that SMEs are able to develop their rationale for wanting to be a Living Wage employer according to the motivations and benefits that are important to the specifics of their organisation.

Challenges and Overcoming Them

In the vast majority of cases, our respondents told us they adopted the Living Wage as a natural extension of their *personal* ethical values. In a sense, many of them did not have to think about the decision a great deal, if at all. It just felt, as we heard over and over again, 'the right thing to do'. Once the decision was made, getting accredited was an easy step to take and accreditation simply meant that they could benefit from being able to communicate those values to customers, suppliers and potential employees.

Thus, many respondents commented positively on the accreditation process itself – it was *not* seen as a major challenge.

Actually the process is really easy... You know and the fee is negligible. ... In terms of forms that I have to fill out on a daily basis, that's been one of the easiest probably for the most benefit. [2]

The challenge, therefore, is whether, and to what extent, these values can be sustained when there is a change in the leadership of the company (when it is sold or changes hands, for instance).

Relatedly, there are other implications to consider with regards to change management issues that will, in time, arise for any business. There are operational challenges that SMEs are likely to face when they implement the Living Wage. They need to show resilience and creativity in overcoming those.

A pertinent challenge is **affordability** of the Living Wage rate. A number of our respondents stated that they already paid all or most of their staff at or above the Living Wage rate prior to accreditation. In these cases affordability posed less of a problem.

Some companies that were interviewed were start-up businesses, so they were able to accommodate the Living Wage rate from the start (see also case study 1):

Interviewer: When did you become a Living Wage employer?

Respondent: Immediately. So I think, and I think this is where we feel being a start up company really enabled us to do it in quite an easy way...With us being new, we hadn't hired anyone, so hiring them at the Living Wage that was just our day 1 cost, so we've always known that would be our cost. [4]

Other respondents, particularly those that looked to benefit from accreditation for reputation and gaining contracts considered the adoption of the Living Wage as an *investment*:

*It was a commitment for us, but we could see the benefit of doing it and at the time it wasn't a great [sum], we thought it was worthwhile for £*000 we were willing to invest in it. [11]*

Our research also found that timing of the implementation of the Living Wage made it easier for companies to adjust for the additional cost. In some cases, employers implemented the Living Wage during a time of expansion and growth of the business more generally:

I think we've absorbed, where the business is growing, the last couple of years we've had double digit growth, so in fact our profits have increased despite paying the Living Wage. So I think, while we've still got the strategies in place to grow the business, we should be able to absorb future increases of the Living Wage, it hasn't given us a problem. [5]

A number of respondents mentioned operational efficiencies as a way to absorb the cost of the Living Wage:

We have had to streamline our office process, you know we have not very many people in our office. Our nearest competitor has 12 people in their office. Full time and they do the same volume of events and the same volume of staff that we do, because we've had to think about ways of doing it a bit cheaper really. [6]

It's a lot of modelling of the logistics if you like. [7]

The potential for the Living Wage to rise every year was clearly an administrative and financial challenge for employers to address. In the interviews, respondents were asked how they were seeking to adjust to any future increases of the Living Wage rate.

A number of them stated that their commitment to paying the Living Wage would not change and that they simply sought to 'continue to trade well' [3] and/or if necessary accept a somewhat lower profit margin, whilst also pointing out the tangible benefits that being a Living Wage employer brought.

Others talked about measures they had taken to absorb rate increases (see also case study 2).

Some interviewees mentioned calculated price increases that they might use (although this was not an option available for *all* respondents in the sample).

It's in our policies that unless there is some massive background event that causes us to be challenged, we will only put our prices up once a year and that's in April. ... And by the time that we then get to April 2017 we'll have a much fuller understanding of the business and all of our cost and we'll then know what we need to do at that point to cover [the Living Wage increase], or if we're comfortable, whether we can soak it up. [4]

One respondent gave an account of how their company adjusted to the most recent rate increase by abolishing overtime bonuses, which involved full consultation with their staff:

In order to meet the £8.25 we had a full consultation and we obviously had a change in contract. So we scrapped the overtime rates to the normal rate in order for them to have a higher basic rate of pay on the voluntary Living Wage. We had a strong commitment that we would reduce overtime [anyway] because we've started putting on back shifts and so far that has been successful. The workforce are a lot better off. We've worked it all out and they're still, you know, £40/50.00 better off than they would have been on the overtime rates, the old overtime rates. [13]

Fresh implementation of the Living Wage and annual rate increases are likely to lead SME employers to have to look at both **pay differentials and pay growth** across the whole of their organisation.

In some cases, respondents decided to flatten their pay structure:

We are now essentially flat beyond [the two company directors]. So when the Living Wage happens and that increase happens we've dealt with that flattening of the wages. [15]

In another case, a respondent reported on their company's decision to decrease pay growth across their organisation:

Respondent: It did impact on the pay increases that we gave across the board last year. So we did factor [the cost of the Living Wage] into the pay increases.

Interviewer: So it was a bit lower then?

Respondent: Yeah by a half a percent I think. But yes everybody understood the rationale behind it... And everybody was, you know, on board. [11]

Other respondents talked about their commitment to maintaining pay differentials either in full or at least partially:

We were trying to [maintain] wage differentials, that of course once we'd brought people up to the Living Wage, some of the people who were supposed to be paid a bit more than that, because of their experience or skill or longevity with the company, then had to be increased more to make that difference. We managed to do that. I think, obviously I'm aware because the Living Wage went from £7.85 to £8.25 this year, so we've just done that which then meant that maybe the differential wasn't quite as much for those that were above that, but ... there's still enough differentiation. [5]

Whilst the desire to maintain pay differentials across the whole of the organisation requires a greater commitment from the company to making the Living Wage work, any changes introduced with regards to pay differentials and pay growth as a result of Living Wage adoption require engagement and communication with staff in order for it not to negatively impact on the organisation (see case study 3). Engagement with staff is particularly important where changes in pay scales following the implementation of the Living Wage rate may create the perception among staff that they are 'worse off' than before the introduction of the Living Wage or where a performance-related component of pay is replaced with a fixed rate.

Our research also explored to what extent the **introduction of the mandatory 'National Living Wage' (NLW) for over-25s** posed a challenge for SMEs. Whilst none of the respondents said that this would impact on their commitment to paying the full Living Wage, quite a few were concerned about the confusion the NLW had caused for both their employees, as well as their customers and the public at large. Some respondents were also concerned that the NLW would weaken the 'message' of their Living Wage accreditation.

In response to this challenge, respondents engaged in extra communication efforts to explain the difference between the voluntary and the mandatory Living Wage rate to their stakeholders. An example of good practice was putting a comparison between the two rates up on the company website. Other efforts included explanations that the voluntary Living Wage rate was a minimum benchmark for socially responsible pay (which often companies sought to exceed) and also placing the Living Wage rate alongside all other benefits the company's employees enjoyed (paid breaks, company pension scheme, profit share scheme, subsidised meals, free language classes etc.).

Making the Living Wage Work Even Better

Our research identified different ways in which commitment to the Living Wage can be strengthened and made more effective among SMEs. We found that Living Wage adoption was in SMEs particularly effective where a) the company had a clear understanding how the Living Wage fitted in the wider strategy of their organisation and b) they engaged in effective communication strategies both internally and externally. We also found that public sector organisations such as local councils as well as politicians can serve as effective catalysts for Living Wage accreditation.

Embedding the Living Wage as part of organisational strategy

Our research found that embedding the Living Wage as part of organisational strategy was effective where the Living Wage was related to the nature and/or quality of the product/services the company offered, to the organisation's wider social responsibility activities and strategy, a wider training and skills development strategy in the organisation or a mix of the above, as the examples below demonstrate (see also case study 4):

We're all about making life easier for people. So our product helps people to ... carry on with life normally. We believe in giving some of our profits back to the [hospitals that help market our product], so again it just falls very nicely in with the fact that we want to show that we're a great company to do business with and that we believe in more than just the pound, so it actually works very nicely into our strategy to say 'hey come and work for us' or 'believe in our product' because it's made well by people who actually care and are treated well. You know, made to feel valued by the company. [5]

The strategy of my business is to grow it based on quality and reputation of quality. So and that means putting some dignity and respect for my staff, because I can't get that quality if I'm not acknowledging, training and developing and rewarding my staff properly. So strategically it's right there, it's not a nice to have, it's not on the periphery, it's symbolic of that approach to how we're trying to set up and run this business. ... So yeah I couldn't put [the Living Wage] more in the centre if I tried. [7]

Our research also found that commitment to paying the Living Wage was strengthened where companies saw a clear (strategic) link between their Living Wage accreditations and other accreditations that the company had. An accreditation that was particularly frequently mentioned in this respect was 'Investors in People'. For the following respondent both the Living Wage and Investors in People were two aspects of the same strategy:

That you care about your staff and you want your staff to stay with you, so 1) the Living Wage is respecting them and making sure they can have a standard of living that's reasonable and they don't need to necessarily take second jobs or other things, but the Investor in People for me is more about that you manage them correctly and that you invest in their development and it's also for the long term. [10]

Communication and publicity

Communication is key for making the Living Wage work – both internally and externally.

As already pointed out above, it is vital that employers engage and communicate with their existing staff about their commitment to paying the Living Wage, particularly if the implementation of the Living Wage brings with it changes to organisational policies and practices that directly affect staff (e.g. impact on pay differentials). Surprisingly, our research also found that awareness of the Living Wage among workers is not necessarily a given.

To be honest, I think most of [our workers] didn't really know what it was; they hadn't heard. But I just said 'I hope you feel very pleased because we're quite proud that we are a Living Wage employer, and it's a good thing to be doing that'. [5]

In these cases, employers need to engage with staff to communicate about the idea of the Living Wage in order to make employees appreciate and understand the commitment their employer has made.

But at least as equally important as internal communication and engagement is publicising and communicating one's commitment to paying the Living Wage externally (see case studies 3 and 4). This is particularly crucial where the Living Wage is used as a way to differentiate the company to attract prospective clients and/or high-quality staff. But even where commitment to the Living Wage was made more for moral than for strategic reasons, respondents recognised the benefits of positive publicity for the company coming from Living Wage accreditation.

Whilst most respondents stated that they publicised their Living Wage accreditation in one way or another, a number of them stated that they needed to do more to advertise the fact that they were a Living Wage employer.

Respondents mentioned the company website, email signatures, company marketing material and newsletters and the Living Wage plaque and Living Wage stickers put up at prominent places at the company's premises, as main ways to publicise their Living Wage accreditation. Innovative ways of publicising Living Wage accreditation included the logo placed on company vehicles, and banners and bunting used at recruitment events.

Some respondents reported on positive responses they received when they communicated about the Living Wage via social media:

One of our most retweeted Tweets, the one we got most feedback on was when we were tweeting about the Living Wage. [7]

Others reported of publicity their accreditation had received through coverage in local newspapers, radio and TV as well as speaking on the Living Wage on local platforms or participating in local Living Wage events.

Finally, some respondents talked about how they sought to engage their customers on the Living Wage through face-to-face conversation:

We tend to bring it up in conversation with customers if the opportunity arises. .. If a customer ever comments that [our service/product offer] is available for less in a competitive store or somewhere else, then we just remind them that ... we do pay everyone here at least the Living Wage, which means we are looking after our team. [15]

Public Sector Institutions and Local Politicians as catalysts for Living Wage Adoption

Beyond what companies can do, adoption of the Living Wage among SMEs may also be supported by public sector institutions such as local councils, universities and hospital trusts. These so-called anchor institutions have been recognised as having great potential to contribute to the creation of progressive (local) economies; in particular, by driving economic, social and environmental benefits through their procurement (Jackson and McNroy 2015). Making the Living Wage a key criterion in procurement policies may therefore act as an effective catalyst and trigger for Living Wage adoption and accreditation among SMEs. As our research has shown, expectation of gaining contracts from public sector institutions was not an insignificant consideration for a number of SME employers in their decision to become Living Wage accredited.

Furthermore, overt support for and encouragement of Living Wage adoption from politicians can strengthen SMEs' commitment to signing up to, and remaining, an accredited Living Wage employer. Respondents from Scotland in particular reported of visits they had received from members of the Scottish Government after they received their accreditation, which, so they said, had helped them raise their company's profile. The Scottish example also stands out as the Living Wage has been made the key criterion of the Scottish Business Pledge (an initiative of the Scottish Government), to which Scottish businesses can sign up.

Summary, Conclusions and Recommendations

We sought, in this report, to capture SMEs' responses to the Living Wage and to understand why and how organisational leaders implemented it in the context of a national movement towards pay equity, social justice and facilitating a dignified and sustainable quality of life for society's lower-paid workers.

Our findings show that the companies interviewed for this research report demonstrated high levels of moral commitment to the Living Wage, borne out of a sense of social justice and ethical values related to a sense of responsibility and a duty of care to employees and staff. The Living Wage is thus a natural expression for many of their belief in a just and caring society and a way for them to show solidarity with the 'goals and aims of the (Living Wage) Foundation,' as one of them put it.

Further, there is no doubt that the Living Wage confers social and reputational benefits upon accredited firms, which, in a number of cases may also help obtain business from larger, public sector organisations. A clear implication, therefore, is for the Living Wage to be promoted more boldly and to be, as one company put it, 'shouted about a lot more'.

In terms of in-work motivation and employee morale, the benefits also appeared incontrovertible. Firms report reduced turnover of staff, better staff morale and motivation, improved retention and performance as major benefits of implementing the Living Wage. In other words, respondents reiterated the benefits we listed in the survey. Where companies relied on good quality staff for the success for their business in particular, employers were adamant that paying *above* the Living Wage was a vital factor in their company's survival:

...the existence of my business is 100% dependent on me being able to attract and recruit and retain the best staff in the industry...It's I can't operate a s a business if my staff aren't as good as another one of my competitors. I can't. I can maybe attract them initially, but I can't retain staff if I don't pay them properly. The Living Wage is our starting salary and we pay more. [16]

The *awareness* of benefits alone was enough to help sustain SMEs' interest and desire in accreditation by the Living Wage Foundation and their commitment to the Living Wage itself, both as a moral imperative and as a business case.

Key recommendations for strengthening **SMEs employers'** commitment to paying the Living Wage can be summarised as follows:

Develop clear moral and strategic rationales as they would wish to be accredited Living Wage employers

As there are manifold reasons to become a Living Wage employer, companies do well to be clear for the reasons as to why they want to make this public commitment. Is it a tangible expression of the company's desire to be a good employer? Is it to build a business model centred around the notion of fair pay for staff? Is it the expectation of reputational benefits? Is it a way to differentiate the company from its competitors?

Furthermore, how does the Living Wage make sense in the overall strategic outlook of the company? Is it linked to a quality service or product offer, for which well-paid staff is required to ensure success of the company? Is it linked to a wider strategy of staff training and skills development? Is the Living Wage part of the company's wider social responsibility strategy? Is the Living Wage an enabler for business growth?

Be clear as to which benefits from Living Wage accreditation are important to your organisation

As there are multidimensional benefits from being a Living Wage accredited employers, companies do well to be clear which benefits are specifically important to their organisation. Is it about the satisfaction to do the morally right thing? Is it about better employee morale and productivity, retention, and ability to recruit better staff? Is it a broader reputational benefit? Is it about using the company's commitment to paying the Living Wage to help obtain contracts from public sector institutions?

Be prepared to engage in some organisational changes to accommodate upgrade of employees' pay and Living Wage rate increases

Even where employers feel that commitment to paying the Living Wage does only have little or no initial cost, the fact that the Living Wage rate rises every year will require employers to be willing to make changes in order to sustain their accreditation. Changes may involve considering pay differentials and pay growth across the whole of the organisation, making changes to pay components, seeking out operational efficiencies or considering the company's pricing strategy.

Communicate your commitment internally

Key for making the Living Wage a success is effective internal communication, in order to a) make employees (especially higher paid ones) understand the importance of the Living Wage and b) to ensure that any changes made as a result of Living Wage implementation do not negatively impact on staff morale.

Publicise your commitment externally

Living Wage employers will only benefit fully from their accreditation if they publicise widely their commitment. The Living Wage logo should be used so that customers, clients, local governments and the public at large recognise the company's commitment and are able to reward the company's effort to be a socially responsible employer. The Living Wage accreditation should also be regarded as a recruitment tool for prospective employees.

Beyond what companies can do to make their commitment to the Living Wage a success, we have also made recommendations for **other organisations** that can play a vital role in strengthening and promoting Living Wage accreditation among SMEs.

A number of participants in our research expressed the desire for more support and help to communicate the 'message' of their Living Wage commitment, particularly in view of the fact that the Government has adopted a very similar term for the new higher-rate minimum wage. Some respondents also expressed their disappointment at the fact that clients and employees were not sufficiently aware of the Living Wage concept. These are mandates for ***the Living Wage Foundation and campaigners in the Living Wage movement to seek and publicise more widely the idea and***

concept of the Living Wage to raise more awareness among the public, particularly potential customers and employees of SMEs.

There is a desire among accredited SME Living Wage employers for a clearer distinction between those employers who simply comply with mandatory minimum wage rates (National Living Wage) and those who have taken the voluntary step to pay the full Living Wage. One possible response, as suggested by some interviewees, could be that the ***Living Wage Foundation develop a 'Fair Employer Mark' which includes other good employment practices alongside the commitment of paying a fair wage rate.***

The research has shown that *public sector institutions* such as local councils, universities and hospital trusts have great potential to act as a catalyst for Living Wage adoption among SMEs. Therefore, ***the Living Wage Foundation should continue to encourage these institutions to use the Living Wage as a criterion in their procurement and contracts policies.***

In turn, ***public sector institutions can encourage adoption of the Living Wage among SMEs by promoting the Living Wage through their procurement and by recognising the potential for SMEs to be Living Wage employers.***

Similarly, ***politicians at local, regional and national government levels should be encouraged to promote the Living Wage among SMEs within their spheres of influence, in particular by giving public recognition to those SMEs that are Living Wage accredited.***

Our research findings also underline the importance of the work of the ***Living Wage Commission***, which was set up in January 2016 to oversee the calculation of the Living Wage rate. SME employers' commitment to paying the Living Wage relies on trusting that the calculations underpinning the Living Wage rate are robust and correct, particularly where paying the Living Wage carries a substantial financial commitment for the company. Furthermore, many respondents in our sample commented on the large increase of the UK Living Wage rate in 2015, and the challenges it set for them as a company to implement the raise. We therefore welcome the recent report by the Living Wage Commission (LWC 2016), which, based on recommendations made by the Resolution Foundation (D'Arcy and Finch 2016), sets out ways of improving the robustness of the Living Wage rate, and is thus likely to increase trust and confidence among SME employers that they are paying a fair wage. The report also acknowledges the need for a 'shock absorber' that will manage the impact on the rates of any extreme year-to-year variations from general rises in living costs. This, in turn, will ensure the ***Living Wage remains sustainable and affordable for SMEs.***

APPENDIX: SME CASE STUDIES

The following case studies are designed to provide further insight into the motivations of SMEs who adopt the Living Wage and what the perceived benefits and challenges are for their organisations. They were chosen as a representative sample of the kinds of industries that are actively involved in implementing the Living Wage and whose founders/directors are personally engaged with its practical, administrative, ethical and operational implications.

The views represented here were all expressed by the owners, founders and directors (sometimes with all three overlapping roles). The semi-structured interviews were all conducted between April and July 2016. All company and personal names are fictional and/or anonymized in accordance with ethics protocols laid down by the Universities concerned.

CASE STUDY 1: LETSA care company

BACKGROUND

LETSA is a domiciliary care company focused on caring and providing social and emotional support for the elderly, people recovering from illness and injury and the socially excluded. It is a young company, having been established only one year ago, and currently has 15 care staff, two office staff and the founder himself (also the majority shareholder, at 70%).

The founder has a background in social care and saw a gap in the market for a service provider who could support people who are not well-served by the local authority. Thus, it serves people in their own homes: 50% of clients pay the company directly while 50% are socially funded. The founder saw that many people who expect help from their local authorities are turned away because they fall in a grey zone of not having enough money to pay for the whole cost of care themselves but also not having so little that the local authority will pay the full cost of care for them. This segment is thus a large unserved market for LETSA to tap into. The company turned a profit in six months, which is unusual for a start-up, let alone one in a sector like social care where the margins tend to be very tight and staff turnover extremely high.

MOTIVATIONS

The founder wanted to avoid signing up to 'the large framework contracts' which are driven by austerity pressures, leading to 'headlines' about whether carers were paid the national minimum wage. Instead, the plan is to keep the business tractable and personal rather than aiming for growth or profit as a primary motive: 'we won't go chasing large numbers of new recruits or on-boarding too many people quickly because then we won't get to train them properly or get to spend time with them'.

A key motivation for adopting the Living Wage was because it was aligned with the founder's/organisational mission and strategy. For LETSA, the personal and the business mission was one and the same. In fact, the founder saw his mission as going above and beyond paying the Living Wage: 'I wanted to ...send a very clear message out to potential staff...(and clients) that we are different...we are not like the companies that are in the headlines...we pay a fair wage and that fair wage is not just the Living Wage...we pay above it'.

What mattered to the founder was that he was accountable to his staff and the Living Wage Foundation. He felt deeply that carers do ‘very, very hard work’ and that the care industry as a whole was not one in which carers were adequately compensated or acknowledged and he was absolutely committed to making a difference to those practices and perceptions.

The impact of treating carers well was profound because it meant that the people served by carers received better care than they would otherwise do. Clients could stay at home instead of ending up in a care home: ‘it can be the difference in years of life expectancy’.

IMPLEMENTATION

There were two key features related to remuneration in the company. One was that there was a profit-sharing scheme. The other outstanding difference between LETSA’s practice and that of the other ‘headline’ companies is that wages in LETSA are not diluted one way or another. In other words, staff are paid for time they spend travelling, caring and even waiting while on a shift. They are paid the full rate for time they spend in training, travelling into the office for meetings.

The logistical challenges of paying the Living Wage across the work cycle (including the time needed for travel and so on, as described) are also creatively modelled. The price charged to clients has to build in the average journey time, service delivery costs, national insurance, holiday pay, sick pay and training time per employee per month and overheads. The scheduling of visits, therefore, almost is a fine art because it involves moving people from point X to point Y in the shortest amount of time possible while still ensuring efficient and timely delivery of care. So, for example, instead of giving specific times to clients, a window of time is given.

BENEFITS

The benefits were evident. Staff come to LETSA via referrals and word of mouth – no advertisements have had to be run to recruit staff. Paying the Living Wage has other financial benefits: after a year, the company has not had a single leaver in an industry which has 50 to 70% turnover. The founder also feels that the company saves money because there are no HR disputes.

THOUGHTS ABOUT FUTURE PRACTICE

The founder is clear that he wants to stay above the Living Wage as it develops. He also pointed out that the confusion between the National Living Wage and the Living Wage has diluted the message means that he has had to explain what the Living Wage is. On the other hand, the visibility that the Living Wage has given to the company is very welcome.

A clear brand (or re-brand) of the Living Wage in the light of the National Living Wage initiative was needed, in his view. He felt it was really cynical of the government to have caused the confusion in the first place.

CASE STUDY 2: PLAYCO hospitality and staffing agency

BACKGROUND

Playco is a successful events management and hospitality company which runs its own events and also provides bar staff, waiters and managers to both individuals who want staff to host dinner parties or other big events as well as to companies who need 50-60 staff for events. It was, and is, entirely owned by its founder-director. Apart from a very small team of permanent staff, it has over 580 staff on its books, many of them part-time workers.

MOTIVATIONS

The owner was clear about what the Living Wage meant for staff, that it 'was the minimum you could live off,' whether that meant one had to bring costs down or whether one had to be paid more. The Living Wage was aligned with the founder's belief in being an ethical employer. He was already paying above the rate when the business became Living Wage accredited. Although the decision to pay the Living Wage might have been difficult if the rate 'was higher than what I was currently paying,' it turned out to be a relatively easy one because that was not the case.

IMPLEMENTATION

PLAYCO subsidises a lot of the extra costs that go along with paying the Living Wage. In practice, this means that it pays a higher proportion of what they charge clients to the staff. That is, they make a smaller margin but this is offset by running their own events.

The founder/owner was aware there was a risk to the strategy if the Living Wage were to increase as much as it did a year ago. He would then have to raise prices in order to stay profitable or run the risk that their clients might split the business between them and another company. One way to cope with this scenario would be for the company to implement price increases in phases rather than all at once so as to give clients a bit of breathing room.

BENEFITS

Paying the Living Wage helps in prospecting for new clients. Existing clients actually use the company to help *them* win new business.

Paying staff properly also means staff are more motivated to stay with the company, to show up on time and are happier. For all these reasons, they gain experience while working for PLAYCO.

Most significantly, perhaps, the founder was able to point to the fact that, in an industry notorious for staff absenteeism, PLAYCO had only one no-show over the course of the past year. Only one person did not turn up for work across every single event they did and they did 'thousands of events'. This is nothing short of astonishing, considering that they had only 25 people being more than 5 minutes late all of last year. This rate of work compares extremely favourably with a competitor the founder used to work for, which experienced a rate of absenteeism 400% of what PLAYCO experienced last year.

Staff retention was another benefit of paying the Living Wage. It also made communication of things 'that aren't that great for staff' much easier. If, for instance, a client cancels a job and that means cancelling work for staff, they receive that news in a much more positive way because they believe the company is doing its best for them.

THOUGHTS ABOUT FUTURE PRACTICE

The rebranding of the minimum wage as the 'National Living Wage' causes some frustration for PLAYCO because there are thousands of hospitality companies paying the minimum wage and it is a challenge differentiating the company from all the others: 'we've had to struggle to communicate what it is and what it isn't,' especially since there are not many over-25s working in hospitality that are still getting paid lower than the National Living Wage.

The future: 'the existence of my business is 100% dependent on me being able to attract and recruit and retain the best staff in the industry. ...I can't operate as a business if my staff aren't as good as another one of my competitors...I can't retain staff if I don't pay them properly...'

The founder is sure that he has to pay the Living Wage as a starting salary and then go higher than that. In the hospitality industry, it all starts with the pay.

CASE STUDY 3: TREND specialist retailer

COMPANY BACKGROUND

TREND specialises in building and selling custom made desktops, laptops and work stations. The company employs eight full time and two part-time staff.

TREND was set up 20 years ago as a PC repair store by the current owner-director's father, serving customers from the local area. The current owner-director joined the company six years ago and recently took over the running of the company together with another member of staff. In recent years, the company has become more specialised, and reduced the number of products they offered from over a thousand to ten. This move resulted in business growth of 25% to 30% each year in the last 3 years. The radius of the store's customers has also increased as they now sell their systems to over 13 different countries and all over the UK.

MOTIVATIONS

TREND has been a Living Wage employer for two years. The company decided to become a Living Wage employer when one of its staff members turned 21, as their wage had to increase to the over 21 minimum wage rate. This made the director wonder why this employee was worth more to them now he was 21 than he was the day before. The company's accountant had heard about the Living Wage and was asked to investigate it. The Living Wage was discussed with the whole staff team, as it was going to lead to a flattening of the pay structure in the company. It was decided by the whole team that the Living Wage should be implemented as 'everyone on the team to be able to afford the basic things, nobody should be struggling'.

IMPLEMENTATION

Throughout the process of implementation all members of staff were involved with the discussions and were informed of the decisions that were made. The implementation of the Living Wage cost TREND an extra £10,000 a year. Because the company was profitable at this point, paying the extra amount was not felt to be a problem: it 'just meant that we were making less profit essentially'. The director perceived the £10,000 as an investment that would eventually pay off. In order to afford

the implementation of the Living Wage, plans to move into new company premises were put on hold for a while – but now TREND feels able to look at this plan again.

Throughout the implementation process, commitment to developing staff was seen to be vital. The company has provided training for staff that showed an interest in a specific area of the business; they also allowed their employees to show initiative and take on different tasks that interested them. Key for the director was to ensure that TREND staff can consistently deliver a high quality and flexible service to their customers.

Informing customers about TREND's Living Wage status was also seen to be important. The company found that when customers were told that TREND's prices were somewhat higher than their competitors' due to the Living Wage, customers realised that 'they're not just paying for the [service], they are paying for everything that supports [it].' TREND also advertises its accreditation through newsletters, their website and their shop window. The director says that this has helped the Living Wage to become part of the company's DNA.

BENEFITS

Since implementation of the Living Wage, overtime hours have been significantly reduced, as there has been a significant increase in productivity. At Christmas, for example, TREND did not struggle to meet deadlines as they had done in previous years. They have found that there was increased staff loyalty and that problems of staff retention that they had previously experienced no longer existed; instead, staff who left because of better career opportunities were feeling bad about leaving.

Becoming a Living Wage employer has increased the amount of positive attention that TREND has received, by local politicians, as well as by customers.

The owner-director takes personal satisfaction in the positive changes he has seen in his employees, following the introduction of the Living Wage: 'It's amazing the difference that, going from (the) minimum wage to Living Wage, so consistently through the team you've got people moving onto their first house, getting married, going on exciting holidays.'

THOUGHTS ABOUT FUTURE PRACTICE

TREND believes that continuing with the provision of the Living Wage for everyone who works for the company is 'an absolute basic'. The director states that if a business is unable to pay its staff what is needed to live on, that there is something wrong with its business model.

TREND wants to continue to be an outspoken Living Wage employer, encouraging other businesses to sign up to the Living Wage by showing what it looks like to be a good Living Wage company. The owner-director feels that support could be given especially to smaller businesses to help them weigh up the financial implications and benefits of Living Wage adoption.

CASE STUDY 4: SITKA construction company

COMPANY BACKGROUND

SITKA is a construction and building maintenance company. The company started out as a building maintenance companies in the mid-1990s. SITKA predominantly obtains contracts from local authorities and housing associations. In recent years, the company has been expanding their geographical reach as they benefit from a particular gap in the market that bigger competitors have left.

SITKA employs about 140 staff and 18 apprentices. The decision to take on a large number of apprentices stems from the fact that there is a significant lack of skilled trades in the construction industry and in particular in the geographical region in which the company operates. SITKA recognises that in order to grow it has 'got to bring through our young people'.

MOTIVATIONS

SITKA has been a Living Wage employer for a little more than one year. The company had been seeking out ways by which it could differentiate itself from its competitors. Living Wage accreditation is one aspect of SITKA's differentiation strategy, alongside a commitment to working with a corporate charity every year, and the company's commitment to offering apprenticeships at a large scale.

The company regards its commitment to paying the Living Wage as one way to ensuring the long-term competitiveness of its workforce.

IMPLEMENTATION

The Living Wage had a direct impact on about 10% of the company's employees, as skilled tradespeople (the majority of employees at SITKA) in the construction industry typically earn above the Living Wage. Staff members affected included junior administrative staff, unskilled labourers and a van driver.

The implementation of the Living Wage still cost the company several thousand pounds, but this, as well as the cost of the annual rate increase, was seen as an investment.

In order to absorb the cost of the Living Wage, the company decided to reduce pay growth by half a percent across the whole workforce. The implementation of the Living Wage was communicated to all employees, and, so the company says, 'everyone was on board'.

The company felt that it was not affordable to roll out the Living Wage to their apprentices (which they are *not* required to do to receive accreditation). Instead, they have put in place a development programme for apprentices, which also involves outdoor team activities. The development programme aims to develop the young people as persons, get them involved in the company and foster team spirit.

SITKA puts the Living Wage logo on all its business communications including their letterheads, company brochures and their company website to achieve maximum publicity for its accreditation.

BENEFITS

The company has received a lot of positive external publicity for their Living Wage accreditation and its employees feel also positive about their employer's decision to pay the Living Wage.

A six year contract has recently been awarded to SITKA by a local authority that had made paying the Living Wage a 'nice to have' criterion for contracts tendered to construction companies.

THOUGHTS ABOUT FUTURE PRACTICE

The company is committed to continuing to be a Living Wage employer in the future. SITKA expects that a growing number of public sector institutions will recognise the importance of the Living Wage in future, and that they will also seek to encourage uptake of the Living Wage among their suppliers through their tenders. This will potentially enable the company to further benefit from their Living Wage accreditation. SITKA's commitment to paying the Living Wage will sit alongside the company's increased efforts to enhance skills and training across the whole of the organisation.

References

Carland, J., Hoy, F., Boulton, W., Carland, J. (1984). Differentiating entrepreneurs from small business owners: A conceptualization. *Academy of Management Review*, 9(2), 354–359.

Corlett, A., Gardiner, L. (2015). *Low Paid Britain 2015*. London: Resolution Foundation.

D’Arcy, C., Finch, D. (2016). *Making the Living Wage – The Resolution Foundation review of the Living Wage*. London: Resolution Foundation.

Department for Business, Innovation and Skills (2015). Statistical Release: Business population estimates for the UK and regions 2015.

www.gov.uk/government/uploads/system/uploads/attachment_data/file/467443/bpe_2015_statistical_release.pdf

Jackson, M., McInroy, N. (2015). *Creating a Good Local Economy – The Role of Anchor Institutions*. Manchester: The Centre for Local Economic Strategies.

Living Wage Commission (LWC) (2016). *Closing the Gap – A Living Wage that means families don’t go short*.

www.livingwage.org.uk/sites/default/files/Closing%20the%20gap%20-%20final%20report%20of%20the%20Living%20Wage%20Commission.pdf

Ward, M., Rhodes, C. (2014). Small businesses and the UK economy. House of Commons Library. www.parliament.uk/briefing-papers/sn06078.pdf

