Enlightened self-interest?

The role of private sector employers in reducing poverty

Ceri Hughes, Peter Kenway, Peter Kelly and Theo Barry-Born

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The objective for this research was to provide a qualitative account of how and why businesses engage in actions to tackle poverty.

The Context

A person is in 'in-work poverty' if their household income falls below the poverty line and if at least one adult in the household is in paid work. Over the three years to 2013/14, there were around 170,000 employees in in-work poverty in Scotland.

Some 110,000 employers in the private and third sector provided 1.8 million employee jobs in Scotland in 2015. Over 2,000 large employers (with 250 or more employees) provided 51% of the total number of employee jobs. Just over half of those who are low paid across the UK are employed by large companies.

Surveys suggest that many businesses are acting in the right way, by paying the Living Wage for example, but relatively few are signed up to external initiatives that accredit this activity.

Research Findings

How businesses engage with 'poverty' and social action

We had thought that talking about poverty could be challenging for businesses, especially if the conversation might have implications for their core business activities and workplace policies. Most of the employers that we interviewed did not consider that tackling poverty was their primary purpose, and few were thinking about it in relation to their staff. Other employers had an understanding of having a wider role in relation to poverty, which was expressed most clearly through the way they behaved toward their own workforce.

In general, employers were more comfortable in discussing explicit action against poverty when it came to philanthropy and wider actions that they might be undertaking in the community, actions which were an adjunct to any core business activity. Meanwhile, among the larger employers that we spoke to, interviewees pointed out that the language and framing of any discussion about poverty-related issues differed internally, depending on the team that was involved. Acknowledging a direct link between poverty and core business activity is uncomfortable.

Many interviewees suggested an alternative vocabulary more familiar to business audiences, which could be deployed to talk about poverty in relation to business activity, for example 'fairness', 'doing the right thing' or 'staff well-being'.

Backgrounds and perspectives among Living Wage Employers

Some of our interview sample had paid the Living Wage from the outset. For these employers, accreditation through the Living Wage Foundation offered an opportunity to gain external validation for a choice which had been made early on in the life of the business.

A few employers operating in low paid sectors saw the Living Wage as an integral part of their market strategy, a means of differentiating themselves from their competitors, easing recruitment issues and ensuring the loyalty of their staff.

For some businesses, the Living Wage played a role in helping to settle the question of what they should pay to staff. These employers were looking for a wage rate that 'felt fair', rather than one that was set purely based on wage rates that were available from their competitors or which they had experienced in previous roles.

Motivations for paying the Living Wage

Many interviewees described their decision to pay the Living Wage both in moral terms – as a choice that was pursued out of a sense of fairness – and as something with a wider strategic value to them as a business.

Businesses stated that one of the main reasons that they paid the Living Wage was the positive impact that it would have on their employees and workers in the wider supply chain. But the rationale went beyond business ethics.

Many employers believed that signing up to the Living Wage was a way to differentiate themselves from other employers. The reference point might be their direct competitors or the wider sector.

For a number of interviewees, the Living Wage was seen as a good way for the business to distance itself from negative associations that might be attached to the wider sector in which they operated.

In addition to the many positive reasons cited by interviewees, there were also more reactive, or defensive, reasons for businesses to pay the Living Wage and participate in other actions to tackle disadvantage. Essentially, by taking part in positive social actions, they were also looking to protect themselves from censure.

Limits to business responsibility

The research team also asked interviewees to reflect on where they thought business responsibility for tackling poverty and disadvantage began and ended.

A few employers saw themselves playing something akin to a parental role in the lives of their employees. This was more common among small businesses with a young workforce.

There are also limits to what businesses can do in some areas, regardless of motivation. One interviewee argued that whilst they were keen to offer opportunities to disadvantaged young people, they were not necessarily able to provide the support that this target group might require in order to make the most of a work placement.

Clear messaging

A common theme across the interviews was that basic messages about the Living Wage – what it is, how it changes year to year and what accreditation entails – were not well understood.

Whilst the Scottish Government can play a role in raising awareness of positive business actions, several of the employers in our sample argued that this endorsement should only be provided where significant action had been taken.

Conclusion: how to stimulate employer action on in-work poverty

If most people want to contribute to tackling poverty but don't know how, as one of our interviewees said, then the task for policymakers is to make clear the actions that are needed. We think that answer should take the form of a standard describing what good businesses, who aren't 'poverty employers', do. But why should businesses sign up?

The discomfort at being thought of as a 'poverty employer' gives a push. A standard for employer practice which is also valued by the public, especially employees and customers, can exert a pull. This pull factor is clearly present in Living Wage accreditation. A standard which has public standing and is therefore attractive to employers is the key.

In fashioning such a standard, it is vital that a range of civil society groups, like those who first drove the Living Wage over a decade ago, are directly involved. Without them, that essential public standing is likely to be missing. But these groups cannot act alone. The Scottish government is clearly fundamental. Attempts to set standards for businesses will fail if businesses are not involved in designing them. This research shows that there are employers with a clear desire to play a leading role in addressing poverty.

In seeking to engage employers, this research also confirms that it is preferable to present the problems of poverty among employees in terms of the positive outcomes that guard against it. 'Fair work' is clearly one heading under which this can be done. 'Staff wellbeing', which can be linked to concerns about productivity, recruitment and retention, is another.

Introduction

There is increasing recognition that businesses across Scotland have a role to play in addressing poverty. Such a role is explicit in the Scottish Government's Economic Strategy, and is also integral to the Fair Work agenda.

But while there is a clear rationale for talking to employers about poverty, and for seeking to engage them in initiatives to tackle poverty, it remains unclear how businesses themselves see their role in tackling poverty, and what the factors are that determine business engagement in anti-poverty activities.

This research project, undertaken by the New Policy Institute and the Poverty Alliance, set out to explore these questions with businesses themselves. It was supported by the Scottish Government and SSE plc.

Aims

The overall objective for this research was to provide a qualitative account of how and why businesses engage in actions to tackle poverty. The research had four key aims:

- To reflect and report on businesses' views on the role they can play in combatting poverty, including the relevance of the concept itself to them;

- To estimate the scale of business engagement in recent policy initiatives;

- To inform the work of the Fair Work Convention and add to the body of research on disadvantage and work currently being conducted in Scotland.

- To offer policy makers and policy advocates insight into how to influence business actions against poverty;

Approach to the research

The main focus of the research was a series of interviews with employers about their involvement in and experience of 'anti-poverty' initiatives.

The key stages of the project were as follows:

- A **roundtable with employers** to identify examples of relevant business initiatives and questions to ask in the interviews;

- A **review of the literature on the links between employment and poverty;**

- **Interviews with private sector employers;**

- Analysis of data on **poverty, low pay and the characteristics of Scottish businesses**, drawing together official data sources;

Scope of the research

It is important to define the scope of our research from the outset. Our focus was on workplace practices which were likely to have an impact on people on low incomes, rather than philanthropic activities. In particular, we focussed on:

- **Businesses:** private sector businesses with employees, rather than sole traders; the interview sample consisted of businesses who were involved in the Living Wage initiative

- **Poverty actions:** the focus was on core business actions (i.e. workplace practices rather than business philanthropy) which are likely to impact on people/employees on low incomes; the Living Wage was also a central focus

- **Poverty:** we are more focussed on in-work poverty than other types, though there are links

- **Geography:** the geographical focus is Scotland, though we recognise that business decisions made elsewhere also impact on people in Scotland

Report outline

The rest of the report is structured as follows:

- **Background:** the first chapter describes the context for this research, estimating the number of employees that are in poverty and low pay in Scotland; providing an overview of the policy agenda around business action against poverty; and estimating the scale of business engagement in recent initiatives

- **Interview findings:** the second chapter provides an account of the findings from our employer interviews, drawing out key themes from across the sample

- **Conclusions and implications:** the final chapter summarises our qualitative findings and proposes how the task of reducing in-work poverty should be approached

Background

This chapter provides some background information on employee poverty, low pay, the number of employers in Scotland and their size. It also provides an overview of the policy context for this research and estimates the extent of business engagement in actions against poverty.

Employees in poverty in Scotland

Poverty is measured in official statistics at the household level. Someone is in 'in-work poverty' if their household income falls below the poverty line and if at least one adult in the household is in paid work. On this basis, there were around 390,000 children and adults in in-work poverty in Scotland over the three years to 2013/14. Of this 390,000, 170,000 (44%) were working-age employees.

Table 1: Employee poverty in Scotland by employment and family type, 2011/12-2013/14

Employment type	Men	Women	Total
Full-time employees	60,000	40,000	100,000
Part-time employees	20,000	50,000	70,000
Family status	**No children**	**With children**	**Total**
Single employee adults	70,000	10,000	80,000
Employees in all working couples	20,000	40,000	60,000
Employees with non-working partner	10,000	20,000	40,000
Employee 'dependants'	**Number**		
Adults (non-working)	40,000		
Children	90,000		

Source: Family Resources Survey and Households Below Average Income data, numbers are a three year average; individual figures may not sum to total due to rounding (to nearest 10,000)

The 170,000 employees in poverty, which includes employees in the public as well as the private sector, represented 9% of employees in Scotland over the period.

Table 1 provides a breakdown of the number of employees in poverty, by employment type and family composition, and also estimates the number of adults and children that are being supported by these employees. It illustrates the

importance of pay rates, hours, and work intensity, and household 'dependency ratios' for poverty risk.

There are some clear risk factors for employees when it comes to in-work poverty. Part-time employees are more likely to be in poverty than full-time employees (at 16% compared to 6%). Just over half of all employees in poverty are women (53%). This is due to the large number of women in part-time work who are in poverty (50,000). The fact that a large proportion of those who are working part-time are in poverty suggests that longer hours of work have a part to play – so long as those who are employed part-time want, and are able, to take on more hours.

Another clear risk factor is the number of dependants that employees are supporting. A quarter of employees with children and a non-working partner were in poverty over this period. This compares to a poverty rate of just 3% among employees in working couples without children.

Counting the overall number of children and non-working adults as dependants of employees, there were two employees in in-work poverty on average for every child in in-work poverty and five employees to every adult dependant over this period (an overall dependency ratio of 74%). By contrast, the dependency ratio among employees who were not in in-work poverty was much lower across Scotland (at 43%).

This illustrates the importance of the tax credit and benefit system in supplementing low incomes. It may also point to greater caring responsibilities as well as other factors that limit these employees' capacity to take on more and better paid work. Employment policy and practice directed at these employees cannot be the only answer to in-work poverty.

Companies and low pay in Scotland

According to statistics published by the Scottish government, just under 110,000 employers in the private and third sector provided 1.8 million employee jobs in Scotland in 2015. These estimates are for all enterprises that operate in Scotland regardless of where the business is based, but only include those with employees. A further 250,000 enterprises had no employees.[1] Over 2,000 large employers (with 250 or more employees[2]) provided 51% of the total number of employee jobs. The other 105,000 were small and medium-sized employers.

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[1] The figures exclude central and local government enterprises, but include non-profit enterprises which have employees. Source: Scottish Government modelling (2015)
[2] The size band is based on the number of employees the business employs across the U.K.

Based on ASHE estimates, some 445,000 adult employees (aged 18+) were paid below the Living Wage of £7.85 in Scotland in 2015 (19.5% of the total). The majority (64%, 287,000) were women.[3]

Graph 1 provides a more detailed indication of the overlaps between low pay, company size and industry sector in 2014. The data, for private companies, is for the UK as a whole (comparable data for Scotland only not being available) and is therefore only indicative. Low pay here is defined as hourly pay below the Living Wage level that applied at the time of the survey (i.e. £7.65 for ASHE data in 2014).

- Just over half of those who are low paid are employed by large companies.[4] Large companies in three sectors – retail and wholesale, food and accommodation services and administration and support – account for more than 40% of the total.

- Two thirds of all those who are low paid are employed in either retail and wholesale, food and accommodation or admin and support companies. Most low pay in retail and wholesale is in large companies (23% out of 33%).

- Outside of these three sectors, low pay is much more a characteristic of small and medium companies than large ones (23% out of 33%). The largest of the other sectors where this is so is manufacturing.

Graph 1: employees paid below the Living Wage in 2014 by sector and company size
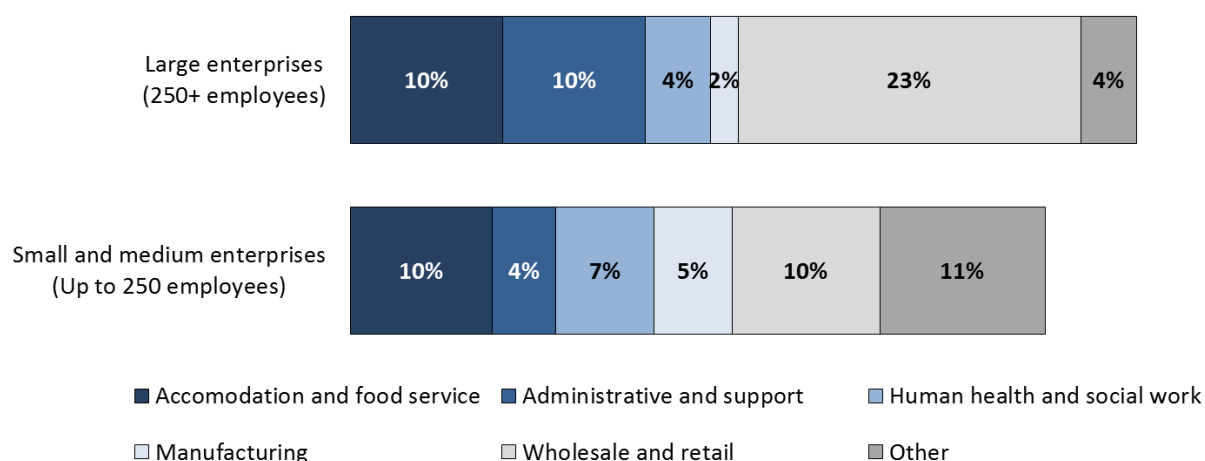
Source: ASHE data on pay by company size for the UK (2014)

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[3] Source: Secondary analysis of Office for National Statistics data from the Annual Survey of Hours and Earnings (ASHE) 2015

[4] In Scotland large employers make up 2% of private sector employers. Source: Scottish Government estimates (2015). The figure excludes central and local government, but includes non-profit enterprises.

Policy context

In-work poverty poses a significant challenge to public policy makers. In Scotland as in the rest of the UK, policy has long identified employment as an unproblematic route out of poverty. A series of changes to the tax and benefits system dating from at least as long ago as the late 1990s sought to increase work incentives or make benefit receipt dependent on work-related activity.[5] Moving into work represents an effective route out of poverty for many working-age people,[6] but the scale of in-work poverty shows it is not enough.

The Scottish Government has been promoting voluntary business initiatives and positive dialogue around employment practices. They include the Scottish Business Pledge, the Fair Work Convention and the Living Wage. Box 3 provides some information about these initiatives. The aim of the Fair Work Convention, for example, is to facilitate dialogue between employers, employees, trade unions, public bodies and the Scottish Government. Meanwhile, the Government has also been clear about its ambitions for the Living Wage, setting an initial target of accrediting 500 employers by March 2016.

The United Nations' Sustainable Development Goals also put the emphasis on a partnership approach to tackling poverty. The goals include reducing 'at least by half the proportion of men, women and children of all ages in poverty in all its dimensions according to national definitions' by 2030. Delivering on these goals is not solely the duty of national governments but of businesses, civil society bodies and citizens too.

Box 3: Key policy initiatives

The Living Wage

The Living Wage (£8.25 per hour in 2015, increasing in November 2016) is the same across the UK (excl. London) and is set independently and calculated with reference to the cost of a basic standard of living in the UK. The Living Wage rate is adjusted each year, though increases have been capped at average earnings plus 2% since its introduction.[7] Living Wage accreditation entails more than paying the Living Wage to direct employees – employers must also have a plan in place to roll out payment to other workers and contractors (anyone who works two or more hours a day for eight or more consecutive weeks of the year). Living Wage employers sign a licence with Living Wage UK to this effect.

The Scottish Business Pledge

The Pledge is a voluntary commitment by companies to adopt fair and progressive business

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[5] Ray, K., Sissons, P., Jones, K. & Vegeris, S. (2014) Employment, pay and poverty: evidence and policy review, Joseph Rowntree Foundation
[6] See ONS (2015) Poverty & Employment Transitions in the UK and EU, 2007-2012.
[7] Brinkley, I. (2014) The Low Pay Challenge: The Work Foundation provocation paper

practices in order to improve business competitiveness and productivity while tackling inequalities. To sign up to it, businesses have to: be paying the Living Wage, already be delivering on two other elements and be committed to achieving the rest over time. The eight other elements cover: contracts, workforce engagement, investing in youth, equality and diversity, innovation, internationalisation, community and prompt payment.

Not directly concerned with tackling poverty, the Pledge is a means for Government to engage businesses and deliver some of its aims. These include tackling low pay, boosting productivity and encouraging SMEs to export. The target audience is a select group, Living Wage businesses, 'leader[s] of progressive, sustainable businesses [who] are already working hard to make their company more productive and profitable'.[8]

The Fair Work Convention

The Fair Work Convention (FWC) was set up by the Scottish Government to develop a fair employment and workplace framework for implementation in the public, private and third sectors. It is intended that the blueprint will facilitate a new type of dialogue between employers, employees, trade unions, public bodies and the Scottish Government.

The remit for the FWC, aside from developing the framework, is to learn from national and international research and advise the Government on Fair Work, understand the challenges that businesses face, and support government objectives around increasing economic growth and reducing inequality. As the framework is still being developed it is too early to estimate the likely impact on poverty. A range of studies link the declining importance of collective bargaining and union membership to growth in the prevalence of low pay but there is limited direct evidence for the impact of wage setting institutions on poverty in the UK.[9]

The UK government's new enhanced minimum wage for people aged 25 and over is another example of a business-focussed poverty initiative. It will increase the low wage floor by 50p to £7.20 an hour upon its introduction in April 2016. Though it has been described as the National Living Wage, it differs from the Living Wage in several ways.

For one thing it brings a focus on compliance rather than voluntarism; employers will be required to pay this. A report from the Government's independent poverty and inequality advisor has noted that this could challenge the wider agenda set by the Scottish government, making it harder to engage low pay industries in tackling in-work poverty.[10] It is also less onerous than Living Wage accreditation since it places no requirement on a business to ensure that its supply chain is paying the Living

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[8] https://scottishbusinesspledge.scot/
[9] Ray, K., Sissons, P., Jones, K. & Vegeris, S. (2014) Employment, pay and poverty: evidence and policy review, Joseph Rowntree Foundation
[10] Eisenstadt, N. (2016) Shifting the Curve: a report to the First Minister from the Independent Advisor on Poverty and Inequality

Wage. The age restriction means that this measure, unlike the Living Wage, excludes a large number of the low paid: at the UK level, we estimate around 35%.[11]

The scope for and extent of business engagement

There are a number of reasons to focus on the role of businesses in tackling poverty. All employers make decisions about how – and who – they recruit, what they pay, and how they structure the employment they offer, though some employers have more scope than others to shape these workplace practices.[12] Decisions about the amount and type of work available have implications for poverty. Other factors matter too, notably the tax and benefit system, which plays a big role in boosting low household incomes, and household circumstances. Employers also engage in a wider range of activities that can impact on poverty – including volunteering and philanthropy – but these are not the focus of this research.

There are limits to the role that employers can play. Policies and initiatives that raise the wage floor (e.g. the minimum wage) and that increase wages have been shown to benefit those on low incomes,[13] but they are not especially well targeted when it comes to tackling poverty. It is likely that wage supplements delivered through the tax and benefit system, targeted on those with low incomes, will continue to play an important part.[14] Research has also shown how training, development and flexible working policies are associated with improved productivity and motivation, but that the benefits of introducing new workplace practices in these areas are not guaranteed.[15] Businesses' role in tackling poverty is not clearly defined and to be effective must be part of something wider.

Surveys suggest that businesses are acting in the right way. For example, most respondents to a recent survey of employers registered in Scotland reported that they were paying the Living Wage to all their employees (83%), that they were offering work-based learning to young people (67%) and that they involved staff in major decisions (81%). 38% said they were targeting their recruitment at disadvantaged areas and groups.[16]

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[11] Based on NPI analysis of ASHE 2014 data on pay by company size. Meanwhile, other studies have estimated that by 2020 around one third of the low paid will be under 25: http://www.resolutionfoundation.org/wp-content/uploads/2015/10/Low-Pay-Britain-2015.pdf
[12] Philpott, J. (2014) Rewarding Work for Low Paid Workers, Joseph Rowntree Foundation.
[13] It has been estimated that raising the National Minimum Wage to the level of the Living Wage would raise the incomes of 6 million low-paid workers. KPMG (2015) The Living Wage: an economic impact assessment.
[14] Ray, K., Sissons, P., Jones, K. & Vegeris, S. (2014) Employment, pay and poverty: evidence and policy review, Joseph Rowntree Foundation
[15] Philpott, J. (2014) Rewarding Work for Low Paid Workers, Joseph Rowntree Foundation
[16] Survey reported in Social Value Lab (2016) Better Business, Better Scotland

Yet these figures bear no relation to the number of businesses signed up to explicit initiatives either certain or likely to benefit low paid employees. This month (March 2016) the number of accredited Living Wage employers in Scotland has reached 500 while over 200 businesses had enrolled in the Scottish Business Pledge by the end of February.[17] Meanwhile, Modern Apprenticeships (a form of post-16 education that incorporates on- and off-the-job learning with incentives offered to small employers) were being created at the rate of more than 25,000 a year in 2014/15.

Conclusion

The Scottish Government has promoted social partnerships and the role that a range of actors can play in tackling poverty. There is a clear rationale for talking to employers about poverty, and for seeking to engage them in initiatives to tackle poverty. There is a consensus that businesses should act responsibly and have regard for the wellbeing of their workforce – and the majority of businesses say that they are acting in this way. The challenge lies in translating these sentiments into meaningful action in those companies that are not already acting in this way. With 110,000 private employers in Scotland the potential remains vast.

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[17] Source: Poverty Alliance data on Living Wage employers, and Scottish Government
http://news.scotland.gov.uk/News/200th-employer-signs-Business-Pledge-2225.aspx

Interview findings

This chapter provides a thematic account of the interview data, exploring common themes and areas of difference within the interview sample. As the responses outlined below will show, employers conceived of their role in society, and with regard to their workforce, in a wide range of ways, and have differing views on the proper interplay between the individual, government and business when it comes to tackling disadvantage.

Our approach

The sample

The research sample consisted of senior members of staff (directors, operations managers and sustainability leads) who were employed by, or had an interest in, a private sector business that was either Living Wage accredited or promoting the Living Wage in Scotland. The businesses that were selected were operating in a wide range of industries and market areas, some of which were associated with low paid employment (such as the cleaning, care and retail sectors).

Small to medium-sized businesses made up the majority of the sample. Interviewees were recruited with the support of the Living Wage Foundation and the Poverty Alliance.

The interview

The research team conducted 18 semi-structured interviews and convened one discussion group with businesses and other stakeholders. Most of the interviews were conducted face-to-face, but a small number took place over the phone. The interviews were undertaken between November 2015 and January 2016.

The people who agreed to participate in the interviews were asked to talk about the actions the business took which were likely to benefit their staff, particularly those on low incomes, and the wider community. Interview questions were not solely focussed on the Living Wage initiative, though it was a common, unifying theme across the interviews. Interviewees were asked initially to describe how and why they had come to pay the Living Wage. The conversation then moved beyond this, considering the best way to talk to employers about poverty and other ways that businesses could have a positive impact.

The following topic areas were covered in each interview:

- How to talk about poverty with business and what vocabulary was preferred;

- Reasons for paying the Living Wage and, where appropriate, for becoming an accredited Living Wage employer;

- How the Living Wage had been implemented in their business and whether they had encountered any challenges;

- Other ways that businesses might improve the position of low income households;

- How businesses could work with government departments on this agenda, and what role government should play.

A thematic account of the interviews

The aim in this section is to understand how a group of engaged employers think about their role in tackling poverty and how and why they have come to engage in the Living Wage initiative and other positive actions. The interview responses were analysed in order to identify themes across the interviews as well as points of difference.

The themes are reported under five sections. Section one reflects on the way that businesses think and talk about poverty issues, and how this varies across sectors and across teams within larger organisations. The responses show that few employers think about their workplace practice and policies as directly tackling poverty. Businesses tend to be more comfortable with reflecting on poverty issues in relation to wider social actions that they may be taking, whilst discussions of workplace policies and practice tend to be framed in terms of 'fairness' and 'doing the right thing'.

The second section provides a sense of the different backgrounds of the Living Wage employers that were interviewed and how this, to some extent, shaped their experience. This context is necessary to understand the variety of business motivations that were cited for paying the Living Wage, which are discussed in the third section. This section provides an idea of the specific, situated value of the Living Wage initiative to businesses operating in different contexts.

The fourth section brings together employer insights into the best way to promote the Living Wage to a wider business audience before the final section outlines interviewees' reflections on where business responsibility for tackling poverty begins and ends. This was clearly a challenging question and there was little consensus on the proper role that businesses should play in tackling poverty. This lack of clarity leaves space for businesses to take voluntary action, but it also poses a challenge as employers struggle to negotiate the blurring of professional and personal boundaries in the workplace.

1. How businesses engage with 'poverty' and social action

We had thought that talking about poverty could be challenging for businesses, especially if the conversation might have implications for their core business activities and workplace policies.

We asked interviewees to discuss the things that they were doing that might have a positive impact on their employees and wider society, but we also set out to understand how these discussions were framed. This section describes how businesses tend to engage in thinking about 'poverty' and social action.

Problems with the language of poverty

Most of the employers that we interviewed did not consider that tackling poverty was their primary purpose, and few were thinking about it in relation to their staff. They were Living Wage employers, committed to increasing the earnings of any low-paid employees or subcontractors on an annual basis, but they did not consider this to be an action they were taking to tackle poverty.

> 'Our company wouldn't necessarily be involved in an initiative to prevent poverty; we wouldn't be coming from a position where we thought our staff were in poverty' (*Retail and hospitality employer*)

There were a number of reasons for this position. First of all, few considered that the people that they employed would be in poverty. Employers talked of barriers that would prevent them from engaging in a conversation about tackling poverty in the workplace; few thought that staff would want to discuss their household income with an employer, particularly as the 'poverty' label can be stigmatising. One interviewee noted that, as a small employer, they were generally able to identify members of staff that were facing financial problems, possibly because they would see a sustained drop in performance. The difficulty for them lay in knowing how to respond appropriately in a business setting: what might be right for one person could be deemed intrusive or inappropriate by another.

Other employers had an understanding of having a wider role in relation to poverty, although this was expressed most clearly through the way they treated their own workforce. Some of the employers talked of their own personal experience of living on low incomes, or their family histories, as a rationale for ensuring that their companies acted fairly with regard to the people they were employing. One of the interviewees spoke about the disadvantaged backgrounds from which some of their younger members of staff came. This employer was keenly aware of the impact that poverty was having on their workforce and whilst they acknowledged that they could not solve these problems, they had to address them in whatever way they could.

Employers were more comfortable in discussing explicit action against poverty when it came to philanthropy and wider actions that they might be undertaking in the community, actions which were an adjunct to any core business activity. For example, a number of interviewees mentioned staff volunteering, donations that they were making to charities and, among larger employers, partnerships they were developing with charities and other stakeholders to address social issues.

Some businesses were making efforts to tackle poverty issues which did link to their core business activity, but the focus tended to be on customers rather than staff. For example, rolling out basic banking products to people on low incomes who did not have access to a bank account.

Confronting in-work poverty

Some employers were concerned that direct engagement with poverty issues at the level of the workforce would leave them open to the charge of being 'poverty employers'.

But there were exceptions. Two employers operating in low pay sectors were keenly aware of the financial difficulties experienced by some of their staff. Of these employers, one noted that they were regularly providing cash advances to their employees to enable them to meet living costs like rent and food bills. They hoped that paying the Living Wage would reduce the need for them to offer this support by increasing the financial security of their staff. Another interviewee believed that many members of their staff were in poverty; they acknowledged that they were more comfortable thinking about poverty in relation to their workforce now that they were committed to paying the Living Wage.

A few employers were making efforts to target their recruitment at disadvantaged groups and areas. For one employer this strategy was linked to a goal to increase the diversity of the workforce. Another employer had developed a partnership with a charity to ensure that young recruits had some additional support where required.

Different ways of talking about poverty

Among the larger employers that we spoke to, interviewees pointed out that the language and framing of any discussion about poverty-related issues differed internally, depending on the team that was involved. For example, large employers might have a sustainability team, with responsibility for developing the agenda around high-level social and economic issues, such as human rights and climate change.

People in these teams might be thinking about poverty within the broader framing of sustainability, and the beginnings of a conversation about paying the Living Wage might start with contributions from the team, alongside the human resources

department and other teams with responsibility for consumer affairs and community initiatives. However, as thinking developed, and the focus moved to implementation, ownership would generally pass to the human resources department. Here, 'poverty' was less likely to be referred to, as the focus would be on specific workplace policies and practices.

Many interviewees suggested an alternative vocabulary, more familiar to business audiences, which could be deployed to talk about poverty in relation to business activity. In particular, many businesses would talk of 'fairness' and 'doing the right thing'. Interviewees maintained that very few businesses were looking to exploit their workforce and that talk of fair pay tended to resonate with the business community. Alternatively, some businesses thought that 'staff wellbeing' offered a good handle for talking about poverty issues relating to the workforce. 'Wellbeing' was an issue that could be linked to strategic concerns about productivity, recruitment and retention.

The value of a wider frame, and vocabulary, for business action

Moving beyond specific items of vocabulary, the larger employers that we spoke to were often looking for a wider framework in which to situate the actions that the business was taking. One large employer had developed a values framework which was used to communicate the different things that they were doing and the values with which they wished to align themselves.

External frameworks were also of interest in this context – the new sustainable development goals, for example, were seen as a potentially valuable external reference point against which business actions could be measured. By referring to these frameworks, businesses might be looking to gain external validation for what they were doing by establishing the wider value of actions taken at a company-level. These large businesses were keen to be noticed for the right reasons, and would look to report on progress on an annual basis in the hope of establishing their credentials as one of the top ethical firms operating in the UK.

2. Different backgrounds and perspectives among Living Wage employers

Different starting points

Some of our interview sample had paid the Living Wage from the outset. For these employers, accreditation through the Living Wage Foundation offered an opportunity to gain external validation for a choice which had been made early on in the life of the business. Participation in the scheme was one part of a more general move by the business to change its culture, or to improve its image.

Employers operating in higher skilled and higher paid sectors found that the move to paying the Living Wage chiefly affected the terms that they offered to entry-level recruits. The main beneficiaries were therefore likely to be young people.

> 'The company has always paid reasonably well… The main reason was because we were in a specialised field, and therefore we needed to have people who had the knowledge to be able to sell [our product]. This knowledge is worth paying more for.'
> (*Producer/retailer*)

In this case, paying the Living Wage meant that the employer would be able to select from a greater range of local candidates and offer fair terms for a trial employment period to ensure that the recruit was the right fit for the business.

A few employers operating in low paid sectors saw the Living Wage as an integral part of their market strategy, a means of differentiating themselves from their competitors, easing recruitment issues and ensuring the loyalty of their staff.

Finally, one of the interviewees, who owned a recruitment company, was a recognised Living Wage service provider' rather than an accredited Living Wage employer. This designation offers a route for companies who may not be able to commit to full Living Wage accreditation to participate in the initiative and promote the Living Wage.

Differences by business size

For some businesses, the Living Wage played a role in helping to settle the question of what they should pay to staff. For small employers in particular, the Living Wage had served as a useful reference point when it came to determining how much they should pay their employees. These employers were looking for a wage rate that 'felt fair', rather than one that was set purely based on wage rates that were available from their competitors or which they had experienced in previous roles.

The two large employers that we interviewed emphasised that much of the challenge for them in becoming an accredited Living Wage employer had derived from the requirement that they ensure that their supply chain was compliant with the terms of the Living Wage accreditation process. For these employers the move to paying the Living Wage had entailed a series of conversations and arguments tailored to the business area, which had taken place over several years. One interviewee estimated that three years had elapsed between the point at which they had started to look into paying the Living Wage and the point where the policy was 'embedded' with the Human Resources team and accreditation was underway.

3. Motivations for paying the Living Wage

We asked interviewees to talk about their reasons for paying the Living Wage. This was a central concern of our research as we were keen to understand why businesses were willing to participate in an initiative that could reduce in-work poverty, but at a cost to the business.

Many interviewees described their decision to pay the Living Wage both in moral terms – as a choice that was pursued out of a sense of fairness – and as something with a wider strategic value to them as a business.

> 'It is shameful to pay someone a wage they can't live on, but it doesn't make sense as a society either.' (*Marketing employer*)

> 'Most employers are not trying to get away with what they can – employers just need to know that it will be worthwhile.' (*Bank*)

The emphasis varied depending on the context in which the decision to become a Living Wage employer had been made. One interviewee noted that the reasons for paying the Living Wage would vary depending on whether a business was the first in the sector to sign up to the Living Wage. First movers have to shoulder some of the risk – 'in such cases the main argument for doing something is whether it's the right thing or not. Competitiveness isn't the be all and end all' (*Bank*). Once other businesses have signed up, the argument for following suit became easier – there would be a case for keeping up with competitors.

Businesses stated that one of the main reasons that they paid the Living Wage was the positive impact that it would have on their employees and workers in the wider supply chain. But the rationale went beyond business ethics. Paying the Living Wage is not just about the importance of fair compensation for loyal employees. Many businesses outlined an intuitive, strategic case for paying the Living Wage, whether as a basis for market differentiation, or as a means of addressing recruitment and retention issues. These themes are described in more detail below.

Altruism mixed with self-interest

> 'To be honest it's been a bit of enlightened self-interest as well, we've seen it as potentially a marketing opportunity… it's a way of differentiating ourselves from the other recruitment companies' (*Recruiter*)

Many employers believed that signing up to the Living Wage was a way to differentiate themselves from other employers. The reference point might be their direct competitors or the wider sector. As one interviewee noted, businesses are always looking to see what their competitors are doing. This particularly applied

where the employer could position themselves as a 'first mover', with accreditation presenting an opportunity to market themselves as a 'good', trailblazing employer.

By differentiating themselves, employers were looking to appeal to potential recruits, as well as customers and other employers. One employer, a recruitment firm, was a 'recognised Living Wage service provider' rather than a fully accredited Living Wage employer. The interviewee felt that being a recognised service provider helped them to compete for business as it signalled that they were attempting to set themselves apart from their competitors. They recognised that they were potentially passing on higher costs to other companies using their services and were therefore willing to reduce their fees when the companies they worked with paid the Living Wage to their temporary staff.

Impact on recruitment

For a number of interviewees, the Living Wage was seen as a good way for the business to distance itself from negative associations that might attach to the wider sector in which they operated. Doing so could be beneficial in terms of recruitment.

> 'The sector has a lot of negativity around the work we do; it's seen as the lowest of the low. So the Living Wage was an easy choice to make. We want to be able to attract people into the sector, to consider it as a career choice.' (*Care provider*)

Another employer, contracting specialist cleaning services, saw paying the Living Wage as a recruitment tool: 'in the cleaning business… you soon either get noticed as someone who is decent or someone who is not decent' (*Specialist cleaning company*). By paying more, some businesses were expecting loyalty and for staff to work harder and/or provide better service.

The protection of the Living Wage

In addition to the many positive reasons cited by interviewees, there were also more reactive, or defensive, reasons for businesses to pay the Living Wage and participate in other actions to tackle disadvantage. Essentially, by taking part in positive social actions, they were also looking to protect themselves from censure to some extent.

A few interviewees were concerned about attracting attention from campaigners for the wrong reasons. Some employers are more accessible to campaigners than others: the large employers, in particular, felt that they were exposed to negative comment, or awkward questions, through social media as well as through more conventional means. The Annual General Meeting, for example, represents a moment when campaigners can gain access to senior members of the company. One interviewee suggested that raising questions about company policies in this

arena can be an effective means to raise the profile of a campaign and make addressing, or at least responding to, any issues a higher priority for businesses.

4. Means of promoting the Living Wage

A case for developing the evidence-base

Some interviewees offered their thoughts on what it would take to promote the Living Wage to a wider range of employers. One theme was the importance of building up the evidence base. The interviewees that were based in the two larger employers that we interviewed argued that to make progress in extending the initiative to a wider community of employers, objective and robust evidence would be required.

> 'The first tranche of businesses will sign up because it's the right thing to do, [you] need to have evidence to get the other businesses' (*Bank*)

> 'This is a coalition of the willing and spirited. This involves more than those who would need to be persuaded by a narrow business case ("£1.20 return for every £1 put in"). But such a coalition is not the same as what it would be if paying the LW were the norm among companies' (*Energy provider*)

There was a sense that good practice could trickle down to other businesses with relatively indirect input from employers or government. One business had become aware of the Living Wage initiative because they were competing for a contract. Another, based in a rural community, thought that by paying the Living Wage they would play a role in establishing a sense of what counted as fair pay within the wider community.

Other interviewees believed that recruitment difficulties would force some businesses to change their practices; they would either have to adopt the Living Wage or look at the kinds of employment that they could offer and possibly change the way that jobs were designed.

However, another interviewee noted that businesses tended to be set in their ways. Some have a high staff turnover rate but never consider what that costs them in terms of training, loss of knowledge and experience and the quality of the service they offer. They argued that 'it just takes them to be a bit more enlightened, to understand that if they look after their people, give them a career, that this then has an impact on the service they deliver, improves their reputation and ultimately improves the business' (*Recruiter*).

One interviewee suggested that being able to refer to robust, external evidence can help to move the discussion forward at a business level, as there are often many

conflicting issues that have to be weighed up when a business is considering becoming a Living Wage employer.

5. Limits to business responsibility and the role of government

The research team also asked interviewees to reflect on where they thought business responsibility for tackling poverty and disadvantage began and ended. The aim was to understand whether there were things that employers saw themselves taking the lead on, and where there might be more of a role for other actors, including the government.

A few employers had experience of accessing business support services and were appreciative of other initiatives, such as the Scottish Business Pledge, which were being coordinated by the Scottish Government.

Diverse views on the proper role for business

The question of where business responsibility ends was clearly challenging and there was little consensus from interviewees about the proper role of business. A belief in the value of the Living Wage clearly united the interview sample, but there was no common vision of the role that employers might play in tackling poverty. A few employers saw themselves playing something akin to a parental role in the lives of their employees. This was more common among small businesses with a young workforce. Yet stress on personal responsibility for one's own destiny was also expressed too.

'If mum and dad haven't worked, then someone has to break the mould, to do things differently.' (*Care provider*)

Schools, it was said, have helped young people understand about the world of work, and that they should be prepared to do many different jobs over their lifetimes.

'People need to realise that they are in a job to work.' (*Marketing employer*)

Other interviewees believed that a lack of clarity around who was responsible led to an assumption that tackling poverty was the proper domain of government:

'Most people don't want to not contribute to tackling poverty but they don't get how, and they think the government takes care of it.' (*Marketing employer*)

There are also limits to what businesses can do in some areas, regardless of motivation. One interviewee argued that whilst they were keen to offer opportunities to disadvantaged young people, they were not necessarily able to provide the support that this target group might require in order to make the most of a work placement. To ensure the success of a targeted recruitment initiative like this, it

would be necessary for them to work in partnership with public and third sector organisations to build an appropriate package of support.

> 'It has to be a combination. Businesses should be helping people back to work by offering fair pay and conditions, but governments also have a responsibility to change the benefits system that seems to penalise people if they work a little bit more, they'll lose their housing benefit.' (*Care provider*)

Clear messaging, for example around the Living Wage

A common message across the interviews was that basic messages about the Living Wage – what it is, how it changes year to year and what accreditation entails – were not well understood. This applied to other employers but also to the wider public. A few employers saw a role for the Scottish Government in addressing this, including by providing clear messaging about how the Living Wage differs from other pay rates (such as the National Minimum Wage and the National Living Wage).

The need for consultation

A few interviewees emphasised the importance of getting a clear steer from government on priorities, and areas of activity that business could contribute to. This was needed over the long-term, as sudden changes in government policy could create difficulties.

> 'When things happen that businesses haven't been consulted on there are problems. The Scottish government needs to work in partnership to reach end goals' (*Bank*)

Sustained engagement and consultation was required to make it possible for business and government to work together.

Supporting significant business actions

Whilst the Scottish Government can play a role in raising awareness of positive business actions, a few of the employers in our sample argued that this endorsement should only be provided where significant action had been taken. One interviewee noted that initiatives that ask too little, or which require companies to do what they should already be doing, risk looking like more of a marketing initiative than an anti-poverty action.

Several employers also saw government playing a role in ensuring that all employers complied with basic standards and regulations. One interviewee believed that more could be done to hold businesses to account, and that government could play a role in shining a light on businesses that were not meeting their responsibilities. Public exposure was thought to be an effective tool.

Conclusion

This chapter has provided an overview of the qualitative interview data. It has sought to convey the main points raised by businesses, preserving the expressions of interviewees and differences of opinion as far as possible. The final chapter reflects on these conversations, and draws out messages for policymakers and the wider business community.

Conclusions

Principal findings from the research

The interviews on which this research is based have offered glimpses into the realities of business practice and an outlook often quite at odds with a simple textbook view of what a business is or does. In what follows, we summarise our three main findings which then provide the basis for a recommendation as to what government and other stakeholders should do next.

How businesses relate to 'poverty'

For the most part, businesses do not associate themselves or their employees with poverty. Some businesses do see poverty as something that can afflict their employees but they are exceptions. Businesses are more comfortable with the idea that poverty exists outside in the community and that it can be addressed through philanthropy and actions unrelated to core business activity. Tackling poverty is not usually an explicit motive for paying the Living Wage.

Acknowledging the links between employment and poverty can be discomforting for businesses. Difficulties can arise for employers where their core business activity can be seen to have implications for poverty. Variants like fuel poverty, or the higher costs faced by those without a bank account, both of which are seen as linked to business policies in some sectors, add to the difficulty of engaging directly with poverty issues. Being to do with home or family, not just the individual employee, in-work poverty can be hard for an employer to identify and hard, too, to address. Helping with problem debt, which can be symptomatic of poverty, is one way in which this can be achieved.

Why businesses pay the Living Wage

The reasons for paying the Living Wage usually go beyond any narrow weighing of financial cost against financial return. Sometimes this is because the benefits to the business, though direct, are intangible. But it can also be because the business sees a wider social interest as being its interest too. Altruism without a measure of self-interest is rare.

Some businesses adopt the Living Wage because it fits with what they are doing: a new business deciding where to set its wage, a mature one going through a process of transformation. Paying the Living Wage can be a statement of values. It can help a business stand out, to potential recruits, or staff or customers. Differentiation can project a positive image, for example a business that treats its employees well. It can also be defensive, for example to escape the negative image of the sector it is in. In much of this, social media exposure is a factor that businesses have to reckon with.

Paying the Living Wage can reflect a commitment to a local community of which the business sees itself as an integral part. It can be an assertion of leadership. In all these cases the Living Wage is a sign. To serve as such, to be a sign worth signalling, it must not be something that is too easy to do.

Businesses' views on the role of government

Government has a big part to play in driving the Living Wage forward, but the fact the Living Wage was not originally a government initiative is a key part of its strength.

Many employers felt that there was confusion around the Living Wage – what it is worth, who can get it and how; how it differs from the national living wage and the national minimum wage; and how accreditation is more than just paying the Living Wage. Information that can be provided by government is a remedy here.

Businesses also saw a role for government leadership: setting standards, high-profile public information, providing a long term view. Hurdles must be set high enough to be worthwhile but must also be well-designed. The government needs to work in partnership with businesses: inside knowledge matters. Businesses struggle and problems happen when things emerge without consultation.

Stimulating employer action on in-work poverty: what is needed

Of all the things we have found in this research, the one with the greatest potential to get businesses to take in-work poverty seriously is the discomfort that employers seem to feel at the thought that they might be a 'poverty employer'.

No doubt there is a public, reputational side to this. One of the uses of Living Wage accreditation is the way it allows businesses to differentiate themselves, to stand out, both in the eyes of their customers but no less importantly in the eyes of their staff too.

Employers we spoke to were uncomfortable at the idea that they may have people working for them who were in poverty because of their (the employers) inaction. This was not the kind of organisation they thought they were, and by paying the Living Wage they could distance themselves from being associated with poverty. Most understood that the causes of poverty may be more complex and would go beyond what they thought they could reasonably do as employers – some mentioned the cost of childcare, problems with debt, and addictions. So within the context of their involvement in addressing poverty, paying the Living Wage was one of the key things they could undertake.

This combination – discomfort at the thought of being a poverty employer coupled with a way to do something about it – could be used here, as the basis for an

approach that shows Scotland's employers how to change practices that put them at risk of being poverty employers.

We think two things are needed to get businesses to act. The first is a clear view of what it is that employers have to do. Paying the Living Wage, even Living Wage accreditation, is one aspect of this but not the only one. There are already at least two attempts to define that scope – the Scottish Business Pledge and the Fair Work framework as developed by the Fair Work Convention. Whether these are optimal for dealing with in-work poverty is going to be worth looking at. Oxfam's Decent Work research adds to this agenda.[18] This research highlighted a number of areas beyond the Living Wage, which also go beyond the Scottish Business Pledge.

The scope, however, is only one side of it. The crucial thing about the Living Wage is both the visibility and standing that it has, among employees, potential employees and customers. Without that standing, it would give employers neither the internal satisfaction nor the external standing. So it is not just what something like the Scottish Business Pledge or the Fair Work framework contains, but the fact that it enjoys public recognition and support. In short what is needed is a standard for employer practice which is valued by the public, whether as worker, customer or service recipient.

In fashioning such a standard, what matters at the beginning is less what it contains than who is involved. More than a decade ago, a movement of civil society groups – citizen, community, faith and trade union – first created the Living Wage then drove it to prominence. The same sort of groups need to play a central role again. If they do not rate it – if it ends up looking like a gimmick – it won't be worth having and so won't do the job.

But these groups cannot act alone. The Scottish government's commitment is fundamental, especially its insistence that employers share a responsibility for dealing with poverty. Attempts to set standards for businesses are doomed to failure unless businesses too are involved in designing them. This research shows that there is a clear desire among some employers to play a leading role in addressing poverty.

While a desire to avoid being a poverty employer may be a spur, this research suggests that the problem of poverty as it affects employees is better thought about and presented in terms of a positive, desired outcome. 'Fair work' is clearly one possibility. Something like 'staff wellbeing', which can be linked to concerns about productivity, recruitment and retention, is another.

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[18] Stuart, F., Pautz, H., Crimin, S. & Wright, S. (2016) What makes for decent work? A study with low paid workers in Scotland, initial findings http://uwsoxfampartnership.org.uk/wp-content/uploads/2016/03/Decent-Work-Report-Final.pdf

A strategy for tackling the practices that can contribute to in-work poverty cannot solve everything. But what is needed is an answer to our interviewee who said that most people want to contribute to tackling poverty but don't know how. The priority for any strategy to involve businesses in tackling poverty should be to tell businesses how. We think it should do so by making it clear what good businesses, who aren't 'poverty employers', do. Paying the Living Wage is one aspect of this. 'Treating staff fairly' and 'promoting staff well-being' are broader headings under which other, specific actions might be identified.

This is not a demand for altruism or business philanthropy. The businesses we have spoken to have a wider view of where their self-interest lies. 'Enlightened self-interest' was a phrase used by one to explain their reason for paying the Living Wage. We think it is a good way to describe the set of attitudes displayed by the businesses in this research. It is wider than a narrow focus on the bottom line. That is partly because it can include intangibles like reputation. But it is also because it can include wider social interests which the business sees as its own. This identification of the social with the private, and its internalisation at the level of business practice, is crucial. If true – and it remains to be tested – it holds out the hope that eradicating practices associated with in-work poverty will not necessarily be regarded by employers as a cost to them.