CIPD
Championing better work and working lives

REWARD MANAGEMENT SURVEY

The Living Wage

Survey report
February 2021

The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

1 The Living Wage

About this report

This report is one in a series of six reports based on findings from the CIPD's seventeenth annual *Reward Management* survey. The survey focused on the impact of the COVID-19 pandemic on reward practices in the UK. Each report explores a different aspect of reward management:

- The impact of COVID-19 on finances, pay decisions and forecasts
- Management of base pay, variable rewards and recognition
- Employee financial wellbeing
- Employee benefits
- Reward fairness
- **The Living Wage**

The survey took place in October 2020 and garnered insights from 420 reward professionals spanning the private (67%), public (15%) and voluntary (16%) sectors. Survey responses were complemented by focus group discussions with expert practitioners, to delve into the stories behind the numbers.

The aim of this research is to provide readers with a benchmarking and information resource on current and emerging practice in reward management.

Overview

COVID-19 and the restrictions on business activity have unsurprisingly had a detrimental impact on employee financial wellbeing. In response, we might expect some employers to consider becoming an accredited Living Wage employer, as one way of supporting the workforce and tackling in-work poverty in these difficult times. To become a Living Wage employer, an organisation must pay what the Living Wage Foundation calls the 'Real Living Wage' to all of its workers, including contractors.

Our survey finds that 55% of employers are either already accredited Living Wage employers (18%), are planning or considering accreditation (19%), while as many as 18% already pay the Real Living Wage but don't see the need for accreditation. The remaining 45% have no clear or immediate plans to pay the Real Living Wage.

Respondents cited a number of advantages to becoming an accredited employer, the most common being that it supports the employer brand, the customer brand and employee engagement. However, the most common reasons for not seeking accreditation are that senior management teams don't see the need and that there's a lack of internal pressure to do so.

As awareness of the benefits grows, we'd hope and expect to see more and more employers ensuring that all of their workers earn enough to cover the real cost of living.

The voluntary sector is most likely to be seeking Living Wage accreditation

We asked respondents if, in response to COVID-19 and the economic crisis, their employer had plans to become, or was considering becoming, an accredited Living Wage employer.

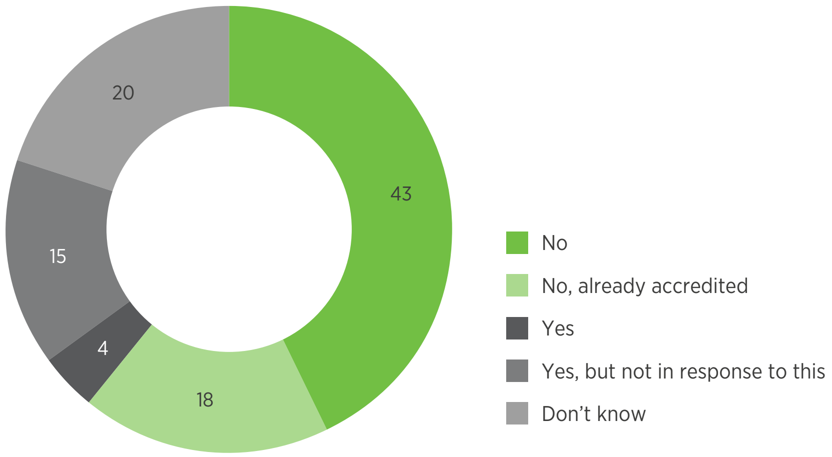
Figure 1 shows that 19% of respondents report that their organisation intends to seek accreditation as a Living Wage employer, although only a fifth of these (4% of the overall sample) say it's in response to the pandemic. Eighteen per cent say they are already accredited but 43% say there are no plans to become accredited,[1] and a further 20% don't

[1] This includes respondents who said they already pay the Real Living Wage, but don't see the need for accreditation.

know about their employer's plans. In other words, nearly two-thirds of the sample have no clear or immediate intention to become accredited.

Table 1 shows the responses by sector and size. It shows that voluntary and public sector employers are most likely to be either accredited Living Wage employers already, or to be planning or considering accreditation. On the other hand, the retail, hospitality, catering, leisure and cleaning sub-sector is the least likely to be accredited already, and one of the least likely to be planning or considering accreditation. Small businesses are far less likely than large ones to be accredited already, but just as likely to be planning or considering accreditation.

Figure 1: What proportion of employers are becoming accredited Living Wage organisations due to COVID-19 and the economic crisis? (%)



Base: n=304

Table 1: What proportion of employers plan to become an accredited Living Wage organisation in response to recent events? (%)

	Already accredited	Yes	Yes, but not in response to this	Total of accredited or accrediting	No	Don't know
All	18	4	15	37	43	20
By sector						
Manufacturing and production	11	4	17	32	51	17
Private sector services, of which:	12	4	13	29	48	23
Retail, hospitality, catering, leisure and cleaning	7	3	14	24	48	28
Legal, financial, technology and other professional services	15	7	15	37	44	18
Other private sector	11	0	9	20	54	26
Public sector	42	4	9	55	20	24
Voluntary, community and not-for-profit	24	2	27	53	35	12
By size						
SME (<250)	11	4	14	29	51	21
Large (250–9,999)	23	4	17	44	38	18
Very large (10,000+)	41	0	14	55	23	23

Base: n=304

Barriers to accreditation vary by sector

The most common reason employers give for not seeking accreditation as a Living Wage employer is that they don't see the need to actually obtain accreditation even though they meet the criteria to become one (43%, rising to 83% in the public sector). If we add this group (as much as 18% of the overall sample) to the percentage of employers that are already accredited (18%), we find that at least a third of our sample are already paying the Real Living Wage, either as accredited or non-accredited employers – potentially more if some of those considering accreditation are already paying this rate.

Table 2 shows that this explanation is the most common in all but two sectors. In the voluntary sector and retail, hospitality, catering, leisure and cleaning sector, the most common reason is that senior management is concerned about cost implications.

Other common barriers to seeking accreditation are:

- 31% say there's no internal pressure (such as from employees or managers) to become accredited.
- 26% think that senior management teams are concerned about cost implications.
- 24% say senior management doesn't see this as a priority at the moment.
- 19% feel that there's no *external* pressure (such as from customers or investors).

Table 2: The most common barriers to becoming an accredited Living Wage employer (% of organisations)

Senior management...	Organisation already meets the criteria but senior management doesn't see the need for accreditation	There is no internal pressure for the employer to think about these issues	...is concerned about cost implications	...don't see this as a priority	No external pressure for senior management to think about these issues	...is sceptical that paying low-waged employees more will improve organisation's performance
All	43	31	26	24	19	8
By sector*						
Manufacturing and production	50	29	21	17	21	4
Private sector services, of which:	43	35	26	26	20	9
Retail, hospitality, catering, leisure and cleaning	21	36	50	21	21	14
Legal, financial, technology and other professional services	63	37	7	26	15	0
Other private sector	36	32	32	29	25	14
Public sector	83	17	17	33	0	0
Voluntary, community and not-for-profit	27	27	33	13	20	7
By size*						
SME (<250)	49	33	14	25	16	7
Large (250–9,999)	32	30	43	23	23	9
Very large (10,000+)	60	20	40	20	20	0

Base: n=120

*Percentage of those not seeking accreditation.

Fewer than one in ten cite that senior management:

- is sceptical that paying low-waged employees more will improve organisation's performance
- isn't convinced that paying low-waged employees more will help employees' engagement
- sees the need; it just doesn't have the time or resources to think about it
- is concerned that some employees may react negatively if the Living Wage reduces pay differentials
- isn't convinced that paying low-waged employees more will help their overall wellbeing, or that these issues are simply too complex for senior management to think about.

Supporting the employer brand is the most commonly cited benefit of accreditation

Employers who are already accredited Living Wage employers, or are planning to sign up soon, cite a number of advantages in doing so:

- 73% believe it supports their employer brand (rising to 83% in the public sector).
- 49% say it enhances employee engagement (rising to 63% in the public sector).
- 48% state it improves their customer brand (rising to 68% in the voluntary sector).
- 33% report it reduces employee turnover (rising to 43% in the retail, hospitality, catering, leisure and cleaning sub-sector).
- 27% say it helps when bidding for work (rising to 41% in the legal, financial, technology and other professional services sub-sector).
- 25% believe it improves pay gaps (rising to 50% in the public sector).
- 25% say it improves employee productivity (rising to 38% in the public sector).
- 24% report it improves union relations (rising to 67% in the public sector).
- 16% state that it helps with investor engagement (rising to 29% in the retail, hospitality, catering, leisure and cleaning sub-sector).
- 16% explain it reduces employee absence (rising to 43% in the retail, hospitality, catering, leisure and cleaning sub-sector).

However, 9% reported that their organisation had identified no benefits with becoming an accredited Living Wage employer.

The public sector is the most likely to believe that accreditation supports their employer brand (83%), followed by manufacturing and production (79%), the voluntary (77%) and private service (61%) sectors.

Conversely, the public sector is least likely to see supporting the **customer brand** as a benefit (21%), perhaps due to the nature of their business. Manufacturing firms are also much less likely to see this as a benefit (36%), while in the voluntary sector well over two-thirds (68%) believe this is important, followed by the legal, financial, technology and other professional services sub-sector (50%).

The public sector is most likely to believe that it improves what's known as employee engagement (63%), while 50% of the voluntary sector agree. The manufacturing and private services sectors are considerably less likely to see this as a benefit (36% and 43% respectively).

Assessing pay and benefits in the supply chain

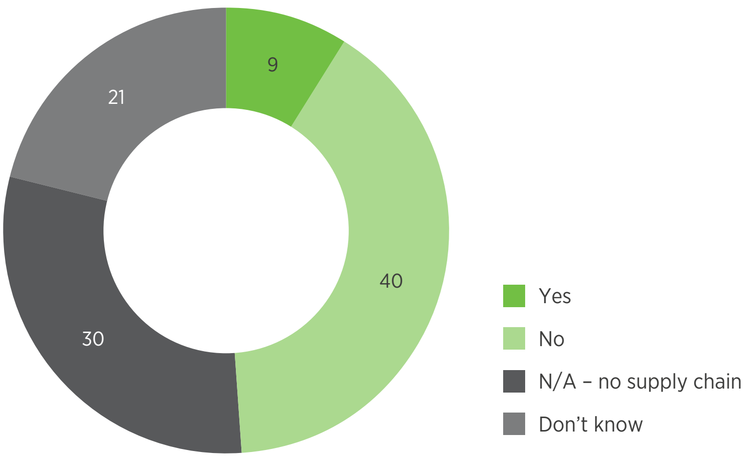
One consequence of COVID-19 and the economic crisis has been the greater media, customer and investor attention given to workers' pay and conditions throughout the entire supply chain. The poor treatment of these workers can cause reputational and financial risks for those at the top of these supply chains.

We therefore asked employers whether, in response to the pandemic and financial crisis, they'd assessed, were assessing, or had plans in place to assess, the adequacy of the pay and benefits on offer to workers in their supply chains. Figure 2 shows that the pandemic and financial emergency has acted as a prompt for 9% of employers, or 13% if we exclude those respondents without a supply chain. The voluntary sector is most likely to have assessed or have plans to assess its supply chain (21%), while the retail, hospitality, catering, leisure and cleaning sub-sector is least likely (5%).

Possible explanations for this low figure are that most employers: have already assessed the adequacy of the reward offering within their supply chain prior to COVID-19; don't see the need to check this; rely on UK laws and enforcement bodies to assess this for them; or they don't know what they need to do and how.

In January this year, Unilever attracted press coverage for announcing it would ensure that people working for the 60,000 firms that make up its supply chain across 190 countries would earn at least a living wage or income by 2030 – joining such companies as Sodexo and Compass Group that have made similar commitments. Given media, customer and investor concerns, we expect that more employers will consider this issue in due course.

Figure 2: Will more employers be checking the rewards on offer in their supply chain? (%)



Base: n=420

Conclusion

The pandemic has focused attention on the financial situation of the most disadvantaged in society. For instance, we have seen numerous campaigns spring up, from those concerning free school meals to economic abuse. In the workplace, investors, customers, politicians, and the media have all shown more interest in how employers are treating their workforce, such as the impact of reward management on employee financial wellbeing.

Despite the current economic uncertainty, it's not surprising to find that around one in twenty in our sample will become accredited Living Wage employers in response to the impact that COVID-19 is having on their workers. Becoming accredited is one way of demonstrating to stakeholders a commitment to tackling in-work poverty and dealing with reputational risk.

However, our survey also finds that there is reputational opportunity in becoming a recognised Living Wage employer, with many reporting positive advantages for their employer, customer and investor brands. Our research also shows a positive impact on employee engagement, turnover and absence.

Given that there are so many factors either pushing or pulling employers towards becoming an accredited employer, why aren't more signed up?

The most common explanation is that, while the employer meets the *criteria*, it doesn't see the *need*. This might be because they are unaware of the positive impact of external recognition. Another raised in our workshop was that some believed that pay should reflect their employer's business strategy, rather than being decided externally.

While cost concerns were an issue among our sample, there were many non-cost barriers cited as well for not becoming an accredited employer, such as a lack of internal or external pressure, or senior management not seeing this as a priority right now.

There is an opportunity for HR to add value by showing senior management how becoming an accredited Living Wage employer can not only enhance corporate reputation, but also deliver business benefits. While some may believe in the ideological purity of not having their pay policies influenced by unelected bodies, it can be argued that, in reality, this already happens. Pay policies evolve in response to a multitude of internal and external pressures, and it is the role of the reward profession to successfully balance these competing demands.

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