

INVESTING IN THE LIVING WAGE

a toolkit for responsible
investors

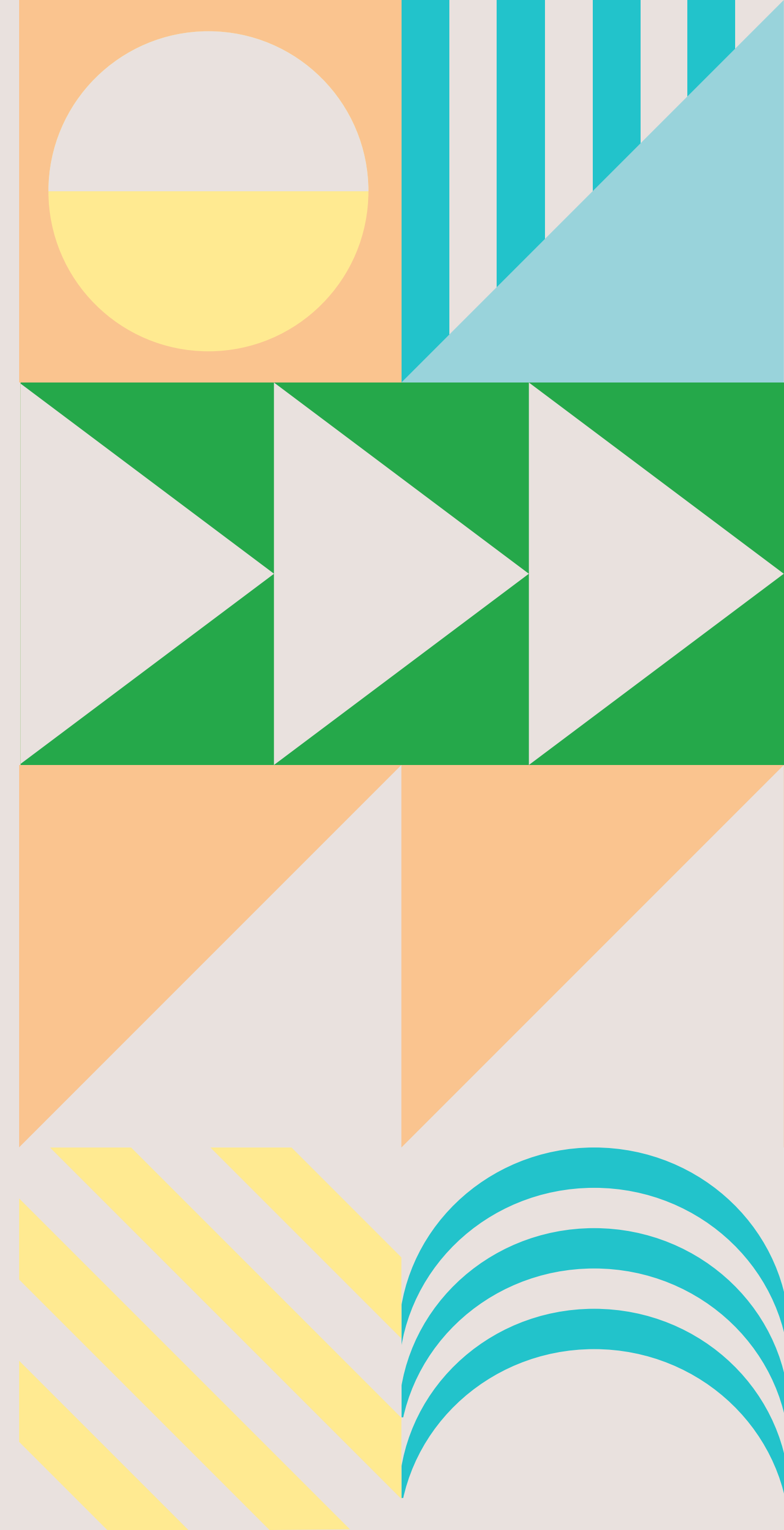
September 2020



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JEREMY LAWSON

**Chief Economist and Head of the Aberdeen Standard Investments Research Institute,
Aberdeen Standard Investments**

High levels of income inequality and in-work poverty are a scourge on our society. Their existence means that access to economic opportunities are unevenly and often unfairly distributed. They lower participation in the political system and broader civil society, weakening the bonds that bind us and our communities together. And there is a growing body of evidence that they act as a brake on aggregate economic growth, thereby weighing on most people's living standards. Quite simply, they are chronic problems that all of us have an interest in confronting.

The underlying causes of inequality and in-work poverty are complex. The nature of technological change, failures in our education and training systems, government policies affecting taxes, transfers and the regulation of labour and product markets all play important parts. It is easy for companies to feel impotent in the face of these realities. Yet by joining the growing ranks of accredited Living Wage Employers, companies can be an active part of the solution, making a genuine difference to the lives of their employees and their families, as well as the communities they represent.

Just as importantly, becoming a Living Wage Employer can be a vital part of the development of stronger and more resilient business models. As such the Living Wage is a rare example of a corporate policy that benefits all stakeholders. Aberdeen Standard Investments is therefore proud to be a Living Wage Employer and to be supporting the Living Wage Foundation to produce this toolkit. We hope it will accelerate the growth of Living Wage accreditation and the number of workers benefiting from its protections.



KATHERINE CHAPMAN

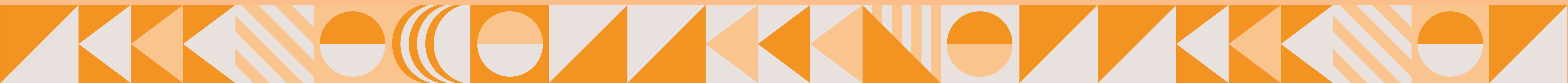
**Director,
Living Wage Foundation**

In 2021, we will be celebrating 10 years of the Living Wage Foundation and 20 years of the Living Wage campaign in the UK. In this time, the simple message at the heart of the movement – that a hard day’s work deserves a fair day’s pay – has resonated with thousands of employers up and down the country. From FTSE 100 companies to micro start-ups, accredited Living Wage Employers have put over £1bn into the pockets of hundreds of thousands of low-paid workers.

But while recent increases to the government’s minimum wage have been a step in the right direction, there are still millions of people

struggling to keep their heads above water. Nearly three quarters of children living in poverty are in working families.¹ The COVID-19 crisis has only made life harder for those on low incomes – most tragically, COVID-19 death rates in the most deprived areas of the UK have been more than double those in the least deprived areas.² The pandemic has exposed the vulnerability but also the value of the UK’s essential workers like cleaners, carers, and shop workers, who are now critical to the reopening of society and the economy. As businesses seek to ‘build back better’, those with a long-term view of success will be thinking about how to put their people first.

That’s why we are now asking the UK’s wide network of responsible investors to redouble their efforts to engage their portfolio companies on fair pay and encourage them to become accredited Living Wage Employers. I hope this toolkit will help to explain why this is not only the right thing to do, but is good for business too.



CATHERINE HOWARTH

Chief Executive,
ShareAction

ShareAction have been mobilising investors to press FTSE 100 companies to accredit as Living Wage Employers since 2013. The voice of investors has driven great progress – 41 FTSE 100 companies are now accredited; up from only two when our work with the investment sector on this topic began.

In 2020, COVID-19 has shone a light on the vulnerability of people with low-paid and insecure work, not least since so much of that work has in fact been critical to managing the crisis. Sectors where low pay is prevalent are amongst those hit hardest by the crisis, including the

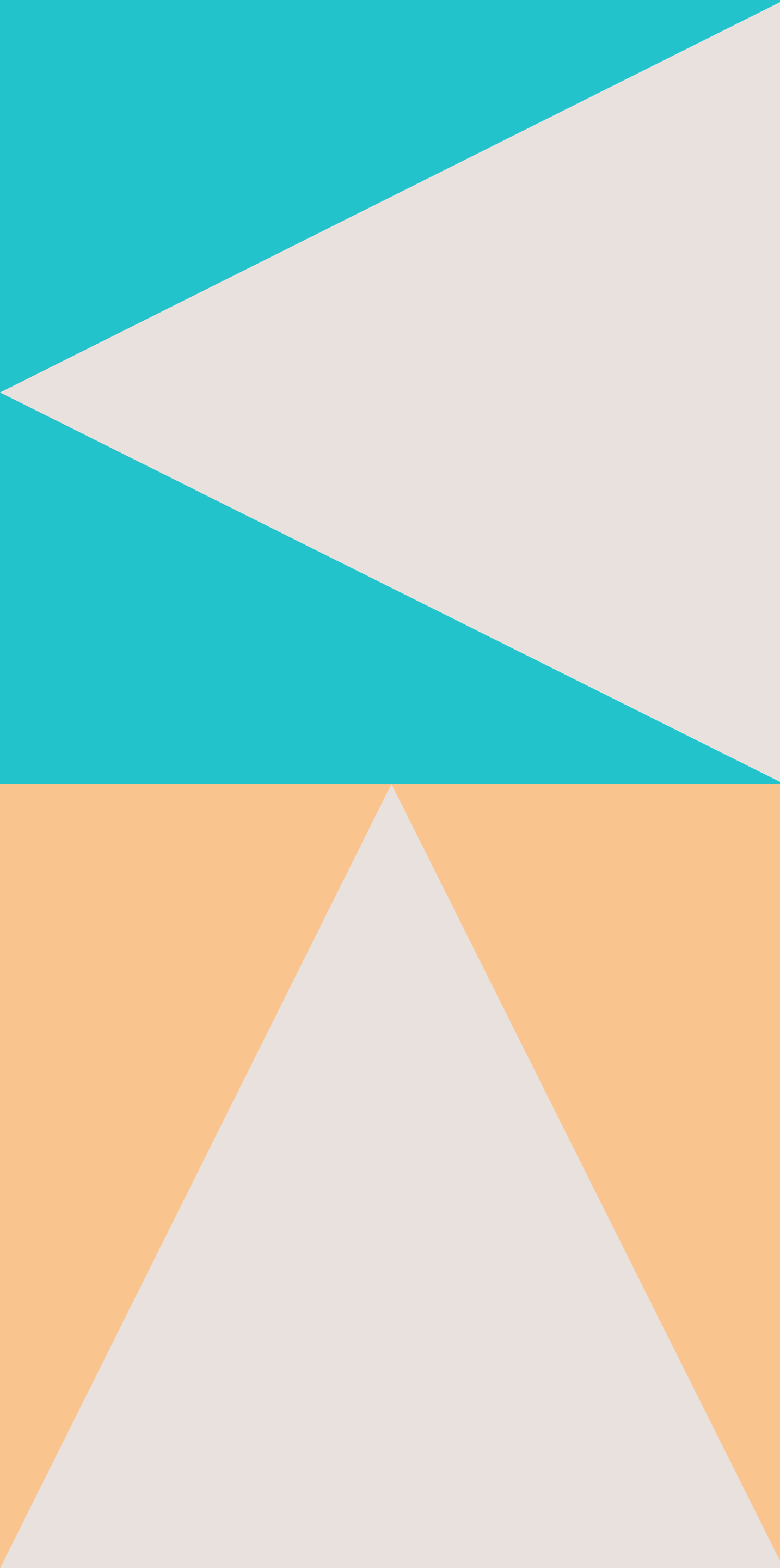
retail and hospitality sectors. As the economy continues to recover, it is more vital than ever that workers earn a wage that meets their cost of living. Not only is it the right thing to do for workers and their families, investing in staff now could help companies ensure resilience to future shocks.

Now is the time for investors to strengthen their focus on low pay and the Living Wage. Over recent years, investors have become critical players in the fight to tackle climate change. Investors need now to give equal emphasis to the Social dimension of ESG, making use of the full range of rights and tactics

available to them.

This timely toolkit explains the specific challenges faced by certain sectors where low pay is prevalent and the range of tools investors can utilise to bolster their positive impact on the Living Wage, driving the progress on this topic that is still badly needed.





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1 INTRODUCTION

PURPOSE AND CONTEXT

This toolkit is primarily designed to help investors in UK markets understand how and why to encourage their portfolio companies to adopt the real Living Wage, as calculated in the UK by the Living Wage Foundation (LWF). As such, there is a UK focus on the case for the Living Wage, the risk to business of low pay, Living Wage Employer accreditation, and sector specific challenges and opportunities.

Given the globalised nature of asset management, however, it is also important to note that the Living Wage is a growing global concept, as fair and growing real wages are crucial to the achievement of many of the UN's 17 Sustainable Development Goals (SDGs).³ The COVID-19 crisis

has created shockwaves felt across complex global supply chains. Since the onset of the pandemic, more than four out of five people in the global labour force of 3.3 billion have been impacted by full or partial workplace closures,⁴ throwing between 20 and 35 million more workers into poverty than pre-COVID estimates calculated.⁵

The LWF is now contributing to the search for practical global solutions to help employers and civil society groups across the world tackle in-work poverty through living wages. Following extensive international multi-stakeholder engagement in 2015, the LWF developed a set of core **Living Wage Principles**⁶ to inform a more unified approach to building a

global Living Wage movement. The LWF is now using these principles to support national multi-stakeholder Living Wage coalitions at various stages of development in several countries, including Canada, Hong Kong, New Zealand, South Africa, and the USA, with the aim of creating a Global Affiliate Network of accreditation bodies similar to the LWF. The **World Benchmarking Alliance**⁷ (of which LWF is a member) is currently developing free, publicly available benchmarks that measure and rank the world's 2000 most influential companies on how they contribute to the SDGs across seven critical systems transformations, including consideration of living wages.

20 - 35 million

workers have fallen into poverty due to COVID-19. The Living Wage Foundation is contributing to the search for practical global solutions

WHAT IS THE REAL LIVING WAGE IN THE UK?

In the UK, the real Living Wage is an hourly rate of pay set independently and updated annually. It is calculated according to an assessment of the basic cost of living, and employers choose to pay it on a voluntary basis.

The **Living Wage rates**⁸ are updated in November each year, during Living Wage Week. The calculation is overseen by the Living Wage Commission, an independent body drawn from leading Living Wage Employers, trade unions, civil society and academia. The **methodology**⁹ is based on the ‘Minimum Income Standard’, determined by what members of the public think is needed for an acceptable standard of living in the UK.

In April 2016, the government introduced a higher minimum wage rate for all staff over 25 years of age, inspired by the Living Wage campaign. Currently set below the real Living Wage, the government’s ‘National Living Wage’ (NLW) is not calculated according to what employees and their families need to live, but rather it is based on a target to reach 66% of median earnings by 2024. In 2020, the NLW was worth over £1,000 less per year for a full-time worker over the age of 25.

For the purpose of clarity, where the phrase “Living Wage” is used in the remainder of this toolkit, it refers to the voluntary real Living Wage in the UK, calculated by the LWF.

Explaining UK Wage Rates

	MINIMUM WAGE	NATIONAL LIVING WAGE	REAL LIVING WAGE
WHAT IS IT?	Government minimum for under 25s	Government minimum for over 25s	The only wage rate based on what people need to live
IS IT THE LAW?	Statutory	Statutory	Voluntary
WHAT AGE GROUP IS COVERED?	21 and older	25 and older	18 and older
HOW IS IT SET?	Negotiated settlement based on recommendations from business and trade unions	A % of medium earnings, it aims to reach 66% of median earnings by 2024	Calculation made according to the cost of living, based of household good and services
IS THERE A LONDON WEIGHTING?	No London Weighting	No London Weighting	Yes - Separate higher rate for London

HISTORY OF THE UK LIVING WAGE CAMPAIGN

The campaign for the Living Wage was launched in 2001¹⁰ by Citizens UK, the home of community organising in the UK, when civil society in East London came together to act against the pervasive issue of low pay. It was clear that the government's minimum wage was simply not enough to make ends meet, leading to a powerful movement of community leaders calling on major employers to pay all staff a wage they could live on.

In 2011, the LWF was established to promote the Living Wage and celebrate employers who pay it by accrediting them with the Living Wage Employer mark, an ethical benchmark for responsible pay.

The campaign now enjoys cross-party political support, with public backing from successive London Mayors, First Ministers, Regional Mayors and parliamentarians across the UK.

As of summer 2020, over 6,500 accredited Living Wage Employers¹¹ have uplifted more than 240,000 people to the Living Wage, and the movement is constantly growing. These employers range from large, well-known organisations such as Google, Liverpool FC and IKEA, to thousands of small-to-medium enterprises. Collectively, they have put more than £1bn of extra earnings into the pockets of low-paid workers.



As of summer 2020:

6,500 Accredited Living Wage Employers

240,000 People uplifted to the Living Wage

LIVING WAGE EMPLOYER ACCREDITATION

Through accreditation, UK employers make a commitment to tackle in-work poverty in their industries and communities. They ensure that all staff are paid at least the Living Wage and that the rates are implemented each year to keep up with the cost of living. Accreditation also means they can use the Living Wage Employer mark to publicly demonstrate this commitment.

These employers sign a licence agreement with the LWF to confirm they pay at least the Living Wage to all directly employed staff for every hour worked. They must also put a plan in place for the phased implementation of the Living Wage for regular third-party contractor staff, usually within three years.

Progress is then reviewed each year at the point of their accreditation anniversary. The commitment applies to all workers over the age of 18, excluding apprentices. For more information on the accreditation criteria, please see these [FAQs](#).¹²



1 Pay the Living Wage to all directly employed staff

2 Have a plan to pay contractors the Living Wage

3 Complete the Living Wage application form [online](#)

2 WHY THE LIVING WAGE MATTERS

SYSTEMIC RISK OF INEQUALITY

Stagnant wage growth and low-pay remain serious issues in the UK economy;¹³ a country which has very high levels of income inequality compared to other developed nations.¹⁴ In the lead up to the COVID-19 crisis, whilst UK employment rates have been high,¹⁵ jobs have often been of poor quality and have no longer offered a route out of poverty for many.¹⁶ Wages have failed to meet the true costs of living and economic imbalances across the country are stark. Eight million people in the UK who are currently in poverty live in a working household.¹⁷ At the same time, FTSE 100 CEO's earn more than 119 times the average worker's salary.¹⁸

There is growing evidence that income inequality, currently rising in the UK,¹⁹ can have a negative impact on medium to long-term economic growth. OECD research found that if inequality increased by 3 Gini points, the average increase recorded over the last 20 years in the OECD, economic growth would decrease by 0.35% per year for 25 years, leading to a cumulative loss in GDP of 8.5%.²⁰ The most significant factor of inequality impacting growth is the gap between lower income households and the rest of the population.

Evidence suggests that increasing wages for the lowest paid could have a positive effect on the local economy as these workers spend a higher

percentage of their wage. For example, a recent study by the Smith Institute suggests that if a quarter of those on low incomes in 10 of the UK's major city regions saw their pay raised to the Living Wage, a subsequent increase in wages, productivity and spending could deliver a £1.1bn economic boost to those areas.²¹

Low pay and income inequality may well increase as a result of the COVID-19 crisis; in the aftermath of the 2008 recession there was a sharp fall in real wages and an increase in part-time or insecure jobs,²² and the pandemic has had severe economic impacts on low-paid industries, such as hospitality.²³

8 million

people in the UK who are currently in poverty live in a working household

119 times

how much more FTSE 100 CEO's earn than the average worker's salary

RISING IN-WORK POVERTY

Overall relative poverty rates in the UK have remained constant since the new millennium, with recent income growth deemed “extremely disappointing” by the Institute for Fiscal Studies in 2020.²⁴ In turn, up to the COVID-19 crisis, in-work relative poverty has increased from 13% to 18% in the last 25 years. A higher level of low-paid work despite increased employment is one key reason for this.²⁵

As such, despite the successes of the Living Wage campaign, nearly a fifth of all jobs still pay less than the Living Wage, with the rate highest in Northern Ireland, the East Midlands, the North East and Yorkshire and the Humber.²⁶ In addition, 24% of working women earn less than the Living Wage, compared to just 15% of men,²⁷ while

Black and minority ethnic workers are also more likely to be in low-paid and insecure work.²⁸ Those aged 22 to 29 and 60 and above (22%) are more likely to earn less than the Living Wage than the national average, while the rate is almost three times higher for 18 to 21-year-olds (64%). As a result, workers continue to struggle to keep their heads above water on wages that don’t meet the basic costs and pressures of everyday life. In fact, 650,000 more workers are now living in in-work poverty than in 2012.

A number of factors have contributed to the high levels of in-work poverty and its increase over the past decade. These include the weakness of the economy, increased housing costs for low income households, the skill-


bias of technological change, uneven access to education and training, and policies that have reduced the generosity of in-work benefits.²⁹ A wider approach that tackles the fundamental drivers of in-work poverty is therefore needed to turn this tide. Nevertheless, payment of the Living Wage is one concrete way that employers can voluntarily ensure fair pay for their lowest paid workers and make their own contribution to lowering in-work poverty.

2. Why the Living Wage matters

13% – 18%

increase of in-work relative poverty in the last 25 years





DIGNITY IN WORK

While not all employers may be able to pay the Living Wage, those who do can help to ensure their employees earn enough to live on. For many, this then enables greater civil, political, economic and social empowerment, while freeing up resources for important family and community activities, as well as vocational training and skills development.

Earning the Living Wage means I'm not so tired, I can give up some extra part time work and there's a little left at the end of the month... It's made me want to stay here; I wouldn't want to go anywhere else

Lynne, Cleaner,
ISS at Aviva

I'm getting paid the real Living Wage, [which means] I can enjoy my life and my free time and do other things apart from work. In other jobs you don't get that opportunity

Olga, Senior Care Worker,
Penrose Care

Being paid the real Living Wage means we can have more of a social life and go out to dinner or buy a treat for our partners instead of worrying about bills

Mel, Cash Operator, Vaultex

3 THE BUSINESS CASE FOR THE LIVING WAGE

3. The business case for the Living Wage

BENEFITTING BUSINESS

Paying the Living Wage isn't just the right thing to do; some studies suggest that it may also lead to business benefits too. For example, in 2017, Cardiff Business School found that 93% of Living Wage Employers reported that they had experienced some form of benefits from accreditation with the Living Wage Foundation.

These were mostly related to reputational effects, though many firms also reported a greater ability to recruit and retain workers, lower absenteeism and higher productivity.³⁰ Similar benefits were found by Middlesex University Business School and University of Liverpool Management School when looking specifically at small and medium sized enterprises (SMEs),³¹ and in large employer case studies conducted by the University of Strathclyde.³²

Additional survey evidence has found that:

- More than 80% of employers believe that the Living Wage has enhanced the quality of the work of their staff³³
- Implementing the Living Wage has resulted in a 25% reduction in staff turnover on average³⁴
- 79% of the British public believe that companies should pay everyone that works for them a decent wage, even if this means higher prices, according to the Edelman Trust Barometer 2020³⁵

93% of Living Wage Employers reported benefits from accreditation

While the significance of the benefits found by these studies does vary from business to business, and the studies are limited in their ability to infer causality, they do suggest a positive experience for the vast majority of Living Wage Employers.

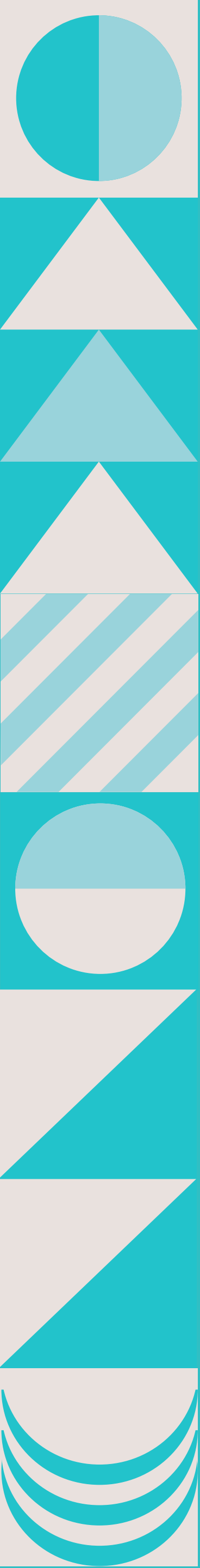
High profile companies also explain how they have benefitted from implementing the Living Wage:

The reputational benefit to the bank has also been a remarkable and sustained by-product that was not anticipated at the outset and is a helpful offset to the additional cost of paying the Living Wage. Being an accredited Living Wage Employer is a practical demonstration of our values in action.

Philippa Birtwell,
Head of Reputation Risk Management,
Barclays plc³⁶

The business argument for going Living Wage is overwhelming... The Living Wage is important to SSE because it is a symbol of what it stands for. But there is room for more development in ensuring SSE is sustainable in the long term. Understanding more clearly the way in which we can develop and enhance our social and environmental impacts is key to our business growth.

Rachel McEwen,
Chief Sustainability Officer,
SSE plc³⁷



BENEFITTING BUSINESS

These findings demonstrate how accredited Living Wage Employers can both cut costs and experience business benefits through fair-minded investment in their workforce. Emerging evidence from research by the University of Southampton Business School also suggests that Living Wage accreditation leads to better financial performance, though again, more work needs to be done to establish causality.³⁹

Initial studies into the business benefits of the Living Wage are clearly encouraging, but there is certainly more research to be done on the long-term micro- and macroeconomic impact of Living Wage adoption. We are working towards conducting further in-depth research in this area and would welcome investor support in commissioning this.

3. The business case for the Living Wage

It's hard to persuade someone that you care about them and their wellbeing and career goals if you're going to pay them the absolute minimum that you legally can. If you make the effort to invest in your team, and show them that you actually care, you'll find they work harder, perform better, and are more invested in their work.

Maria Campbell, former
Head of People,
Monzo Bank Ltd

MITIGATING REPUTATIONAL AND OPERATIONAL RISKS

Businesses built on foundations of low-paid and poor-quality work create a range of reputational and operational risks. These risks have the potential to negatively impact the long-term sustainability of business and investment returns. Poor job design and low wages have been shown to drive several risks linked to absenteeism, high staff turnover, reduced motivation and lower productivity.⁴⁰

In turn, increased turnover leads to higher recruitment and training costs. In 2014, for example, the cost of extra output in certain sectors while a new worker built up to the standards expected of them (“optimal productivity”) cost businesses £25,101 on average per worker.⁴¹ Further financial loss risks being incurred through disruptions caused by industrial action driven by low pay and discontented workers.⁴²

Companies are also increasingly receiving negative press coverage and consumer backlash for treating employees badly or for failing to pay a fair wage, especially those with disproportionately high levels of executive pay.⁴³ For example, Intercontinental Hotel Group (IHG) made the headlines for reneging on its promise to become a Living Wage employer in a bid to win a partnership during the London Olympics. The Mayor of London publicly warned the company that he would not endorse any future partnerships with IHG as a result.⁴⁴

In 2017, a report by MPs compared Sports Directs’ operations to a ‘Victorian warehouse,’ at the same time as the company was chastised for paying staff at its Shirebrook warehouse below the minimum wage. The company also received negative news coverages over working conditions and excessive pay rewards. In 2017 following this, Sports Directs’ underlying pre-tax profit fell by 58.7% to £113.7million.⁴⁵

Meanwhile, during the COVID-19 pandemic, Boohoo was at the forefront of the news after an investigation revealed that workers in their factories in Leicester were being paid as little as £3.50 per hour, considerably less than minimum wage of £8.72 for over workers over the age of 25.⁴⁶ As a result, several brands including ASOS and Next announced they were removing Boohoo lines from their websites,⁴⁷ and some customers vowed that they would stop purchasing clothes from Boohoo’s brands.⁴⁸

This recent practice calls into question the extent to which some businesses are committing to social responsibility through fair employment practices. Not taking these factors appropriately into account can have serious negative repercussions for workers and their families, as well as economic performance.



25,101
per worker

the average business cost of an extra output while a new worker built up to the standards expected of them (“optimal productivity”)

4 INDUSTRY SPECIFIC CHALLENGES AND OPPORTUNITIES

Detailed below are some of the most common challenges, opportunities and benefits of implementing the Living Wage in the key industries of retail, hospitality, construction and the gig economy. Case studies have been used to illustrate some employer's experiences of accrediting as a Living Wage Employer in key industries; whilst some similarities can be expected, each employer will experience their own set of challenges and benefits.

Whilst low pay is more prevalent in these sectors in part because they are considered to have less need for highly skilled workers, these industries are also those most in need of new and innovative approaches to staff retention and investment to ensure a sustainable future, particularly considering the economic impacts of the COVID-19 crisis.

4. Industry specific challenges and opportunities

RETAIL


4. Industry specific challenges and opportunities

Retail is one of the lowest paid industries in the UK, with 58% of sales and retail assistants paid less than the Living Wage.⁴⁹ A report in 2015 commissioned by the Joseph Rowntree Foundation found that low paid workers in the service sectors described their jobs as stressful, unfulfilling and precarious.⁵⁰ Many employers are rightly concerned about the sustainability of this situation, leading as it does to high staff turnover, absenteeism and loss of stock to theft and error.⁵¹

Issues including the use of temporary agency staff, reliance on commission to top-up wages, and franchising of stores are some of the challenges to implementing the Living Wage

in retail. However, many retailers, including IKEA, Burberry and COOK, have done so through accreditation. In addition, the benefits that many accredited retailers have experienced by doing so have been greater compared to other industries.⁵²

- 89% found paying the Living Wage enhanced their reputation
- 70% found it improved relations between staff and managers
- 57% saw increased commitment of Living Wage employees
- 62% saw an improvement in recruitment for jobs at the Living Wage



Highly successful retail chains ... not only invest heavily in store employees but also have the lowest prices in their industries, solid financial performance, and better customer service than their competitors.⁵³

Zeynep Ton,
MIT Sloan School of Management





CASE STUDY: IKEA

4. Industry specific challenges and opportunities

Multinational home goods retailer IKEA became an accredited Living Wage Employer in the UK in April 2016, as part of a long-term business strategy to improve customer service and sales by tackling underemployment and making better use of staff skills.

Their subsequent plan to improve operational flexibility and job security, including through payment of the Living Wage, required a cross-organisational team to ensure a joined-up, strategic approach for all 22 stores and 11,000+ employees. The team created active spaces for staff to talk about their concerns and ideas, as well as consulting with their elected employee forum and recognised trade union.

The commitment has been designed to make the company money, improving employee satisfaction (including a target to save up to £10million by reducing staff turnover to less than 10%), creating more helpful, knowledgeable staff, and ultimately improving customer satisfaction and business turnover.⁵⁴

The information above is taken from a 2016 case study of IKEA found in the LWF's ['Good Jobs in Retail: A Toolkit'](#).⁵⁵

- IKEA became an accredited Living Wage Employer in the UK in April 2016
- The Living Wage was applied to all 22 stores and 11,000+ employees
- Staff benefit from active spaces to talk about their concerns and ideas, as well as consulting with their elected employee forum and recognised trade union
- £10 million saving target to be reached by reducing staff turnover to less than 10%

HOSPITALITY

4. Industry specific challenges and opportunities

The hospitality industry is the third largest employer in the UK's private sector, representing 10% of all employment,⁵⁶ but wage rates remain chronically low. The long-term economic impact of COVID-19 on hospitality, which included a 21.3% drop in sales in Q1 of 2020,⁵⁷ is likely to have a further downward pressure on wages. The top three employee types most likely to be paid less than the Living Wage are bar staff (80%), waiting staff (77%), and kitchen and catering assistants (70%).⁵⁸ Surveys have also shown that a third of front of house staff and nearly half of chefs regularly work over their contracted hours for no additional pay. This situation is also common among hotel cleaners.⁵⁹

The employee turnover rate in

hospitality is double that of the national average, at 30%. Staff cite unsociable working hours (69%) and low pay and benefits (35%) as the main reasons they leave the industry. Combined with the predicted loss of workers due to Brexit, this is likely to lead to a significant shortfall of skilled staff in hospitality.⁶⁰ This is also likely to increase recruitment and training costs for employers.

While business models including tipping and self-employed delivery drivers can provide initial challenges to the implementation of the Living Wage, we also know that better pay and benefits is the main reason that workers would remain in the industry.⁶¹

This is supported by the Cardiff Business

School study, which found that the HR benefits of being an accredited Living Wage Employer (including improved recruitment, retention, motivation and performance) are more likely to be reported in low-wage industries such as hospitality. Accredited employers in hospitality include Brewdog, the London Stadium, and Curzon cinemas.



“Hospitality is an industry that has seen only a limited adoption of the Living Wage and the findings suggest that the Living Wage could offer real benefits for businesses in this sector”

Cardiff Business School

CASE STUDY: BREWDOG

Multinational brewery and pub chain Brewdog became an accredited Living Wage Employer in the UK in February 2015. The issue of low pay had been repeatedly flagged in staff surveys, threatening the business's focus on providing exceptional customer service.

The company decided to simplify its previously complex and opaque salary structure, making it more transparent while uplifting those in managerial positions to maintain fair pay differentials. To improve conditions for staff further, Brewdog introduced a new system of guaranteed hours for all employees (most commonly, 32 per week) and introduced a new management development programme for its retail team. As a result:

- There was a 50% increase in staff satisfaction with pay
- Staff turnover in retail sites fell by 40%
- Recruitment costs fell significantly

4. Industry specific challenges and opportunities

Investing in its staff in this way has helped Brewdog become the UK's fastest growing brand in 2019.⁶³ With revenues increasing by 42% in 2019 from \$211m to \$300m, the company was valued at \$2bn ahead of the COVID-19 crisis.⁶⁴

The information above is taken from a 2016 [case study](#) of Brewdog by the LWF.⁶²

CONSTRUCTION

4. Industry specific challenges and opportunities

While the loss of European workers due to Brexit caused the average salary in construction to increase by 8.5% in 2019,⁶⁵ the subsequent shortfall in skilled workers should provide further retention concerns for an industry in which 29% of elementary occupations are still paid below the Living Wage.⁶⁶

Coupled with the ageing workforce and difficulties attracting young people,⁶⁷ investment in low-paid roles will be an important factor in ensuring that the industry survives this unprecedented period of transition.

There are some key challenges to overcome for any construction firm wishing to implement the Living Wage, including the complexity of

multi-tier subcontracts and use of low-paid traineeships. However, research has shown that the extent of associated changes required to become an accredited Living Wage Employer is relatively low compared to other industries.⁶⁸

Much like in retail and hospitality, implementation of the Living Wage is also more likely to lead to increased HR benefits in construction, including a majority of firms reporting; an improvement in relations between staff and managers (63%); an increase in commitment from Living Wage employees (68%), and; an improvement of recruitment into jobs covered by the Living Wage (57%).⁶⁹

In addition, accredited construction firms, which include Lendlease Europe Ltd, Barratt Developments PLC, and Bell Group UK Ltd, are more likely to experience commercial benefits as a result of their commitment to the Living Wage, such as winning contracts,⁷⁰ where this is either required or scored highly by the client during the tendering process.

Accredited construction firms are more likely to experience commercial benefits as a result of their commitment to the Living Wage

Cardiff Business School

CASE STUDY: LENDLEASE EUROPE LTD

Lendlease Europe is part of a leading international property and infrastructure group. Aware of the persistent and increasing challenge of low pay for some workers in the construction industry, Lendlease was keen to ensure it provided fairly paid employment for everyone.

The team there were well aware that its people and partners were the greatest contributors to its success, and that they underpinned Lendlease's ability to deliver its vision of creating the best places.

Seizing the opportunity to demonstrate leadership, Lendlease's Sustainability and People & Culture teams worked together to implement a new Living Wage policy and achieved Living Wage Employer accreditation in January 2020.

With business units covering development, construction and investment management - Lendlease's direct employment and supply chain relationships are often complex. And meeting the requirements for accreditation required several measures, including:

- Engaging all aspects of the business on development of the new Living Wage policy and mapping a path to accreditation.
- Identifying elements of the supply chain that would be directly impacted and the process through which they would migrate to paying the Living Wage, either voluntarily upon implementation of the policy, within an agreed timescale, or through re-procuring the contract.
- Integrating Living Wage compliance into existing quality and assurance systems, processes and procedures.

Lendlease Europe hopes its new Living Wage policy will help demonstrate its unwavering commitment to its people and the communities they work within.

“Our accreditation enhances our reputation as a socially responsible employer. This will help us recruit and retain the best people, and differentiate Lendlease from its peers with current and potential clients in both the public and private sector.” – Scott-James Eley, Head of Learning, Skilling and Employment, Lendlease Europe.

4. Industry specific challenges and opportunities



- **Engaged all aspects of the business on development of the new Living Wage policy**
- **Identified elements of the supply chain that would be directly impacted**
- **Integrated Living Wage compliance into existing quality and assurance systems, processes and procedures**

GIG ECONOMY

The gig economy, representing short-term contracts or freelance work rather than full-time permanent jobs, now employs as many as 4.7 million people in the UK (17.7% of the workforce).⁷¹ Designed to provide flexibility and convenience for workers and businesses, this new world of work has also presented serious issues with employment rights and pay.

Government research in 2018 found that at least 41% of gig economy workers earned less than the Living Wage, with an even more alarming 25% earning less than the National Minimum Wage.⁷² A number of the lowest paid jobs in the UK today are often filled by those working in the gig economy, e.g. care workers

(39% of whom earned less than the Living Wage), van drivers (36%), and housekeepers (49%).⁷³

Contrary to the ideals of the gig economy, research has shown that inflexible and long work hours and earnings too low to save are the greatest causes of stress for these workers. In fact, those in the gig economy are 8% more likely to suffer from inflexible work than those with permanent, fixed-hour jobs.⁷⁴ As highlighted in Doteveryone's report, 'Better Work in the Gig Economy', "work that is supposed to be flexible becomes never ending".⁷⁵

A lot of the challenges faced by gig economy firms wishing to become accredited Living Wage Employers

stem from how wages are determined within many gig economy company business models. For example, many companies operating in the gig economy use self-employed workers, use a piece rate rather than an hourly rate to determine pay, and charge workers extra costs for equipment (e.g. vehicles, uniforms). However, successful companies have overcome these obstacles in order to achieve strong growth through investment in their staff.

For more information on combatting insecure work, please see [section 6: What to do now](#).

4. Industry specific challenges and opportunities

"I thought it was going to be easier and give me the flexibility to organise and be more financially independent... actually the biggest problem is pay. [There's] not enough to pay bills."

Delivery rider, London⁷⁶

CASE STUDY: GOPHR

Gophr became the UK's first accredited Living Wage delivery company in September 2015. From inception, Gophr's goal has been to reduce the costs associated with running a courier company through tech automation, using part of those savings to pay couriers around 20-30% more on average than its competition. The platform also provides benefits cover as standard which include income protection, healthcare, accident, legal and other additional perks to couriers working regularly on the platform.

Gophr is now the leading same-day courier marketplace in the UK, with clients like HelloFresh, Boots, Co-Op, Deliveroo, Uber and Net-A-Porter to name a few. More clients of all shapes and sizes are coming on board all the time as Gophr continues to expand throughout the UK. The business is profitable and achieved nearly the same amount of sales in the first half of 2020 as it did in the whole of 2019.

Gophr hopes to further evolve its technology to empower independent couriers across the UK to become the largest, most advanced and efficient same-day delivery network in the country.



4. Industry specific challenges and opportunities

- Gophr became the UK's first accredited Living Wage delivery company in September 2015
- Reducing costs through tech automation, Gophr pays couriers 20-30% more on average than its competition
- The platform also provides benefits cover as standard which include income protection, healthcare, accident and legal
- Gophr is now the leading same-day courier marketplace in the UK and continues to expand

5 ACTIONS FOR INVESTORS

THE POWER OF INVESTOR ENGAGEMENT

In recent years, there has been a clear cultural shift within the global investment community towards environmental, social and governance (ESG) considerations as essential elements of sustainable long-term growth, and as a specific response to a rapidly changing risk environment. Since the 2006 launch of the UN Principles for Responsible Investing (UN PRI), over 3000 investment companies with combined assets of US\$103.4 trillion have signed their commitment to incorporate ESG factors into their investment criteria.

As the investment community gets to grips with its new priorities in a post-COVID-19 world, living wages should form part of the criteria used to evaluate, fair, responsible and sustainable employment practices.

Investor interest and engagement on the Living Wage has been growing over recent years and many are now actively incorporating Living Wage payment into their ESG agendas. In the 2019 study, 'The Living Wage: Sustainable Investment' – a joint initiative with Aviva Investors and the LWF – the University of Southampton Business School found that 85% of investors state that investment in employees is an important factor in their decision-making, while 62% say this is specifically the case for Living Wage Employer accreditation.⁷⁷

The study also suggests that one reason for this is that investors are recognising how the Living Wage can lead to improved business performance.

85%

of investors state that investment in employees is an important factor in their decision-making

62%

of investors say this is specifically the case for Living Wage Employer accreditation

Overall, the study makes broad recommendations for the investment community to better value the Living Wage, including:⁷⁸

- i. Bringing Living Wage accreditation and human capital investment to the mainstream ESG agenda
- ii. Recognising Living Wage accreditation as an important way to help address current social - and human capital-related issues, including through: diversified benefits of Living Wage accreditation and commitment; the alignment of human capital management and Living Wage with the UN SDGs, and; positioning Living Wage accreditation under the ‘social’ component of the ESG agenda
- iii. Promoting investment integration by incorporating the ESG agenda into voting policies and investment guidelines, and encouraging businesses to align executive compensation and performance incentive schemes with ESG performance and sustainability, including the Living Wage

Failing to provide a decent living wage and safe working conditions is unacceptable for any company in any sector. Consumers understand this. There exists a clear financial opportunity for companies that take a lead, and considerable risks for those who do not.

SRI Fund Manager⁷⁹

HOW TO ENGAGE COMPANIES ON THE LIVING WAGE

5. Actions for investors

Following on from the recommendations above, there are several simple and effective ways to engage companies on their commitment to the Living Wage and wider fair employment practices.

i. ENGAGEMENT STRATEGIES

For the Living Wage to really gain traction, workforce advocates from within companies anecdotally report that they need senior leadership to be hearing it throughout the year from a range of respected stakeholders. Ultimately, workforce issues need to be raised to senior company executives from their peers in the investment community and as an integrated part of discussions on business strategy. Investors who wish to engage with companies on ESG issues should create internal

resource to engage directly with the company. Raising progress towards Living Wage compliance, in regular private meetings with senior company executives, is a clear way to demonstrate consistent and co-ordinated interest from investors on a company's remuneration policies. This should be done in addition to raising questions at annual general meetings, and as an integrated part of discussion on business strategy.

The following is a non-exhaustive list of suggested points to raise during engagements with investee companies:

- Ask investee companies to improve disclosure and transparency of workforce data and practices, in particular data regarding pay practices. This

could include encouraging their participation in the Workforce Disclosure Initiative ('WDI').⁸⁰ One challenge to investor engagement on the Living Wage has centred around the lack of comparable data. The WDI seeks to address this by working to improve data from listed companies on how they manage their direct operations and supply chain. The WDI asks companies to disclose information on Living Wages, including in which countries they pay a living wage and the methodology used to calculate this

- Encourage companies to conduct cost-benefit analysis of becoming an accredited Living Wage employer to better understand the financial implications of the

Living Wage at the company level. Share with the company examples of other employer's positive experience of becoming a Living Wage Employer

- Ask whether the company has made a commitment to accredit as a Living Wage Employer and who within the company is accountable for progress being made
- Ask for details on the number of staff who are paid below the Living Wage and for details including roles, locations and whether the staff are directly employed or third-party contracted staff
- Ask the company about any challenges they face in becoming an accredited Living Wage Employer

ii. COLLABORATIVE ENGAGEMENT

Experience has shown that investors have often been able to gain a more effective response from investee companies when engaging as part of a collaborative initiative rather than, or in addition to, individual engagement. The Good Work Investor Coalition is a group of institutional investors who encourage UK-listed companies to adopt the Living Wage standard across their UK operations.⁸¹

Since the launch of this ShareAction-led initiative in 2013, significant progress has been made. As of August 2020, 41 FTSE 100 companies are accredited Living Wage Employers and many more leading businesses are moving towards paying the Living Wage rates. Only two FTSE 100 companies were accredited when the initiative began. As a result of FTSE 100 accreditations, over 21,000

people have received a pay rise to the Living Wage, putting £37m back into the pockets of low paid workers. This demonstrates the impact collaborative engagement can have in driving tangible progress with business.

Investors in the coalition receive regular updates on:

- Engagements taking place with FTSE 350 companies on the Living Wage;
- Opportunities to participate in engagement through co-signing company letters or attending in-person meetings with companies;
- New research and reports relevant to the impact of remuneration practices on business.

iii. ACTIVE OWNERSHIP, VOTING POLICIES AND SHAREHOLDER RESOLUTIONS

Integration of the Living Wage as part of ESG considerations into investment decisions is another way to signal support for fair wages and improved working practices by investee companies. Consider integration of Living Wage company targets into monitoring subsets for management voting and, where possible, integrate the Living Wage into voting policies. Publish rationales for voting decisions on all controversial votes on executive remuneration, as well as for all abstentions and special exemptions.⁸²

For example, EdenTree Investment Management has taken a robust approach to voting on executive pay; annual and long-term awards that in aggregate exceed 300% of salary per year will trigger an additional 'excess assessment'.⁸³ The Church Investors

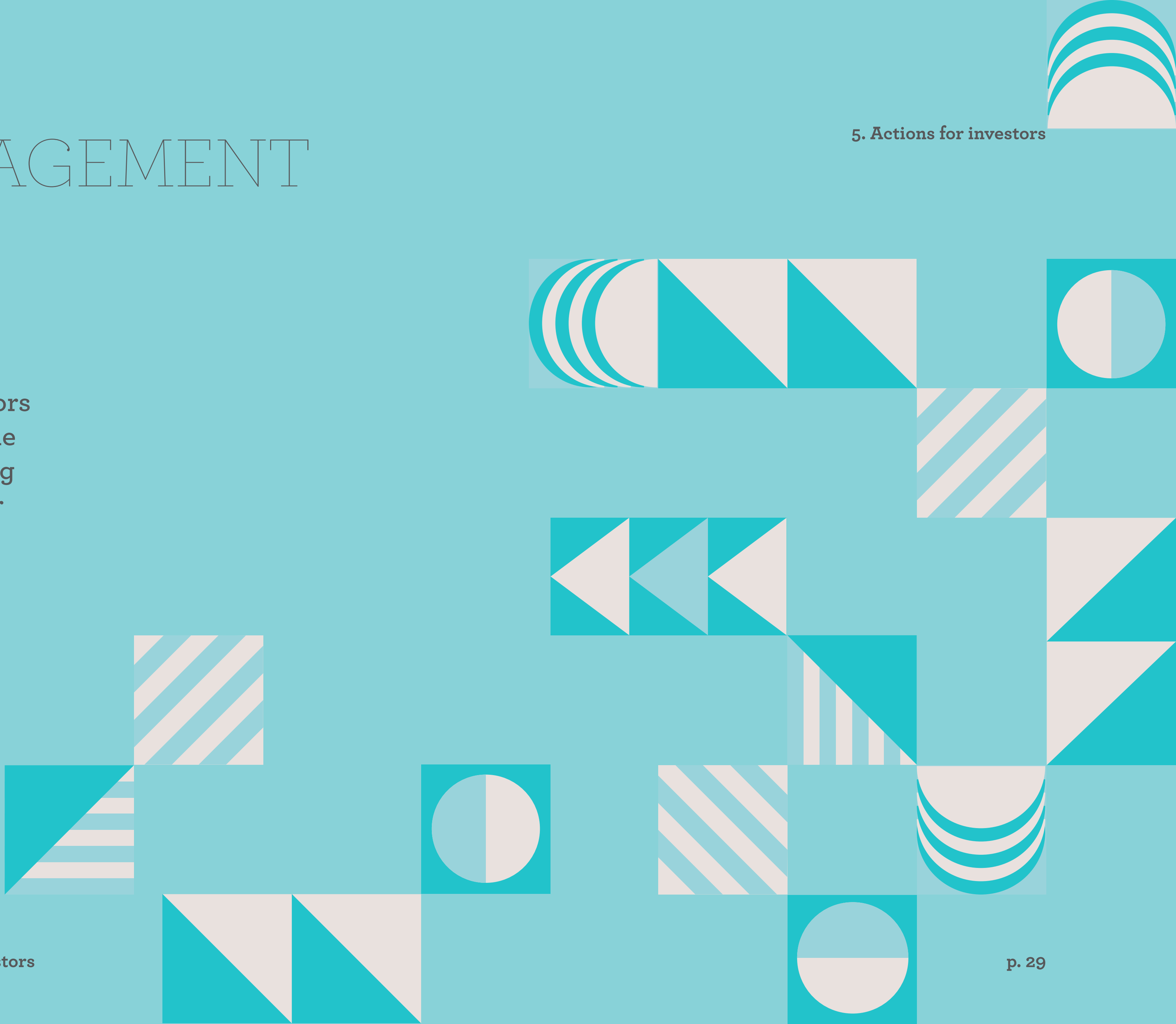
Group will not support remuneration reports of FTSE 100 companies in the telecommunications, financial and pharmaceutical sectors if they are not Living Wage accredited.⁸⁴ Red Line Voting have developed 'red lines' which encourage investors to vote against Board remuneration proposals if any members of staff, including subcontracted staff if employed in the UK, are paid below the Living Wage or where the company has no plans in place to address this.⁸⁵

If company action on wages and workforce practices remains consistently poor, consider filing or co-filing a shareholder resolution, under the Companies Act 2006, in order to raise the profile of the Living Wage amongst other investors and to prompt company action.⁸⁶



INVESTOR ENGAGEMENT CASE STUDIES

The following are examples of how investors have engaged large companies on the issue of fair pay, both in the context of the Living Wage in the UK and more broadly in other markets.



CASE STUDY: CCLA AND GSK

CCLA is one of the UK's largest charity fund managers. Owned by its clients and with over £11bn of funds under management, the firm manages investments solely for charities, religious organisations and the public sector. As such, it is in a unique position to align its focus on strong investee performance with the need to generate returns for its clients in a way that complements the sustainable advancement of their charitable aims.

ShareAction previously wrote to many investors, encouraging them to ask their fund managers to consider investing in Living Wage employers. As a result, CCLA were contacted by a large, influential church client on the matter. This led to the development of an engagement programme on behalf of CCLA's ethical fund clients, who wished to help create the momentum to encourage more FTSE 100 companies to become accredited Living Wage Employers. After initial successes in financial services, CCLA turned to pharmaceuticals; an industry which similarly benefited from high levels of revenue and pay and was therefore unlikely to be materially affected financially by adoption of the Living Wage.

Backed by the wider Church Investors Group (CIG), representing institutional investors from many mainstream church denominations and church-related charities, CCLA focussed on British pharmaceutical giant GSK. CIG wrote to GSK, like a number of other concerned stakeholders at the time, explaining their worry at the growing trend of in-work poverty in the UK, and belief in the Living Wage as a necessary remedy.

In an initial meeting, the GSK team expressed support for the Living Wage, but had concerns about implementing it given the requirement to extend to the considerable number of third-party service providers based on GSK's UK sites. GSK employees were all paid at or above Living Wage rates already.

5. Actions for investors

Following this, CCLA contacted GSK's then-CEO, Andrew Witty, to express their disappointment with the outcome of the meeting. Witty confirmed that GSK was committed to the creation of good, fairly paid jobs and requested a month or so to look into the Living Wage. CCLA put him directly in touch with the LWF, who worked closely with GSK to help the business work through how to implement the Living Wage, focusing on the procurement support necessary to amend contracts with third-party service providers. Soon after, GSK became not only an accredited Living Wage Employer, but also a Principal Partner of the LWF, uplifting over 500 third-party roles to the Living Wage in the process.

CCLA noted several key factors in their success with GSK:

- **Being part of wider pressure from many investors and activists on the Living Wage at the time helped ensure concerns were listened to, and contributed to a wider eco-system to affect change**
- **As a smaller investment firm, the backing of CIG gave CCLA more clout in engaging GSK than it would have otherwise had**
- **A direct channel of communication with the CEO enabled a broader discussion about how the company could benefit that might otherwise be outside of the scope of one particular team**

CASE STUDY: FIRST STATE SUPER AND DOMINO'S PIZZA ENTERPRISES LTD (AUSTRALIA)

5. Actions for investors

First State Super (FSS) is one of Australia's largest pension funds, managing more than AU\$100bn on behalf of 800,000 members and clients. As a primarily public sector fund, FSS believes in responsible ownership for the benefit of its members, their communities and broader society. This means considering the impact of its investments, the ESG risks and maximising opportunities to advocate for change.

FSS have owned stakes in ASX 100 company Domino's Pizza Enterprises Ltd (DMP) since August 2011, at times owning over 5% of the stock through its external fund managers. DMP is the largest pizza chain in Australia, and the largest Domino's Pizza brand franchisee in the world outside the US. The fund conducted its own ESG assessment for DMP to identify risks and areas for engagement, with the company returning one of the lowest social and governance scores.

One of the most concerning issues affecting DMP, along with safety and visa fraud, was the underpayment of staff wages below minimum legal requirements.⁸⁷ The related media exposure, investigation by the company and the Australian Fair Work Ombudsman, as well as the subsequent court proceedings and Australian Parliamentary enquiry into franchising, saw DMP's share price fall by over 30% between February 2017 and June 2019.

After initially raising ESG concerns with fund managers in 2016, FSS began engaging with the DMP management and board directly in 2018. It also worked with the Australian Council of Superannuation Investors (ACSI) to convene a group meeting with other large institutional investors to express these concerns to the Chairman and non-executive director. This was followed up with examples of 'good' disclosure for DMP to adhere to. DMP agreed to implement a range of recommendations of an independent assessment by Deloitte to help improve their behaviour and rectify underpayment of wages. FSS continues to engage with DMP directly to track the improvement in their ESG scoring.

6 WHAT TO DO NOW

6. What to do now

GETTING INVOLVED

We hope this toolkit has proved useful in helping you to understand how and why to encourage the companies you invest in to become accredited Living Wage Employers.

The commitment to ensure that all staff receive fairly paid work not only contributes to their wellbeing and peace of mind, but there is also growing evidence of business benefits, as demonstrated in the research and case studies included in this toolkit. Consequently, such companies can present attractive investment opportunities, contributing towards any responsible investor's focus on the 'social' element of ESG, with the potential to also generate healthy and sustainable returns for clients.

We encourage all investors reading this toolkit to get in touch with both ShareAction and the LWF to understand how they can best contribute to this movement. This may be through, for example, joining the Good Work Investor Coalition, supporting further research into the business benefits of the Living Wage, or themselves becoming accredited Living Wage Employers, ready to lead the way in fair, socially-minded investment.

GOING FURTHER: LIVING HOURS

While the focus of this toolkit is on the Living Wage, it is worth noting the next step currently being developed by the LWF to tackle in-work poverty: Living Hours.

In-work poverty is affected not only by wages but also by the number and security of hours that people work. Whilst many people choose to work part time and flexibly in order to balance work with caring responsibilities, these jobs are more likely to be low-paid and involve casualised working arrangements. Zero-hours contracts, short-hours contracts, temporary work and self-employment, all rose in the decade after the 2008 financial crisis, with one-in-six UK workers now in low-paid, insecure jobs. That is 5.1 million people. Two million of these workers are parents and 1.3 million were designated as 'key workers' in the COVID-19 crisis.

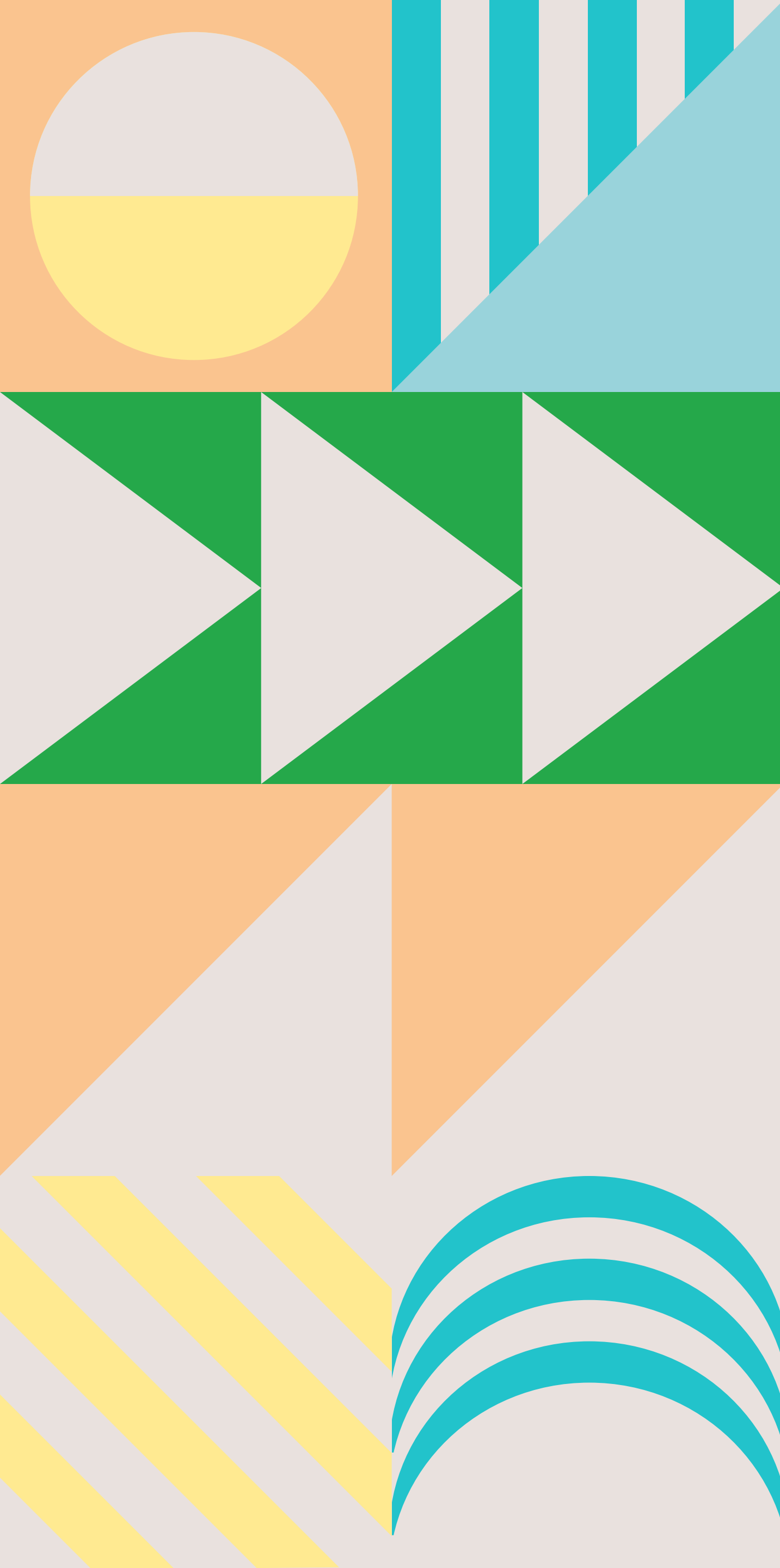


That's why the LWF has developed a new 'Living Hours' standard alongside a coalition of Living Wage Employers, civil society leaders, workers, experts, and trade unions.

Living Hours offers a practical set of measures that employers can adopt to help provide the security and stability that low paid workers need to make ends meet. These are:

- A contract with Living Hours: the right to a contract that reflects actual hours worked, and a guaranteed minimum of 16 hours a week (unless the worker requests otherwise).
- Decent notice for shifts: at least 4 weeks' notice, with guaranteed payment if shifts are cancelled within this period.

You can find out more about the Living Hours scheme on the [LWF website](#).⁸⁸



GET IN TOUCH

6. What to do now

LIVING WAGE FOUNDATION

www.livingwage.org.uk/contact-us

SHAREACTION

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ACKNOWLEDGEMENTS

This toolkit is a joint publication of the Living Wage Foundation and ShareAction, led by Sam Hepher, Rachel Hargreaves, Mara Lilley and Martin Buttle. The Living Wage Foundation is grateful to Aberdeen Standard Investments, from whom it received funding to support its work on this toolkit.

We would like to thank the following individuals for their invaluable help in creating this toolkit: Claire Gavini (Hermes Investment Management), Daniel Howard (Living Wage Foundation), Graham Griffiths (Living Wage Foundation), James Corah (CCLA), Jeremy Lawson (Aberdeen Standard Investments), Kai Johns (Rathbones), Kate Elliot (Rathbones), Dr Krishanthi Vithana (University of Southampton), Marte Borhaug (Aviva Investors), Nabylah Abo Dehman (PRI), Sandy Macdonald (Standard Life Aberdeen), Shaheen Hashmat (Living Wage Foundation), Stanley Kwong (Aviva Investors), Ziggy You (Aberdeen Standard Investments).

All information included in this document was correct at the time of writing.

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