Influencing employers so more people break free from poverty through work

by Patricia Findlay, Colin Lindsay, Amy Watson and Doug Young

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INSPIRING SOCIAL CHANGE

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We all want to live in a society where work provides a reliable route out of poverty, but currently one in eight UK workers are trapped in poverty: that's just over 4 million people being held back. Employers have a role to play in solving in-work poverty, as a vital part of other systemic changes. This research from Strathclyde Business School explores the responses of employers to in-work poverty, and recommends ways that businesses might – and might be influenced to – make work a better route out of poverty.

What you need to know

- Influencing employers to take action on low pay represents an important part of any strategy to solve in-work poverty.
- There is a need to build on existing resources and tools that can help employers gain a better understanding of employees' financial wellbeing and/or experiences of in-work poverty.
- Paying wages above the real Living Wage rate and providing security in working hours are among the most important contributions employers can make. Some employers pointed to training and in-work progression strategies as a means of providing a route to better jobs for employees.
- Business support services and other influencers need to help employers weigh the costs and benefits of taking action on low pay, and especially help business leaders to 'design in' decent pay and fair work at the early stages of their business's development.
- There is a strong business case for individual employers to act on low pay and in-work poverty, including improved recruitment and retention, increased employee performance and reputational gains with customers.

We can solve UK poverty

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *Influencing employers so more people break free from poverty through work* shows that employers have a crucial role to play in addressing in-work poverty – a key focus of our [strategy to solve UK poverty.]

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Introduction

In-work poverty describes the experiences of households where at least one person is in work and the household's income after housing costs is below 60% of the median household income. Housing and other costs, the income provided by the in-work benefits system, as well as low pay, can contribute to in-work poverty. Given the important contribution that low pay makes to in-work poverty, how employers arrive at decisions on pay and their understanding of in-work poverty are important areas of study.

The research reported here included interviews with key stakeholders and employers. It focused on understanding employers' approaches, perceptions and experiences in relation to in-work poverty, and looking at the key drivers for employer change, particularly in low-paid sectors, to understand how businesses might – and might be influenced to – make work a better route out of poverty.

Key findings

- There was limited awareness among employers of in-work poverty. Perceived barriers to further employer engagement on the issue included employees' unwillingness to raise the issue and employers' reluctance to discuss financial issues seen as personal.
- Many employers took few or no explicit actions to address in-work poverty. However, the research identified a range of practices that could make a difference, including ensuring that pay rates are set at the so-called 'real' Living Wage or above (in 2018–19, calculated at £10.55 per hour in London and £9 per hour across the rest of the UK), and that employees have access to consistent and sufficient hours of work.
- Employers offered a variety of other forms of support and/or fringe benefits, including discount schemes, rental deposit loan schemes, emergency financial advances and signposting to credit unions or other financial wellbeing services.
- Some employers pointed to training and in-work progression strategies as a means of providing a route to better jobs for employees.

Headline messages

- While a combination of complex factors explains the continuing problem of in-work poverty in the UK labour market, employers' decisions and practices around pay play a central role. Influencing employers to take action on low pay therefore represents an important part of any strategy to solve in-work poverty.
- Employers often have limited knowledge about their employees' financial wellbeing and/or experiences of in-work poverty. There is a need to build on existing resources and tools that can help employers gain a better understanding of these issues.
- Employers can adopt a range of practices to support financial wellbeing among their employees. Paying wages above the real Living Wage rate and providing security in working hours are among the most important contributions they can make.
- There are substantial challenges limiting progress on low pay and in-work poverty. Business support services and other influencers need to help employers weigh the costs and benefits of taking action on low pay, and especially help business leaders to 'design in' decent pay and fair work at the early stages of their business's development.

- There is a strong business case for individual employers to act on low pay and in-work poverty, including improved recruitment and retention, increased employee performance and reputational gains with customers.

Employers are not the only actors with a role in addressing in-work poverty, and some interventions are more appropriately delivered by government. Yet employers can – voluntarily and proactively, or in response to softer influence by government, policy-makers, consumers and citizens – play a distinctive and influential role in tackling in-work poverty.

In this report we set out a 'Framework for Employer Action on In-Work Poverty', which summarises insights from our research on in-work poverty; how employers might be incentivised, influenced and supported to take action; and the stakeholders who need to be involved.

1 Introduction and research aims and objectives

What is in-work poverty?

'In-work poverty' is a relatively new term for a long-established problem. Put simply, in-work poverty describes the experiences of households where at least one person is in work and the household's income after housing costs is below 60% of the median household income. Housing and other costs, the income provided by the in-work benefits system, as well as low pay, can contribute to in-work poverty.

For much of the 20th century, poverty was primarily associated with a lack of employment. Historically and in contemporary political discourse, paid employment has been held up as a key route out of poverty. While the risk of poverty is significantly greater among adults in workless households than among those in working households, 'work is by no means a guaranteed route out of poverty' (Newman, 2011, p. 95). Despite the centrality of work to debates on poverty, over the past 15 years the number of people in poverty in a household where someone works has been rising – there are now 6.8 million people in poverty in a 'working family', and more than half of these people live in households where all adults work (Joseph Rowntree Foundation, 2017).

This is at least in part a function of low pay, against a backdrop where the 'wage share' (that is, wages as a share of total national income) has declined sharply since the early 1980s, sitting below 56% since 1982 (where it remained in 2016) (International Labour Organization and Organisation for Economic Co-operation and Development, 2015). This compares with a peak of 65.5% in 1975 and an average of 59% in the 1950s and 1960s. As Reed and Lansley (2013, p. 2) note, 'most of the resulting fall in the "wage share" has been borne by those in the bottom half of the wage distribution'. But it is also a function of other conditions of work and employment that interact with low pay to produce in-work poverty (McKnight et al, 2016). As Goulden (2010, p. 1) has argued, 'entering work cannot provide a sustainable route out of poverty if job security, low pay and lack of progression are not also addressed'.

Policy and other stakeholders have a role to play and some levers to deploy in efforts to solve in-work poverty. For example, in 2018 the Joseph Rowntree Foundation called for the UK Government to increase work allowances within Universal Credit in order to raise incomes among working parents (Schmuecker, 2018). Nevertheless, employers are undoubtedly the key actors. Business decision-making defines key elements of the employment relationship beyond legal minima. These include policies and practices that have direct and indirect impacts on employees' or workers' income from work:

- employment levels and composition
- pay and benefits
- contractual forms
- working hours
- work organisation
- training, learning, development and career progression.

Employers inevitably face constraints in making business decisions, yet as Findlay and Lindsay (2018) have argued:

> [W]hile employers and businesses may not control markets, the wider business environment or institutional infrastructure, they do make real choices over how they use labour, for example in relation to who they recruit and train, the terms and conditions they offer and the priorities they accord to human capital investment and development in both company

> specific and transferable skills. These choices have wider consequences, [shaping the extent and nature of income inequality in societies].
>
> Findlay and Lindsay, 2018, p. 11

While this is an under-researched area, the following are therefore of considerable importance in addressing a serious and seemingly intractable problem affecting individuals, families, communities, economies and societies:

- understanding how employers make the strategic and operational choices that shape the presence or otherwise of in-work poverty
- understanding both the constraints they face and the opportunities they have for exercising choice
- crucially, understanding how they might be encouraged, supported and influenced to address in-work poverty.

Key challenges facing employers

Key stakeholders and case study employers in our research identified a range of barriers to promoting improved pay and sustainable incomes for workers in low-paid sectors and workplaces. Key stakeholders and some employers saw a lack of knowledge that employees might be at risk of poverty as a barrier to action. There was also a sense that many employers are unaware of the range of financial and other support mechanisms that could be used to engage with employees who are struggling to cope. Employers acknowledged their reluctance to share their reflections on the challenges of addressing in-work poverty with their peers, and employers' representative organisations similarly acknowledged their members' reticence to discuss in-work poverty.

A linked concern raised in key stakeholder interviews related to the paucity of information and advice on addressing low pay (and other aspects of job quality and fair work) available from publicly funded and other business advice sources. It was suggested that public business services, in their advice to start-ups, sometimes prioritise rapid growth strategies (and cost containment in the area of pay) over providing good jobs. Advice and support to help start-ups to 'design in' decent pay and conditions and fair work practices during their early development and growth is therefore a priority.

Another barrier to action appeared to be a lack of clear and consistent workforce planning and wage-setting practices among employers. Wage-setting practices are too often unresponsive to changing labour market conditions, based on limited evidence, informed by a vague desire to conform to the norm for the sector and (accordingly) not informed by concerns about in-work poverty or the potential benefits of addressing low pay.

Finally, there was a perceived need for large and leading employers in low-paying sectors to act as 'frontier firms' taking action on in-work poverty, and that such examples could have a knock-on effect on sectoral wage-setting behaviours.

Our research also pointed to the importance of business models and ownership models. For example, it was argued that it would be impossible for some businesses to raise wages, or to offer better-quality jobs, if shareholders and/or private equity investors have a veto over such decisions. Our case study employers saw cost pressures as a major challenge to action on in-work poverty, but there was little evidence that they were considering systematically both the costs and benefits that might be associated with addressing low pay.

Research aims and objectives

Given the primacy accorded to employers in the mechanisms that produce in-work poverty, the overarching objective of this research was to analyse how employers understand in-work poverty and how they can be encouraged to address it proactively within their own organisations, their sectors and the wider economy. The research was centred on understanding employers' approaches, perceptions and experiences in context, and looking at the key drivers for employer change, particularly in low-paid sectors, to understand how businesses might – and might be influenced to – make work a better route out of poverty. The analysis draws on existing secondary data, key stakeholder interviews and the collation, collection and analysis of case studies of employer practice, which included in-depth interviews with employer representatives, where possible identifying practices that have helped to reduce poverty, thus delivering individual, organisational and wider social benefits. The specific project aims were to:

- analyse employers' knowledge and understanding of, and engagement with debates on, in-work poverty
- analyse practices and initiatives in our case study organisations that support sustainable incomes and reduce in-work poverty
- identify the drivers, outcomes and enablers of policies and practices that help address in-work poverty
- identify the barriers that employers face in delivering sustainable incomes for employees
- offer recommendations on approaches and tactics for influencing employer/business change
- develop evidence-based, employer-focused messages to address any common barriers to change
- provide a framework of the key drivers of employer/business change, particularly in low-paid sectors, including analysis of effective influencing strategies in changing behaviour such as incentives so that employers can support more sustainable incomes.

In the next chapter (Chapter 2) we briefly review evidence from two key literatures – on the prevalence, experience, risk factors and outcomes of in-work poverty and on how employer practice might affect in-work poverty – before outlining our research approach (Chapter 3), setting out our findings (Chapter 4) and offering our conclusions (Chapter 5).

2 In-work poverty and jobs in the UK

This chapter provides a brief discussion of trends in in-work poverty, before identifying some key employment and workplace characteristics associated with low pay and in-work poverty. It is drawn from analysis of Office for National Statistics data, supplemented by a targeted review of recent empirical literature.

Recent research for the Joseph Rowntree Foundation demonstrates that poverty and in-work poverty remain serious problems in the UK: of the 14 million people living in poverty in the UK, eight million live in households in which at least one person is in work (Joseph Rowntree Foundation, 2017). One in eight workers in the UK live in poverty and more than one in ten working-age adults are in the poorest two-fifths of the population (Joseph Rowntree Foundation, 2017). Latest available Labour Force Survey data (for quarter 4 – October to December – of 2016) shows a concentration of UK jobs paid at levels close to the National Living Wage (NLW) of, at the time, £7.20 per hour (the Office for National Statistics defines 'close to' as within 2% of the NLW). These jobs are done by the lowest-paid workers in the labour market, who are clearly at greater risk of in-work poverty. However, attention needs to be paid to the distinct characteristics of the different workforces, and individuals within these, experiencing low pay and who therefore face increased risk of in-work poverty. National statistics (Office for National Statistics, 2017) and other data sources make it possible to identify a range of job/employment and employer/business factors associated with in-work poverty.

Job/employment factors

The experience of in-work poverty varies significantly by demographic category. Demographic factors do not, of course, explain a higher or lower risk of in-work poverty in the way that, for example, so-called 'human capital' factors might. (Human capital refers to the resources that people possess, and can invest in, such as knowledge, experience and skills.) Rather, particular demographic groups are over-represented in work and employment that have characteristics that appear to be risk factors for in-work poverty such as, for example, low pay. Evidence from across European Union member states identifies **low pay** as a key risk factor for in-work poverty, but people **working part-time or part-year**, people on **temporary rather than permanent contracts**, people who are the **sole earner** in the household and people with **family responsibilities** also face higher risks (Eurofound, 2017). Workers are most at risk of poverty where individual and job/employment factors overlap – for example, a lone parent working part-time in a low-paid job is especially vulnerable. Family size and household structure also matter, with larger families experiencing an increased risk of poverty (Joseph Rowntree Foundation, 2017). These findings resonate with recent qualitative evidence from workers experiencing in-work poverty, which points to **a range of contributing factors – low-pay, limited working hours, underemployment and constrained employment opportunities** – that combine to generate severe financial complexities and challenges (McBride et al, 2017).

However, in-work poverty is not defined exclusively by low financial remuneration or insecure contractual status, although these aspects are of great importance. Those who have poor-quality jobs also have lower or limited opportunity for labour market progression due to poor access to training and development. As recent research for Oxfam has noted, '[p]ermanent contracts, and jobs that offer incremental pay increases and prospects for progression are important in securing stable work' (McKnight et al, 2016, p. 7). The same study points to evidence that **stronger unions** assist in promoting stable and secure employment, and that, 'conversely, the weakening of unions in many European countries in recent decades has been damaging to the situation of lower paid workers' (McKnight et al, 2016, p. 7). Low trade-union density and recognition means that many workers facing low pay have little scope to challenge negative conditions and unfair treatment.

Employer/business factors

The job or employment factors that combine (with individual, household and other factors) to produce in-work poverty are not evenly adopted or spread across the population of employers. While workers employed in any type of firm or sector might face in-work poverty, certain key characteristics of businesses are associated with differential risk of in-work poverty.

Large average wage differences can, to a certain extent, be related to **firm size** (Mortensen, 2005). Small- and medium-sized enterprises account for a higher proportion of jobs paid less than or close to the NLW of (then) £7.20 per hour, with around 14% of low-paid jobs in workplaces of one to ten employees, compared with 3% of jobs in workplaces of 250 or more employees (Office for National Statistics, 2017).

Sector and **industry** characteristics are also associated with higher levels of in-work poverty. Private sector workers are four times more likely to report being paid at or near the NLW than their public sector counterparts. Workers employed in standard industry classifications 'distribution, hotels and restaurants' (where 19.3% of workers are low paid), 'agriculture, forestry and fishing' (11.1%) and 'other services' (11.7%) are significantly more likely than their counterparts in other industries to experience low pay (Office for National Statistics, 2017). Outside of these three industry groups, 5.7% of manufacturing workers experience low pay.

Firm creation and **business age** – and the forms of employment that new businesses adopt – may be another risk factor for in-work poverty. This is significant given that 13% of all active businesses in the UK in 2017 were **young firms**, having started trading within the previous year (Rhodes, 2018), and that young and new firms contribute heavily to job creation (Anyadike-Danes et al, 2013). A recent study using Portuguese data found that young firms, particularly start-ups (firms in their first year of existence), while an important source of job creation, do so in large part through fixed-term contracts (De Matos and Parent, 2016). Analysis of a representative sample of German firms shows similar findings for young firms (Spath, 2016). Analysis of UK data has also indicated that highly paid and stable jobs are rare in young firms (Adrjan, 2018). In the UK, non-standard working – often associated with new business types and models – has accounted for much of net jobs growth since 1995 (Organisation for Economic Co-operation and Development, 2017).

Business ownership may also affect in-work poverty, primarily through its impact on the share of income accruing to labour. An analysis of the effect of financialisation on labour's share of income across 13 countries from 1986 to 2007 highlights a relationship between increasing dividend and interest payments of non-financial corporations and the decline of the share of wages in national income. Ownership structure (specifically, the presence of private equity shareholders) is associated with the 'wage share' accruing to labour having shrunk in most countries of the Organisation for Economic Co-operation and Development from the mid-1980s until 2008, despite a rising 'profit share' (Dünhaupt, 2013). At least for Germany and the United States, the evidence suggests, much of this increase in the profit share was determined by rising dividend and interest payments, while the share of retained profits also declined. This reflects tensions in value creation and capture in UK workplaces – recent research for the Chartered Institute of Personnel and Development identifies challenges in the balance between creating and capturing financial value for stakeholders, employees and the community, specifically relating to the dominance of 'maximising shareholder value' narratives in the UK (Findlay et al, 2017b).

Business models, which reflect the central purpose and approach of businesses, significantly shape the likelihood or otherwise of businesses generating in-work poverty. Recent critical debates on new business models, especially around the 'gig' economy, highlight the negative implications for employees and workers where 'the discipline of the market is used punitively to deliver value for one stakeholder group at the expense of others' (Findlay et al, 2017b, p. 30). A business model comprises 'the logic of the firm, the way it operates and how it creates value for its stakeholders' (Casadesus-Masanell and Ricart, 2010, p. 197). A key question arises in any business model over the definition of business stakeholders and the extent of business obligations – beyond owners and shareholders – to employees, consumers and wider society. At one end of this debate are those who believe that business's key responsibility – and its contribution to society – is best achieved by making money for owners/shareholders (Friedman, 1970, pp. 32–3, 122–4). At the other end are theorists who argue that business models should serve the direct and indirect interests of a wider group of stakeholders (Freeman, 1984). (For a wider discussion, see Findlay et al, 2017b.)

Debates on the wider social responsibilities of business – and the benefits or otherwise of businesses acting 'virtuously' – have a long history, typified in the UK by examples such as Robert Owen's approach at New Lanark, Scotland and by Quaker-influenced employers such as Cadbury's (Child, 1964; Barclay, 1995). More recently, these broad debates have been played out in relation to discussions of 'conscious capitalism' (Mackey and Sisodia, 2014), comprising:

- values-driven leadership approaches
- a commitment to a higher purpose than profits
- broad stakeholder orientation
- a commitment to ethical and sustainable business strategies and practices.

That firms adopting such approaches can also be successful financially offers the possibility of alternative business models to those that generate in-work poverty. Business models reflect employer choice between more conventional profit-maximising approaches and 'doing well by doing good'. These choices are not, however, unconstrained. A key question arises as to why and how businesses and organisations might adopt more 'virtuous' business models that are capable of addressing in-work poverty.

Public policy and the welfare state

Public policy, and the interaction between wage and employment regulation and the welfare state, provide an important context for understanding in-work poverty. The UK Government's engagement with in-work poverty has been indirect (at least in terms of engaging directly with employers on the issue), but indicates that legislative intervention in relation to low pay and associated negative consequences is both politically credible and possible. As of April 2016, the UK Government established the National Living Wage (NLW), which currently (since April 2019) pays an hourly rate of £8.21 for workers aged 25 years and above. This sits alongside the National Minimum Wage (NMW), an age-stratified hourly rate, which currently pays £7.70 to workers aged 21–24 years, £6.15 to workers aged 18–20 years and £4.35 to workers aged 16–17 years. These rates continue to be mandatory and nationally applicable.

The UK Government is committed to completing the roll-out of Universal Credit, which will see the amalgamation of Working Tax Credit and Child Tax Credit, and other major working-age benefits, into a single payment. The UK Government has advocated Universal Credit as a major step forward in addressing in-work poverty – it is argued that, for example, the removal of the '16 hours rule' (whereby claimants previously had to work at least 16 hours every week to access tax credits) will offer greater financial support for part-time workers with children (Department for Work and Pensions, 2015). However, Universal Credit may also extend the UK's welfare conditionality regime to those who are in work and their partners. There is a danger that proposed changes, if not carefully designed, have the potential to increase the pressure on low-paid workers to seek and accept more hours of work rather than seek a better-paid job (Welfare Conditionality Project, 2018).

Alongside the introduction of a simplified benefits system for people in and out of work, the UK Government's Industrial Strategy commits to action to boost 'good work' and productivity, noting that 'highly productive employers not only pay their workforce well, but also invest in their staff through training and development, good terms and conditions and opportunities to participate in the way the business is run' (Department for Business, Energy and Industrial Strategy, 2017, p. 176). Among the actions the Industrial Strategy suggests are:

- support for investment in management skills
- measures to ensure that employees have access to learning and training as a route out of low-skilled work
- a commitment to working with stakeholders to define and promote good work (with good pay seen as a foundational component).

As described above, much of the employment and welfare policy agenda relevant to combating in-work poverty is reserved to the UK Government. However, the UK's devolved administrations have developed a range of their own strategies to run alongside the UK policy agenda and in some instances have been – within their devolved competence – more proactive on the issue of sustainable incomes and inclusive growth to tackle in-work poverty.

The Scottish Government's 2014 Working Together Review sought to build capacity and an evidence base for constructive industrial relations, and to implement this through the subsequently developed Fair Work Framework (Scottish Government, 2014). The framework defines 'fair work' as work that offers effective voice, opportunity, security, fulfilment and respect, that balances the rights and responsibilities of employers and employees, and as having the potential to deliver mutual benefit to individuals, organisations and society (Fair Work Convention, 2016).

Fair work forms a core part of the Scottish Government's plans for inclusive growth, outlined in Scotland's Economic Strategy (Scottish Government, 2015). Within this strategy, workplace innovation (for example, exploring new approaches to business practices, workplace development and the application of new technologies) is identified as a key route to foster positive outcomes for individuals, businesses and society. It is seen as having the potential to encourage 'better use of organisational resources in ways that support the delivery of strategic and operational business objectives, improve the quality of work for employees and deliver better social outcomes in terms of health, participation and equality' (Scottish Government, 2015, p. 57).

The Scottish Government's Business Pledge is formed of nine commitments, which include:

- payment of the 'real' Living Wage (an independently set, hourly rate of pay, which the Living Wage Foundation calculates based on the basic cost of living – £10.55 an hour in London and £9 an hour across the rest of the UK in 2018–19)
- no use of zero-hour contracts
- making progress on diversity and gender balance
- playing an active role in communities
- promptly paying invoices.

Employers who have signed up to the pledge pay all staff at least the real Living Wage, and commit to meeting two other commitments and to progressing towards all others. By December 2018, 577 businesses providing 108,905 jobs (4.4% of all jobs in Scotland) had signed the pledge (Scottish Government, 2019).

The Welsh Government's Prosperity for All strategy commits the Welsh Government to delivering more and better jobs through a stronger and fairer economy (Welsh Government, 2017). Previous commitments to tackle in-work poverty (Welsh Government, 2012) include:

- continuing to support employers in the private, public and third sectors to consider becoming real Living Wage employers
- targeting funding to deliver on the employment and skills needs of companies of strategic economic importance
- commissioning services to assist families experiencing in-work poverty by maximising income through debt management

- effective budgeting and increased financial literacy
- supporting second earners into employment through education, training and skills development.

Northern Ireland has, along with other parts of the UK, seen increases in levels of in-work poverty in recent years, but has proportionally one of the highest working-age poverty levels in the UK. It has the highest level of working-age poverty for households with two adults both working where one works full-time and one works part-time; and where one works full-time and one is not employed (Northern Ireland Assembly, 2015). The Northern Ireland Executive's Anti-Poverty and Social Inclusion Strategy includes a focus on working-age adults, and seeks to provide support to unemployed people so that they can develop skills relevant to labour market opportunities; and specific assistance for lone parents, people with caring responsibilities, disabled people, young people, women, care leavers and those living in remote areas (Office of the First Minister and Deputy First Minister, 2015). However, the strategy does not refer to in-work poverty.

In-work poverty is a significant, and growing, problem in the UK. It is a form of disadvantage that unequally affects some of the most vulnerable groups of workers in the labour market. While ambitious public policy interventions could address this disadvantage in part, these may not address the complex, multi-level and multidimensional factors that lead to low pay and in-work poverty. Public policy may also have unintended consequences in incentivising negative behaviours among employers, for example in urging employers to deliver jobs rather than quality jobs that address the causes of in-work poverty and rewarding them for doing so. Employers clearly have a key role to play in addressing the scale and impact of the problems of low pay and in-work poverty. How they can be encouraged and incentivised to take action is therefore a key focus for the research described in this report.

Influences on employers and business

This section starts by acknowledging that gaining access to improved pay can provide a key route out of in-work poverty. It then considers what we know – and perhaps more importantly, what we do not know – about what influences employers to deliver improved pay and address in-work poverty. Finally, it acknowledges that the evidence suggests limits to influencing employer decision-making on pay and other factors that contribute to in-work poverty.

Positive employment events are often the key to breaking free from in-work poverty. Securing a pay increase by moving jobs, or the household gaining a worker, are associated with an 80% probability of exiting in-work poverty from one year to the next (Office for National Statistics, 2015). A recent review has concluded that most exits from poverty arise while remaining in work, with in-work poverty more transitory than poverty among working-age adults more generally (Hick and Lanau, 2017). Despite this, for some workers, in-work poverty is far from being a temporary phenomenon. In its report to the Social Mobility Commission, the Resolution Foundation highlighted that just one in six (17% of) workers who were low paid in 2006 had 'escaped' low-wage work 10 years later, while one in four (25% of) workers had been 'stuck' on low pay for this whole period (Darcy and Finch, 2017). Just under half (48%) had 'cycled' in and out of low-paid work – moving onto higher wages at some point, but not sustaining that progress. The remaining one in ten employees had exited the data, meaning they were not an employee at the end of the period.

Breaking free from in-work poverty is often challenging due to the availability of 'good jobs' to people experiencing in-work poverty. There is a growing awareness of the costs imposed on individuals and society by 'bad jobs', characterised in part by the same factors that generate in-work poverty. Where present, these factors exert an influence greater than the sum of their parts, further entrenching those who experience in-work poverty (Keep and James, 2012). Making bad jobs better, or improving job quality, is therefore an important mechanism for solving in-work poverty (Findlay et al, 2013).

Improving job quality can also benefit employers, given the impact of poor job quality on firm performance and productivity. Innes (2018) from the Joseph Rowntree Foundation has made explicit the link between low pay and low productivity in recent research on the retail and hospitality sectors. Observing that the 'high incidence of low pay in these sectors means that retail and hospitality alone account for a third of workers in poverty', he suggests strategies for raising pay and productivity together that include ‘increasing the proportion of workers in on-the-job training; improving management practices; increasing the percentage of workers using ICT [information and communications technology]; and reducing the share of temporary workers’ (Innes, 2018, p. 1).

It is fair to say that many employers and employers’ organisations in the UK have not welcomed developments to address low pay through minimum wage legislation. Recent increases in the NLW, and pressure to adopt the London Citizens’ Accredited Living Wage, have been accompanied by employer responses to reduce other elements of their reward packages. We have argued elsewhere that employer decision-making around the quality of work and employment is shaped not only by market and institutional influences, but also by employers’ strategic choices (Findlay et al, 2017c). For many employers, product and labour market pressures drive a level of job quality that does not lead to in-work poverty, and minimum wage legislation may be of limited direct influence on them, and the vast majority of working people who do not experience in-work poverty. Yet it is important to distinguish patterns from trends. Emerging business models, business practices and associated employment practices identify trends in relation to the use of forms of non-standard working, for example, that have the potential to disrupt current patterns and exacerbate in-work poverty (Findlay and Thompson, 2017).

A crucial question, therefore, is how employers exercise strategic choice over forms of work and employment in the context of market and institutional influences that have an impact on in-work poverty. This is not an area with a wealth of relevant research evidence. Employers’ strategic choices in general are framed largely by product market, labour market and regulatory factors, but also by pressures from other stakeholders (unions, for example). Employers’ choices are also framed by their own values and, more prosaically, by doing things that they perceive will bring business benefit. None of these choices, however, are unconstrained, and this complex context of choice and constraints frames possible and actual approaches to addressing in-work poverty.

Research on employers’ attitudes towards gradual wage improvements (for example, when asked about NLW increases) suggests that there is general acceptance of the principle that improving pay for low-paid staff can have positive impacts on motivation, job satisfaction and productivity (National Institute for Economic and Social Research, 2018). However, it is important to note that there is not an extensive literature that makes a conclusive case in favour of tackling low pay as a route to improved business performance and productivity – if there were, we would not require a research agenda that continues to explore and develop the evidence base. Indeed, the relative paucity of this evidence base is likely to reflect the basic hypothesis of standard microeconomic theory, which posits the reverse relationship between productivity and pay – that is, that productivity gains are/should be shadowed, but crucially not exceeded, by wage growth (National Institute for Economic and Social Research, 2018). The ‘endogenous growth’ literature in economics challenges these assumptions, arguing that wage increases can incentivise both employee performance and employer capital investments, leading to productivity improvements, but it is suggested that the empirical evidence remains patchy (National Institute for Economic and Social Research, 2018).

A brief review of the labour economics literature on pay and productivity throws up two problems that suggest the need for further research, beyond the scope of this report. First, the traditional labour economics literature tends to focus on the need to balance wages, productivity and employment rates. Yet, we have increasingly seen in countries such as the UK that employment rates have held up relatively well during periods of growth, decline and stasis; there is an emerging consensus that underemployment and unproductive work (which are also associated with in-work poverty) are the key problems facing our labour market (Bell and Blanchflower, 2018). Second, there is little crossover between the literature on productivity and pay, and the growing evidence base that human resources and workplace practices can be important drivers of organisational innovation. Connecting up these areas of study to arrive at an evidence base on workplace practices, wages, performance and productivity should be a priority (Shipton et al, 2016; Findlay et al, 2017a).

An additional challenge is that the evidence that we do have suggests that performance outcomes associated with action on low pay are likely to be highly contingent on individual business models, sectoral context and market segmentation. In short, the extent to which tackling low pay positively affects performance is likely to be a function of:

- the relationship between wage rates and improved capacity to recruit skilled labour (and the demand for it)
- other positive workforce effects such as reduced turnover (but this is again contingent on replacement costs in specific sectoral and/or geographical labour markets)
- perhaps crucially, the ease with which additional labour costs can be absorbed by organisations and/or passed on to customers.

Research on the impact of the NMW and NLW has found that employers are acutely aware of their capacity or otherwise to absorb or share the cost of wage increases (National Institute for Economic and Social Research, 2018). This capacity is likely to be highly contingent on the willingness and/or ability of customers and supply-chain partners to accept passed-on price increases (in turn dependent on the product/service markets that businesses operate within, and their relative power in relation to customers and supply-chain partners) (Rizov and Croucher, 2011). While the capacity of employers in lower-skilled sectors to absorb the impact of pay increases is likely to vary, the imposition of the NMW and NLW has seen few or no adverse employment effects detected in these sectors as a whole, suggesting that the modest pay increases driven by these changes have been absorbed or passed on by employers (National Institute for Economic and Social Research, 2019). This would appear to be evidence that employers have some 'distributional slack' in the share of value allocated to wages. There is also some evidence to suggest that the introduction of the NMW has been associated with increased productivity in low-paying sectors (Rizov and Croucher, 2011).

Given the complexity of capturing the relationship between wage increases and outcomes such as productivity and business performance – where many other factors are likely to influence results – much extant literature focuses on easier-to-measure, more direct outcomes. Choices over forms of work and employment will arise from acknowledgement of the need to access, deploy and develop workers appropriately to maximise returns on investments made, by:

- improving recruitment and retention
- lowering sickness absence and turnover
- improving morale and employee commitment
- enhancing organisational–citizenship behaviour (Wills and Linneker, 2014).

On labour turnover, the evidence is reasonably positive in favour of action to improve pay. For example, Williams et al's (2006) meta-analysis of more than 200 studies of the consequences of pay-level satisfaction found consistent evidence of a significant relationship between pay satisfaction and voluntary turnover. An earlier, more limited meta-analysis by Griffeth et al (2000) similarly found that pay levels and pay satisfaction were significant predictors of lower staff turnover. A number of UK-specific studies have also demonstrated that higher levels of pay satisfaction are associated with reduced 'quit intention' (Clark, 2001). Wage equity has been shown to have a positive effect on employee commitment, while unequal wages damage employee commitment. The positive impact on a business of employee commitment has been shown in service work, hospitality and facilities management, sectors in which case study employers participating in this research are located (Guthrie, 2007; Shields et al, 2012). Moreover, higher wages for front-line workers are associated with greater efficiency and productivity (Guthrie, 2007). Debates and evidence on employer branding have highlighted the role of employer branding and reputation in recruitment and productivity (Backhaus and Tikoo, 2004). This broad research base points to the possibilities of higher-quality work that reduces in-work poverty, producing positive outcomes for individuals and for businesses. Possibilities are not, however, probabilities, and context is crucial, as argued above.

Other studies have sought to broaden out the research question, to build a business case for a more general corporate social responsibility agenda (with pay equity potentially being one component within such strategies). For example, a review of evidence of the business benefits associated with a broader range of corporate social responsibility practices found that there is consistent evidence of reputational benefits that can feed into improved customer loyalty (although the visibility of corporate social responsibility strategies appears to be important) (Aguinis and Glavas, 2012). The same review found some evidence of improved employee and organisational performance, but the authors note that arriving at firm conclusions is complicated by the range of definitions and outcome measures that different studies have deployed. Carroll and Shabana's (2010) review of the impacts of corporate social responsibility adds that employers clearly assume that business benefits will follow – three-quarters of major companies in the United States investing in corporate social responsibility strategies cited risk reduction (including reducing the risk of labour turnover) as an important driver of activity. Beyond attention to a corporate social responsibility agenda, in some cases the values of the business and its leaders will drive attention to job and employment quality, as attested to in the debate on purposive companies and so-called 'conscious capitalism'.

Influences on employers' and businesses' attitudes to in-work poverty

Applied research specifically on employers and in-work poverty remains relatively scarce. The Webb Memorial Trust has reviewed the potential role of businesses in solving poverty in the UK, highlighting both the social responsibility of businesses and the (economic) opportunities that addressing poverty would present to them. The review identifies the following practices that could tackle in-work poverty:

- payment of the accredited Living Wage
- use of more stable contracts
- training opportunities
- offering careers rather than just jobs
- including financial wellbeing in employers' broader wellbeing initiatives.

It also highlights the tension between maximising the financial goals of business and investing broadly in employees, and the need to identify strategies that align these dual purposes, before concluding that 'more thought is needed about precisely what the requisite strategies should involve' (*New Statesman*, 2015, p. 2).

Recent years have seen a growing research interest in the impact of real Living Wage accreditation (see, for example, recent research on the business case for the real Living Wage: Coulson and Bonner, 2015). Research on private sector employers' role in reducing poverty through adoption of the real Living Wage highlights not just the dearth of direct employer engagement with issues of poverty in their own workforces and employers' discomfort in talking about poverty, but also a lack of clearly identifiable actions that employers might take, and policy-makers might influence, in any effort to reduce poverty (Hughes et al, 2016).

Our own review of the websites and publications of major trade, business and employers' organisations to identify debates on in-work poverty yielded little systematic or detailed engagement with the issue. There are, however, some notable exceptions emanating from some sectoral, professional and campaigning organisations. As a report by Barclays (2014) notes, the 'taboo' of talking about poverty in workplaces means that the impact of financial concerns on employees' wellbeing, engagement and performance is not widely acknowledged.

The Chartered Institute of Personnel and Development has produced resources to support employers to engage with 'employee financial wellbeing'. Drawing on a range of evidence that highlights the negative impact that financial worries can have on people's health and wellbeing – and by association their performance at work – it has developed a toolkit to assist employers to support staff financial wellbeing (Chartered Institute of Personnel and Development, 2017). The toolkit includes recommendations that employers consider the characteristics (for example, demographics) of their workforce, and engage with employees to understand what their financial needs and priorities at particular life stages may be (for example, approaching retirement or returning from parental leave). With this information, the Institute recommends that employers map what their organisation already has in place to support employee financial wellbeing, identifying and resolving any gaps (Chartered Institute of Personnel and Development, 2017).

Business in the Community (2017) has produced a number of 'good example' case studies and a Good Work for All action plan, highlighting the benefits of employers engaging with their employees' financial circumstances and providing guidance on how employers can effect change to offer better-quality jobs with higher and predictable incomes. Business in the Community's recommendations include a checklist for employers to assess whether the jobs they offer meet fair pay and benefits criteria, offer structure and security and engage with employees' skills and development.

Specifically relating to the retail sector, Timewise and the British Retail Consortium have recently collaborated on the development of an evidence base and programmes for action to help tackle endemic problems of high staff turnover, lack of progression, lack of flexible working and low pay (Timewise, 2018).

Unite the Union's Fair Hospitality charter has been developed to campaign on and address a range of longstanding low-pay and job-quality issues in the hospitality sector (Unite the Union, undated). The campaign includes calls for payment of the real Living Wage, rest breaks, minimum-hour contracts, consultation on rota changes, paid transport past midnight, anti-sexual harassment policies and 100% of tips going to staff.

In Scotland, Better than Zero – a campaign group of young workers supported by the Scottish Trades Union Congress – primarily organises around challenging precarious work and zero-hours contracts in the hospitality sector. Its work has focused on organising young workers, offering advice and support, and 'naming and shaming' exploitative employers – for example those who require unpaid trial shifts, who unfairly dismiss or harass staff, or who pay staff below the NMW.

These contributions point to a range of actions that employers might take in addressing in-work poverty. Drawing on these and the wider evidence base around improving job quality, our research framework is designed around five key issues. **Employers' awareness** and understanding of, and willingness to engage with, the issue of in-work poverty are key to delivering change in practice. Identifying **practical change** that employers can adopt is also crucial. This might relate to:

- pay rates
- pay composition
- wage-setting behaviour
- pay predictability
- contractual status
- hours sufficiency
- under-employment
- flexible working
- challenging poverty-related skills gaps (literacy, numeracy and digital)
- progression opportunities
- wider support such as counselling and occupational health
- sustainable income support, featuring benefits, savings entitlements, financial planning and emergency support.

The **business case** for addressing in-work poverty is likely to be crucial to engaging employers, identifying potential benefits such as better recruitment and retention, lower absence levels, higher productivity and increased wellbeing and commitment. A more informed debate also requires acknowledging **barriers and key challenges** to changing practice such as pre-existing business models, cost and competitive pressures, local labour market and product market conditions, management capacity and capability, and wider sectoral and institutional pressures. Gaining a clearer understanding of how these factors combine to contribute to in-work poverty in different sectoral settings will assist in identifying **possibilities for action** and levers of change in addressing in-work poverty.

The discussion above makes it clear that there is no consistent evidence base that suggests that action on in-work poverty will always or automatically drive productivity gains, and hence there is no easy business case to make to employers. However, there is an emerging evidence base pointing to the potential role of employer action on in-work poverty (and a broader agenda around good jobs, fair work and socially responsible employment practices) in improving labour turnover and employee performance, which can reduce business costs and enhance business outcomes.

The findings of our research address these issues. Our analysis seeks to probe key issues including employers' awareness and understanding of in-work poverty, its consequences and potential solutions. We also identify workplace practices that have been or could be adopted to make a difference, including:

- engaging in discussions on financial wellbeing
- ensuring that employees have sufficient and consistent hours of work
- providing fringe benefits and supplements to pay, and offering emergency support where necessary
- investing in training and progression as routes out of lower-paid jobs
- crucially, improving pay and seeking to influence supply-chain partners to take similar action.

In the next chapter we describe our research methods before going on to present our findings in the following chapter.

3 Research methods

The research comprised several overlapping stages, starting with a literature review and key stakeholder scoping interviews. This formed the basis for the choice of sectors – discussed below – after which we made contact with key stakeholders at the sectoral level, and potential case study interviewees within employer organisations. We conducted case study interviews either face-to-face or by telephone, usually with one but sometimes more than one senior management team member who had oversight of decisions around wage-setting, human resources functions, recruitment, and business models. While this represents a highly targeted (and by definition limited) approach to data gathering, it is important to restate that the aim of the research was to gather employers' perspectives on low pay and in-work poverty – we believe that our tightly focused approach, targeting senior, expert respondents, did this effectively. The process of recruiting employer participants proved to be extremely challenging, perhaps reflecting some employers' lack of awareness of, or reluctance to engage with, issues around in-work poverty. Nevertheless, following the preliminary key stakeholder consultation and drawing on the preceding literature and evidence review, we conducted case study interviews with senior management within businesses in five sectoral areas: hospitality, facilities management, manufacturing, food production and retail.

Hospitality, in the form of 'accommodation and food services', employs 1,717,000 people in the UK, and is growing, having seen an increase of approximately 10% in numbers since 2013 (Office for National Statistics, 2018). The hospitality sector employs a higher-than-average proportion of women and of migrant workers from the European Union, and in the case of both groups these workers tend to be concentrated in lower-paid roles. Fixed-term/temporary and part-time contracts are prevalent in the sector (Institute for Public Policy Research, 2016). Trade union density is lower than average and much lower than found in the equivalent sectors in some other European Union states. These factors contribute to the relatively low pay available to some entry-level workers.

Facilities management is defined in the UK as an 'organisational function which integrates people, place and process within the built environment with the purpose of improving the quality of life of people and the productivity of the core business' (International Facility Management Association, undated). This includes cleaning and ancillary services, ventilation, heating, plumbing, construction and the general maintenance of buildings. This diversity of services makes classification of facilities management, and therefore data on the extent of the facilities management industry's workforce, difficult to establish. Employment statistics for the 'business services' industry include facilities management as one of four broad sectoral classifications (the other three are telecommunications and information technology services, business process outsourcing, and construction-related services), but do not disaggregate – the wider industry is estimated to employ people in approximately 3.3 million jobs, equivalent to an average of 10.2% of all UK workforce jobs (Oxford Economics, 2015). In some parts of the sector, business-to-business facilities management services are often based on the objective of outsourcing and reducing staffing costs, which can create particular challenges around low pay.

Manufacturing and food production employ 2,917,304 people, 9.04% of the UK workforce, according to data for January to March 2018 from the Office for National Statistics (2018). It should be noted, however, that over the course of the past four decades, the manufacturing sector has declined more than any other industry in the UK in terms of the share of employment. It is estimated that 410,000 people are employed in food and drink manufacturing (Department for Environment, Food and Rural Affairs, 2016). The Food and Drink Federation (2017) estimates that around a third of these workers are European Union nationals. As with the other sectors discussed here, a higher-than-average proportion of workers are paid at or near the NLW (Darcy and Finch, 2017).

The retail sector employed 4.6 million people in Great Britain in 2016, representing 15.2% of the total workforce. A higher-than-average proportion of workers are paid at or near the NLW (Darcy and Finch, 2017). Retail employer representatives have consistently raised concerns about the impact of the NMW and the NLM on the business competitiveness workforce (Rhodes and Brien, 2018). There is also evidence of a substantial gender pay gap in retail (Chartered Institute of Personnel and Development, 2017). There are a number of potential reasons for this, including the prevalence of part-time and temporary contract work for women, and the greater difficulty in securing promoted roles due to limited progression opportunities within relatively flat organisational structures (Ussher, 2016).

Our programme of interviews with respondents across these sectors was followed by a roundtable event with key stakeholder representatives under the Chatham House Rule at which ideas emerging from the primary data collection were discussed and additional contributions were developed. Further information on our research methods is provided in the Appendix.

In the next chapter we report our findings on the perceived business case for acting on low pay. We discuss employers' and stakeholders' views on the potential recruitment and retention benefits associated with addressing in-work poverty (and the gains in productivity and skills use linked to lower staff turnover). We also note potential benefits in terms of employee performance and discretionary effort and report on perceived reputational benefits for businesses. Our penultimate group of findings focuses on employers' and stakeholders' views on constraints to addressing in-work poverty, identifying themes linked to:

- a lack of awareness among employers
- gaps in business advice and information services
- challenges associated with 'designing in' decent pay during the start-up phase of business development
- the prevalence of business models and ownership models (and ways of thinking about value distribution) that prioritise cost reduction over a more equitable sharing of resources between business owners and their employees.

The chapter concludes with the presentation of our Framework for Employer Action on In-Work Poverty. In this framework, we have sought to summarise insights from our research in terms of the problem of in-work poverty; how employers might be incentivised, influenced and supported to take action; and the stakeholders who need to be involved in driving change.

4 Findings

Our research uncovered significant limitations in employers' awareness and understanding of in-work poverty, in general terms and specifically in relation to their own workforces. Employers' organisations acknowledged this limited awareness. Similarly, employers' knowledge of potential actions they might take to mitigate in-work poverty was highly variable. While some employers were able to identify a range of employment, human resources, job design and organisational practices and policies that were being or could be adopted to provide routes out of low pay and reduce in-work poverty, and engaged in more of these practices and policies than others, a coherent and consistent approach to addressing the workplace factors that drive in-work poverty rarely existed. Even within our small selection of employers, however, we identified interesting examples of innovative practices, better knowledge of which could catalyse other employers into action.

Limited awareness and uneven practice did not, however, preclude constructive discussion with employers of the potential employee and business benefits of addressing in-work poverty in their own workplaces and beyond. While some of the participating employers focused on an ethical rationale for the practices they had adopted to reduce or solve in-work poverty, others pointed to a strong potential business case – around employee recruitment and retention, engagement and commitment and occasionally innovation – for taking action in relation to poverty.

Unsurprisingly, however, employers discussed a long list of constraining factors that hindered their actions in addressing poverty, areas where they have high levels of understanding. Highly competitive markets, cost pressures, wage-setting practices, sector-specific constraints and broader institutional barriers all featured as prominent concerns of employers, as did firm ownership characteristics, business models and competitive strategies. These concerns, challenges and constraints – alongside time constraints that limited owners'/managers' capability to develop alternative strategic responses – explain why a recognised potential business case for action on in-work poverty fails to translate into practice.

Across the employers and other organisations who participated in this research, however, there was a strong motivation to identify how more action to address in-work poverty could be promoted. Put simply, all contended that, in the main, employers did not want to be 'poverty' employers. The research findings generated a range of insights as to 'what might work' in influencing employer decision-making and behaviour. These findings and insights inform our 'Framework for Employer Action on In-Work Poverty', discussed at the end of this chapter and presented in Table 2.

The detailed discussion of findings below integrates data from the different fieldwork elements of our research, namely interviews with key stakeholders, engagement with individual employers and a roundtable event with employers' organisations, employers and other stakeholders. Specific practices and challenges are illustrated through vignettes focusing on practice and outcomes for case study businesses and workers in specific contexts, with a focus on providing practical insights for employers.

Awareness and understanding

It is a crucial starting point to know how employers see their role in addressing in-work poverty, yet research on the subject is sparse. A review of employers' organisations' websites (taking in stakeholders participating in our research and other organisations) uncovered only limited reference to issues of low pay and in-work poverty, and – outside of the contributions already highlighted – little systematic engagement with the issue in terms of research and/or practice.

Engaging with employers on the issue of in-work poverty proved challenging for three different reasons. First, the nature of the subject matter was not especially conducive to engaging employers in a general or collective discussion. Second, and not surprisingly, firms that are known to have particularly poor workplace practices – for example, underpayment of the NMW, use of insecure contracts and restrictions on access to flexible working – would not, and did not, agree to participate in this research.

Third, even where employers were willing to engage, they were sometimes hampered by their lack of detailed knowledge of in-work poverty as it related to their own organisation.

Engaging employers in discussions of in-work poverty

To address the first challenge identified above, we engaged with industry bodies, employers' organisations and other relevant stakeholders, some of whom (for example, Business in the Community and the Chartered Institute of Personnel and Development) have engaged in public debate around in-work poverty. These stakeholders were willing to:

- discuss the issue
- recognise the extent and endurance of low pay in certain sectors
- attempt to identify the barriers to addressing in-work poverty
- engage in discussion as to what actions or approaches might alleviate it.

While these key stakeholders showed an awareness of the seriousness and extent of in-work poverty, many from membership organisations were candid in acknowledging that their members are 'very far away' from serious engagement in discussions of in-work poverty. This, rather than disinterest, may explain the dearth of available information as to how employers' organisations address in-work poverty.

In relation to the second challenge, the focus of this research was to engage with employers who understood their role in in-work poverty and were willing to explore the issue in their specific context, some of whom were adopting practices to address it. Participating employers were chosen primarily from sectors associated with low pay, and while these reported a wide range of knowledge, practices, drivers, challenges and outcomes, it is important to acknowledge that these may not represent a typical group of employers in their respective sectors.

Employers' awareness of in-work poverty

The third challenge identified above related to a key issue: What do employers know about the poverty or otherwise of their own workforce? One issue on which all key stakeholders and many employers agreed was that, very often, workers will not disclose financial problems to their employer or to colleagues due to the stigma of in-work poverty and/or debt, and will often go to great lengths to disguise these problems.

Roundtable stakeholders discussed how they and/or employers would identify whether individual employees were experiencing in-work poverty, with answers including observing:

- the clothes employees wore to work
- the food they brought
- any requests for significant overtime, salary advances or other forms of emergency financial support
- behaviours potentially symptomatic of stress and anxiety.

Roundtable stakeholders also identified tax code complications as indicative that employees may have a second job, which might in turn be an indicator of financial hardship. Case study interviewees also indicated employees' travel to work as an indicator – for example the condition of employees' cars.

Yet with very few exceptions, the employers we engaged with could not point to more explicit or systematic sources of information on employees' financial wellbeing, and while many agreed that this is an area in which employers could be proactive, few could cite examples of practice that support greater employer understanding of in-work poverty. Employers reported feeling conflicted as to whether it is appropriate to instigate a discussion with an employee or employees about poverty, citing rights to privacy and issues of personal dignity. Yet while a small number of employers said that aspects of a conversation about money and personal finances could be uncomfortable or feel inappropriate, most recognised their role as a source of income for their staff, and understood that financial problems can affect employees' health, wellbeing and performance at work.

Notwithstanding the relative absence of explicit discussions of issues connected to in-work poverty, one case study employer reported being open to such discussions, suggesting the possibility that a proactive focus on staff mental health and physical wellbeing could be an effective – and less stigmatising – route to a conversation about financial problems. They noted that while conversations of this nature should be carefully approached and managed, it is important for employers to acknowledge their decisive role in shaping employees' lives, including recognising the value to a business of happy and healthy staff. They argued that the challenges employers face in discussing poverty with their employees are analogous to those involved in discussions of mental health:

> 'Well, is it appropriate to talk to somebody about their mental wellbeing? But I think we can do, and I think it's definitely in our plans, because we're designing a new induction pack … In fact, we've got a staff suggestion scheme, another way we listen, but one of our people suggested, and it concurs with my thinking anyway, that we should be doing something, give people a mental health outlet and a little bit of education … Where does the employer's responsibility stop? … I'm saying to people: "You need to get organised with your life and work out what it is that makes you happy." You know, is that my responsibility? But yes, it is because … I feel a responsibility, because the happier the employee the better they're going to perform their work.'
> HR5

However, overall, our work with employers, their representatives and other relevant stakeholders suggested a lack of engagement in debates around in-work poverty both generally and in their own organisations. In addition, while participants in the roundtable discussion considered it to be an important and constructive dialogue, some stakeholders noted that even where employers might acknowledge concerns over workers' financial wellbeing, few engage with any external parties or sources of advice on the subject, a point to which we return. This also means that employers are often reluctant to share their reflections on the challenges of in-work poverty (and what works or does not work in engaging employees on these issues) with peer organisations. While sector-level and other constraints that were seen to drive low pay were acknowledged, as was the primary responsibility of employers for pay and reward, it was challenging to engage employers explicitly in a debate that directly connected employers' choices to the incidence and perpetuation of low pay.

Policies and practices to support sustainable incomes and reduce in-work poverty

As indicated earlier, a number of organisations – such as Business in the Community, the Chartered Institute of Personnel and Development and trade union and campaigning organisations – have pointed to areas of practice that employers might address in attempting to support sustainable incomes and reduce in-work poverty. One key stakeholder interviewed suggested that, given that addressing in-work poverty is a long-term undertaking:

- a short-term focus for employers should be on addressing "symptoms" of in-work poverty (for example, through the provision of emergency loans)
- a medium-term focus should be on a "cure" for in-work poverty (for example, addressing the key contributory practices and forms of work that make in-work poverty more likely, such as insecure contracts or insufficient hours of work)
- a long-term focus should be on "prevention" (for example, through business models and approaches specifically designed to avoid in-work poverty).

Below, our findings fed into our framework setting out what action employers should take to solve in-work poverty, mentioned at the beginning of this chapter. Case study employers and key stakeholders all offered examples of practices they engage in – or would like to engage in – to support sustainable incomes and reduce in-work poverty. Some of these practices, such as paying the real Living Wage and avoiding zero-hours contracts, are more common across the case study organisations. Others, such as specific policies and interventions to support financial wellbeing, are much less common. Across the respondents there is limited engagement in the suite of practices designed to address in-work poverty. This section provides an overview of these practices, with suggestions for increasing their uptake.

Talking to employees about in-work poverty

As noted above, relatively few case study employers have a formalised and/or well-established set of practices for generating insight into, or engaging with employees on, matters of financial wellbeing. This did not reflect any real opposition to doing so, but rather a lack of awareness and hence activity.

However, one large case study employer and one stakeholder representative (from a large firm) have developed models of employer practice around better financial awareness. The case study employer, in the retail sector, addresses issues of financial wellbeing through a collective employee forum and has subsequently developed a financial wellbeing initiative comprising:

- app-based financial information provision
- training of colleagues to coach and counsel on financial matters (specifically not giving advice)
- a suite of practices to address emergencies, provide a range of upfront loans and offer collective employee benefits.

The employer provides some of this directly, with other aspects being offered in partnership with an external finance education provider. The overall objective is to help staff to engage more effectively with financial services and to be more 'finance savvy'.

Paying the real Living Wage and more

Clearly, setting wages at a reasonable level is fundamental to addressing in-work poverty, and many employers saw paying the real Living Wage as making a contribution to reducing in-work poverty. As noted in Chapter 2, the real Living Wage is an independently set, hourly rate of pay, which the Living Wage Foundation calculates based on the basic cost of living. Several participants who had been real Living Wage employers since setting up their business reported that, in their view, this represents a far easier process than introducing a real Living Wage uplift later on in a business's development. These employers had budgeted for the payment of the real Living Wage, accommodating this in annual pay increases and projected workforce expansion, from the start. Other case study employers, for example in hospitality, have moved to paying the real Living Wage as a means of attracting and retaining good staff. Nevertheless, not all of our case study employers consider it feasible to pay the real Living Wage, although these and other employers acknowledged that their employees could experience difficulties in meeting the rising costs of living. Some employer representatives were also concerned about the unintended consequences of paying the real Living Wage in creating pressure to maintain pay differentials for promoted posts. As a consequence, they were considering restructuring the organisation so that it was less hierarchical, paradoxically shortening progression pathways that they acknowledge could help to address in-work poverty. This example, among others, exposed tensions in how employers configure and reconfigure employment and reward arrangements in ways that can have different impacts on in-work poverty. Some stakeholders also questioned the usefulness of comparing reward based on hourly pay rates alone – a retail case study employer pointed to paying for breaks, overtime and other premium rates, alongside benefits, as a more accurate measure of total reward.

Working towards pay predictability and hours sufficiency

Those case study employers that are not paying the real Living Wage, but said they were working towards this, saw benefits from a range of other practices that are associated with the alleviation of in-work poverty. In particular, employer representatives tended to focus on improving job security and offering permanent contracts, as well as training opportunities, as their contribution to improving employees' financial security. Facilities management case study employers made the point that employees value job security highly even in the context of low-paid work, so that ensuring security of hours and tenure is a key priority for these employers. This echoed respondents in the food sector who argued that their long-serving staff prioritise job security over a marginally higher wage delivered at the cost of greater insecurity.

In most but not all of our cases, employers had rejected more than minimal use of zero-hours contracts. One case study employer did, however, offer only zero-hours contracts paid at the NMW (or where age applicable the NLW) to new recruits for a three-month probationary period:

> 'Zero-hours contracts work well for the company and for our people. In the first few months there is a lot of training alongside an ongoing need to service current clients – we give experienced people current clients' work, and new people going in on shadowing basis. It [wages earned] does depend on how much work we can give them at that time. Once they have proved themselves, they get busier and their skills are needed.'
> FM2

Yet the company also struggles to retain staff, especially in the early stages of their time with the company. The employer attributes this to the nature of the work – manual labour involving waste management, often carried out during a night shift. While work of this type is not everyone's preference, the company reported that it does not have staff retention issues for more established members of the workforce who are not employed on zero-hours contracts.

Other companies saw zero-hours contracts as detrimental to retaining good staff. A hospitality sector employer felt that offering flexibility in hours (for example, to help part-time student staff to manage work and study commitments), but without using zero-hours contracts, is central to offering decent jobs (see Vignette 1). Other employers offered innovative examples of using hours flexibly to benefit staff – for example, one hospitality case study employer, following consultation with employees, had agreed to reduce the working week by two hours (while maintaining pay), and to protect key time off (for example, for picking up children from school or for playing sports), and reported both wellbeing benefits for staff and productivity gains for the organisation as a result of the change.

Vignette 1: The benefits of offering job security

FM1 employs almost all of their workforce on permanent contracts, and emphasised that this predictability and security of income is a key benefit in retaining staff and ensuring staff wellbeing:

> 'I would say about 99% of the staff are on permanent contracts … we have very few zero-hours contracts. And that's not because I'm politically for or against it, but it's usually students who are looking for, you know, take it or leave it, you're contracted there, if we need you, you can't make it, then that's fine. We don't stop them doing anything else, but that's very, very few. It might not be full-time, but they're [the majority of the workforce] not on fixed-term, they'd be on permanent contracts. And that's important, I think, for FM [facilities management] as well, because one of the selling points, as I say, if I've got a contract lasting for 16 years, you don't have to worry about the job market. You can do your work … not everybody's got aspirations to become the next Bill Gates, they just want to do their job properly, come in, come out, go home.'
> FM1

FM1 described how this approach, combined with moving away from using the NMW as a default wage, has further improved staff retention and motivation and their ability to secure contracts:

> 'We're trying wherever possible to get away from minimum wages. There's a number of reasons. One is because it keeps up staff retention, so up against Tesco, 50 pence an hour extra can make a huge difference to somebody. So partly because it keeps our recruitment and retention slightly better, because again if you're sitting in these jobs, you get fed up and you do something [leave]. I'm trying to pick somebody so they've got variety, interest and they're actually slightly better off with that. So it's a number of issues in trying to get that. It's just good for business, good for us, good for people who feel motivated.'
> FM1

While we cannot generalise more broadly from these different practices in facilities management, these specific cases appear to highlight the potential for mutual gains for employees and organisations from an investment in improved job security.

Vignette 2: Ensuring flexibility while maintaining job quality

Urban bar HR4 is a real Living Wage employer. Approximately 45 people – mostly students – are employed to work on temporary contracts in the bar's various outlets (bars, cafés, gig venues). These contracts generally run during university term time only, aimed primarily at the student leisure activity market.

Rather than serving as a cost-saving measure, these contracts are designed to facilitate the employment of students who typically have a range of university commitments to maintain during term time, and who outside of term time often want to spend time at their family home or undertake work experience applicable to their studies.

All employees are on at least a four-hour contract, and staff commitments (for example, in terms of university contact hours, exams and extracurricular activities) are all taken into account. Swapping shifts and changing contracts temporarily to accommodate other demands on individuals' time are all done in a straightforward way. When the bar is quiet (for example, around exams) the employer explicitly assures employees that this will not lead to a reduction in their working hours.

The employer has chosen not to use zero-hours contracts to fulfil this flexibility – it wants genuinely positive flexibility for its staff, which does not compromise on predictability of income and access to full employee benefits. All employees can access travel allowance salary deductions, a cycle-to-work scheme, additional training on request, a pension with employer contributions, childcare vouchers, a staff discount card, emergency loans and cash advances on salaries – which are also accompanied by a conversation about financial problems.

Pay compensation and fringe benefits

As discussed in this report, 'fringe benefits' (whereby employees can receive discounts on their organisation's products/services and/or discounts on external products/services) and 'salary sacrifice schemes' (whereby employees agree to exchange part of their pay in return for employer-provided benefits such as childcare provision or additional pension contributions) can be of value to employees, especially when offering discounts on necessities such as food and household items. Many employers have shown greater willingness to offer these discounts as part of their 'total rewards package' than to raise wages. While the unconditional cash transfer represented by a wage cannot be substituted or replaced by fringe benefits, these schemes and offers can enhance the value of a good wage and be attractive to employees.

Some employers participating in this research offer fringe benefits to their staff and demonstrated some innovative approaches that are sensitive to the particular 'crunch point' that low-paid workers often face. This includes discounts on food or drink at a hospitality outlet, both during and outside of an employee's shift. Our retail case study employer offers a broad range of fringe benefits, including:

- pension top-ups
- childcare vouchers
- a rental deposit loan scheme (where employees can borrow the value of a tenancy deposit and pay it back to the employer over the period of a year)
- discounts on products (including a 'pay day' 20% discount on the retailer's branded products).

A number of other employers offer salary sacrifice schemes (for example, season ticket loans for commuters and discounts for or free access to cycle-to-work schemes). Finally, our case study employers in retail and manufacturing offer employee assistance programmes, free access to counselling and/or dedicated general practitioner services to support employee wellbeing.

Across our respondents, there was a range of views as to the relevance of different types of fringe benefits to addressing in-work poverty. Some argued primarily in favour of fringe benefits that are more closely related to income – for example, discounts on necessary products – in order to address in-work poverty. Others argued that fringe benefits that targeted wellbeing are also important to addressing in-work poverty, especially given the generally poorer health and wellbeing of low-paid workers. It may be that employers need to gain a better insight into how employees value different types of benefit. Recent research by The Work Foundation and the Joseph Rowntree Foundation found that low-paid workers particularly value fringe benefits that clearly mitigate living costs, and the examples of good practice from that research should inform employer action in this area (Carey et al, 2018).

Skills development and progression

Many of the case study employers acknowledged that a substantial proportion of jobs within their sectors are at the lower end of the skills distribution, thus explaining low pay. Some pointed to training and in-work progression strategies as a means of providing a route to better jobs for employees. Training investments appeared to be related to employers' market position and/or need to retain staff. For example, a hospitality case study employer talked about how they had a different understanding of their employees' skills than they felt is typically held in the hospitality sector, and this had enabled them to develop a strong community and regular customer base around their business. This employer runs a craft beer pub, and emphasised that while the specialist knowledge of their staff is a key attribute and skill set, they are also interested in core customer relations skills, which they view as essential to running a good pub:

> 'Our staff have to deal with difficult customers, and women have to deal with sexism – doing that is skilled work. Diffusing those situations, with someone who's been drinking, there is skill there. It is good customer relations, creating a safe and calm atmosphere. In any pub, good bar staff are worth having and worth paying for, whether or not it's a premium product place … Our staff have particular times they tend to work, and they know regulars and have a community that comes in at those times.'
> HR1

A case study employer who runs a bar offers job rotation and training to their employees, with the specific intention of developing new skills that could facilitate progression or which are applicable to their longer-term career aspirations. This reflects an understanding of their role as an employer in the eyes of their employees, developed through good communication – many of their staff are students working part-time, and are looking to build up a skill set that could be useful to them after graduating from university. Effective two-way communication with employees to better understand employees' longer-term career aspirations both influenced this business's approaches to training and skills development and was perceived as helping get the most from their staff, who feel valued, recognised and able to accrue longer-term benefits from their role:

> 'I turn round to the duty managers and say: "Listen, if there're any jobs in the outside sector and you're looking at them and you can't do something on that job description – if you make an appointment with me and say, I want to learn about A, B, C or D because it's one thing that's lacking on my CV, I will take time in that said period and show you how you do this … so that it advances your skills."'
> HR4

A facilities management case study employer argued that the sector's perceived lack of attractiveness to jobseeking candidates could open opportunities for progression for entry-level staff who lack formal qualifications, and who are most at risk of in-work poverty. This employer cited examples of supporting IT skills for cleaners to help with both job-related and non-job-related activities, as well as examples of extensive internal progression from front-line cleaning to senior management roles.

However, other case study employers and key stakeholders acknowledged that severely constrained training budgets and limited opportunities for progression (due to relatively flat organisational structures in sectors such as retail and hospitality) could leave employees with few routes out of low-paid jobs. Other key stakeholders argued for greater clarity in defining what progression means – higher salaries, more hours to earn, upskilling or moving between different jobs – in order to develop more realistic strategies to support progression. It was suggested that public bodies could assist by improving access to career development advice, so that employees are able to consider how best to achieve progression within and beyond their current place of work.

Support and advice

The literature suggests that there may be benefit in organisations providing both advice (for example in the form of financial information and support for financial planning) and practical support for employees struggling financially. Business organisation representatives argued that employers often deploy a combination of informal and formal support mechanisms to help staff cope in times of financial stress. Few of our participating organisations provide such forms of support, but there were examples of innovative practice. The representative of one medium-sized hospitality real Living Wage employer spoke of a number of emergency support services that the company offers to employees:

> 'We do have a cash advance form and some staff, you know, certainly do take it up ... Yeah. We've got two things. We've got the staff advance form, which means that they can just come and say like: "It's three days to my wages, can I have £20 just to get me through?" Or we've also got an emergency loan fund so that if someone has an unexpected bill, or something like that, then we'll give them an emergency loan and just take it off of their wages as well ... People are fairly comfortable coming and asking for those sorts of things. It's quite an open environment. I don't know if there's anybody that would be intimidated going into the finance office to ask the question or asking even the managers. The managers are all very, very approachable.'
> HR4

This and other employer representatives emphasised how emergency financial support is considered on a case-by-case basis. Across most of the case studies, employers could report instances of supporting individual employees with some very dire financial problems. While this individual response is laudable, it is reliant for effectiveness on an employee's willingness to ask their employer for help, which will vary enormously. It may also produce an outcome whereby some employees are supported and others in similar circumstances are not.

Working with supply-chain and procurement partners

Our key stakeholder research highlighted the value of larger organisations deploying ethical supply-chain and procurement practices in order to influence positively the wage-setting practices of commercial partners. One of our key stakeholder participants is also a senior manager at a large employer that participates in the Living Wage Foundation's Friendly Funder scheme. This reflects a broader approach that this organisation has taken to responsibly invest, and to ensure that its supply-chain management maintains real Living Wage principles. This is a large organisation, with sufficient reach to influence the wage setting of contractors and suppliers – while the participant acknowledged that not all staff in contracting organisations are required to be paid the real Living Wage, they were able to effect change within their remit:

> 'Anyone who is supplying services inside our building [is paid the real Living Wage]. So, it will be things like our cleaners, our caterers, they are our two main contractors ... and we make sure that it's always those particular members of staff need to be the ones that come into our buildings, because we are paying them the Living Wage. So, not everyone within that company is being paid the Living Wage, but the people that work in our buildings are ... Contractors are paid the Living Wage, as well. Interns, apprentices, anyone like that.'
> KS4

It is important to consider this practice from the perspective of contracting organisations, however, since the approach that works for the contracting partner (that all staff on their premises receive the real Living Wage) is difficult to reconcile with fair and functional employment arrangements at the contractor organisation (who may be paying the real Living Wage to some employees servicing particular contracts but not to others where the contract does not support it). One key stakeholder noted that this is a "nightmare" in sectors that make heavy use of subcontracting (such as construction) and a case study contractor organisation said that it is unmanageable for businesses.

Some key stakeholders raised the potential value of encouraging purchaser organisations – especially larger ones, with a portfolio that involves substantial procurement – to effect change by encouraging ethical procurement and investment strategies that prioritise real Living Wage and fairer working practices:

> 'We used to be a large investor with [a large company]. Now their employment practices, as you probably know, are not particularly great. However, we engaged with them over a reasonable period of time to try and improve things, and in the end we decided that they weren't improving things enough, so we withdrew … They [investment team] assess all that, so keep meeting with them [investee] and say: "Have you done X, Y and Z? Can you evidence it?" "No you haven't, okay …" And they might say: "Oh but we're doing it, we're doing it." And they go: "Okay, well we'll give you a bit longer." But you can only give people or companies so long to keep improving things … It was certainly enough time for them to be able to improve things, we gave them a chance to do that.'
> KS4

Many of the employers participating in our research continue to grapple with the challenge of breaking free from low-pay business models. When we engaged both case study employers and key stakeholders on the question 'What can employers do?', they identified a range of potentially valuable practices and shared a few examples of good practice. Take-up of progressive practices has been variable, but given some evidence of their benefit, there may be value in sharing what works in areas such as engaging employees in discussions on financial matters, and providing support and advice for employees struggling financially. These examples of potentially valuable workplace practice do not detract from the core challenge that employers and employees in low-paying sectors and organisations face – that levels of pay often fail to provide income sufficiency and/or security for workers and so they are unable to break free from poverty.

Making the business case

Our engagement with key stakeholders and case study employers connected with how we could more effectively make the business case for addressing low pay and ensuring that employees have access to sustainable incomes. First, however, it is worth noting that, for some employers, an ethical rather than a business motive could be seen as the key driver of action on pay. Case study employers often linked their payment of staff at or above the real Living Wage, and other actions to improve job quality (such as investing in training and supporting wellbeing), to personally held values. This was particularly the case for small- and medium-sized case study employers, some of whom reported that their organisation's size means that they work at close proximity to their staff, and can see the positive effects of paying staff well: "People are more likely to stay with an employer if they think that you've got their wellbeing at heart, and you're not making them work for inadequate amounts of money. You do get better motivation" (HH1).

These employers argued that paying at least the real Living Wage had made their business model more viable and more profitable, through their ability to attract and retain committed, knowledgeable and skilled staff:

> 'All businesses need good staff who know what they are talking about. Whether you're selling cheap or expensive beer, we are all working to similar margins – I can see it might be the perception that fancy businesses have higher margins or higher gross profit … Businesses of all types can post a good profit. That's what it comes down to – we are not the only profitable business in the world, and paying the Living Wage is small change in the scheme of things.'
> HR2

More broadly, case study employers and key stakeholders also pointed to a number of arguments that could be made in support of a business case for addressing low pay and income insecurity. A number of drivers of positive employer behaviour in terms of in-work poverty emerged as recurring themes.

Benefits for recruitment and retention

First, key stakeholders and a number of the case study employers acknowledged that pay setting is crucial to **recruitment and retention**, and a primary motivator for organisations taking action on low pay. One case study employer in hospitality said that their decision to become real Living Wage-accredited had led to positive publicity, which had enabled them to attract and retain staff:

> 'Our staff know that we're offering competitive pay. We have lower staff turnover than you would expect for our sector. We've had one member of staff for 10 years, others for nine years. Our housekeeping has been with us for three years, and front of house for two years …'
>
> HH1

In sectors where low pay is not as widespread an issue as in hospitality, employers remained clear about the benefits of paying higher wages:

> 'People will want to work for you, so you get the right people. You may retain talent more, and quite often it relates to younger people just starting into the workforce as well … So, you may **attract younger talent** who might not have come your way … It enables people to have a bit more financial freedom and so if they are more satisfied in their life, they are going to be more committed to work and more productive … healthier as well, if they are not stressing about their bills et cetera. So, yeah, wellbeing and also in some ways, I guess, towards your brand – you can talk about how you're a fair employer and then you can help to encourage and influence other employers to do the same thing.'
>
> KS4

The business benefits of reducing turnover and so maintaining levels of productivity (in facilities management, food production and manufacturing) and the quality of services (in hospitality and retail) was a consistent theme in our interviews with case study employers. One case study employer representative in the retail sector spoke of how their organisation had recently improved both pay for front-line workers and the broader employee reward package, and that a significant **fall in turnover** (of around 5%) had followed. Another case study employer in hospitality relies on their capacity to recruit and re-hire students and other temporary staff in periods of high demand. Paying the real Living Wage, along with a flexible approach to shift management co-produced with workers, has ensured that many temporary employees are open to being re-employed in peak season. "Year on year, staff do return because of the flexibility. We've just done a staff survey and one of the key words that came out was the flexibility and pay" (HH2).

Improving skills development and use

Another potential driver of employers' engagement with low pay related to the linked issue of improved **skills development and use**. Case study employers who had taken action to improve pay argued that retaining high-performing staff means that they are able to invest in product knowledge and customer service skills that improve the quality of their service and feed into higher levels of **customer satisfaction**. As we have seen in the craft beer/hospitality sector case discussed above, there was an acknowledgement that such pay strategies to promote retention and skills use are more likely to be found where product knowledge and/or a 'niche' offer to customers (in terms of the product or the environment) are central to business models.

Vignette 3: Premium versus mainstream?

Stakeholders reported a prevalent view that employers in the hospitality sector selling 'premium' products (higher-than-average price, specialist and/or rare) are more able to afford to pay their staff higher wages, summarised as: "It's only 'hipster pubs' that can pay the Living Wage." This was connected to the view that customers of premium product outlets may be more likely to be concerned about the ethics of the organisation they are visiting. These stakeholders suggested that selling a more 'mainstream' set of products (that is, lower price, more widely available) may be a barrier to generating sufficient profits to pay the real Living Wage.

Two hospitality employers who participated in this research, and who pay the real Living Wage alongside selling 'premium' products, took a different perspective on this. While they acknowledged that one motivation for their payment of the real Living Wage is to attract staff with specialist knowledge about the products they sell, they refuted the idea that their payment of the real Living Wage is only possible because of their more premium brand: "Our profit margins are similar, even if we are selling beer at a higher price – the brewers are paid a higher price by us" (HR1). This example highlights two important issues: first, that all businesses face constraints; and second, that employers make real choices about the distribution of costs and revenues in their businesses.

Key stakeholders also emphasised the **'diversity business case'** – that firms with a more gender and ethnically diverse workforce have been shown to have improved organisational performance, and to outperform their competitors (Chartered Institute of Personnel and Development, 2018). Given the prevalence of women and people from ethnic minority backgrounds in low-paid roles, emphasising both the ethical and the business case for properly rewarding all staff could serve to correct some of this imbalance. Specifically, it was suggested that encouraging progression to more skilled and senior roles among under-represented groups could deliver business benefits associated with diversity as well as addressing concentrations of in-work poverty. Key stakeholders further argued that producing research and figures specifically focusing on the diversity business case and in-work poverty could provide useful, and in some cases necessary, evidence to convince persistently unwilling organisations that taking action to tackle in-work poverty is both ethically appropriate and effective for business.

Reputational benefits

Being able to tell a positive story about workforce diversity, and more broadly being seen as a good employer paying decent wages, were central to the perceived **reputational benefits** associated with addressing pay issues – a consistent theme in our interviews with both key stakeholders and case study employers. Reputational benefits were seen as contributing to improved recruitment, with the hope among case study employers that they might be seen as an 'employer of choice' for good candidates. There was an acknowledgement that candidates increasingly consider a broad range of factors – including an organisation's reputation for fairness and ethical behaviour – when targeting job applications. Demonstrating a commitment to fair work and decent pay is therefore an important component in some employers' resourcing and talent management strategies. A parallel discussion with employers and key stakeholders focused on the reputational benefits in attracting customers who are increasingly interested in organisations' ethical and employment practices.

Employee performance and discretionary effort benefits

Finally, and perhaps crucially, a number of key stakeholders and case study employers argued that the business case for addressing low pay and in-work poverty risk is perhaps strongest when engaging employers on how best to maximise **discretionary effort and innovation** among staff. Case study employers who pay their staff the real Living Wage and invest in training and development argued that there is a clear relationship with discretionary effort, ideas generation and enhanced productivity. For example, one hospitality case study employer described how their staff are a valuable source of new ideas and that they are committed to customer engagement (which our interviewee in turn again linked to improved commercial performance):

> 'All our staff are people who are interested in our approach – they may not initially have loads of knowledge about beer, but they are willing to learn. We teach them about cellar work, beer and cider, and we expect more of them compared to usual bar work. A big reason to pay the Living Wage is that we get a really high calibre of staff – we can attract them, and we can retain them. We put a lot of effort into training. And staff get to know the community – our business has a strong community. Our staff are hosts, they create an atmosphere. A lot of effort has gone into developing this, and we're seeing the benefits. It's working.'
>
> HR1

Another hospitality case study employer made an explicit link between action to alleviate employees' money worries (in the form of paying the real Living Wage) and an expected return in terms of discretionary effort:

> 'We don't want staff to be spending their time at work worrying about how they're going to make ends meet. So, if we can pay them a bit more and give them the Living Wage then hopefully that alleviates their money problems a bit more and you get more out of them in the workplace.'
> HR4

Our key stakeholder engagement with industry representatives elicited similar support for the idea that investing in improved wages could pay off through higher levels of commitment and discretionary effort, and even just benefits in terms of **attendance and reduced absenteeism**. One retail employer reported analysing anonymised data from their employee assistance helpline, which suggested that a fifth of all calls were finance-related. With a sickness absence cost of £40 million a year, the employer came to the conclusion that 20% of this cost could be attributed at least in part to financial problems. This informed the employer's emphasis on improving pay for front-line workers and providing access to financial advice and support. "I would be amazed if you couldn't make a proactive wellbeing programme pay for itself even with up-front costs. Even in our worst-case scenario, and looking at a purely financial business case, this stacks up" (RT1).

In conclusion, the UK's productivity gap with its competitors in low-wage sectors is not due to a lack of capital investment or workers' formal skills but how well we use workers in these sectors. Some of our case study organisations are clearly attempting to build a viable and sustainable workforce, provide skills development and so access discretionary behaviours and improved employee performance. That said, many of our case study employers continue to struggle to shift their business up the value chain, grow profits and improve pay and conditions (beyond a commitment to paying the real Living Wage). The substantial barriers to employer action on low pay and in-work poverty that they reported are examined more extensively in the next section.

Key challenges facing employers in addressing in-work poverty

Much of the focus of our discussions with key stakeholders and case study employers was on the continuing barriers to promoting improved pay and sustainable incomes for workers in low-paid sectors and workplaces, which we describe here.

Lack of knowledge or awareness of the problem and/or potential solutions

As we have noted above, key stakeholders and some of our case study employers saw a lack of knowledge that employees might be at risk of poverty as a barrier to action. Key stakeholders suggested that employees could be reluctant to share financial problems; and that managers could be reluctant to ask questions. Many case study employers were unaware of the prevalence of the experience of in-work poverty in their own organisation. However, one of our case study employers in the retail sector – having recently investigated and acted on low-pay challenges among front-line staff – argued that other organisations in the sector needed to be more proactive in exploring their employees' experiences:

> 'I think I would start by asking them what they know about their workforce. Or what the average … I would start asking them about remuneration. What's the ratio of your highest paid to your lowest paid, what proportion of your people earn less than £20,000 a year?

> What do you know about the lifestyle, through the statistics? Because often, it's a financial person that has to bear the brunt of much of this, isn't it, because they often think, "Well this is, what's tangible about this, and what's intangible?" you know. The intangible is the wellbeing matters, and the emotional resonance it has for people. The tangible is, how much is it gonna cost me?'
> RT1

Similarly, there was also a sense at our key stakeholder roundtable that many employers are unaware of the range of financial and other support mechanisms that could be used to engage with employees who are struggling financially. More generally, there was an acknowledgement that founders of start-ups and some other business leaders often lack human resources knowledge and expertise, instead having a skillset focused on the product or service that their organisation is offering.

Lack of information and advice services

A linked concern that stakeholders raised relates to the paucity of information and advice on addressing low pay (and other aspects of job quality and fair work) available from publicly funded and other business advice sources. Business support and advisory services span a wide range of public and private sector institutions, including enterprise and economic development agencies, local government, public and private business incubators (companies that help start-ups in their early days by providing advice, workspace, capital and so on if needed), banks, consultants and business organisations. However, contact with public business support services remains a minority activity.

One of our case study employers suggested that public business services sometimes prioritise rapid growth strategies (and cost containment in the area of pay) over providing good jobs in their advice to start-ups. It was suggested that business advice providers prioritise companies with 'hockey stick' growth strategies (that is, companies that are able to achieve high levels of growth in a very short period, represented in a growth curve that resembles the shape of a hockey stick). "There is a focus on hockey-stick companies, with angel investors looking for big returns – and they are happy to squeeze the wage bill right down" (HR3). (An angel investor is an individual investor who is able to use their own resources to make capital available to companies, normally in return for an equity stake in the business, which they hope will return a profit.)

A business support services respondent acknowledged that the provision of advice to businesses taking on staff beyond the founder rarely goes beyond a discussion of the real Living Wage and is rarely delivered by staff with employment or human resources expertise.

Key stakeholders highlighted that poor legal advice is sometimes a determining factor in employers' wage-setting practices. Reference was made to the increasing use of consultants and solicitors to determine suitable local wage rates, especially among small and micro enterprises, with the suggestion that some of this advice lacks appropriate expertise. This included:

- inaccurate information about NMW and NLW obligations
- encouragement to make use of unpaid trial shifts
- the online purchasing (for less than £1) of 'model' zero-hours contracts.

These advisers are not likely to have much expertise on human resources matters beyond basic legal obligations – for example, on employee engagement, the importance of training and development, and the relationships between good practice and performance – that they can pass on to an organisation's founder.

A key stakeholder representative from a business incubator service who was interviewed for this research highlighted the impact that engaging with better work practices can have, demonstrating the range of challenges that start-ups and growing businesses face in making sure that their employees do not experience in-work poverty, and the need for specialised support:

> 'We provide mentorship, connecting people within the start-up community – it really helps knowing you're not alone. We support people to do things like have pricing discussions for very young companies, for example how to price your product. Scary questions, and nitty gritty stuff … A big part of that is being ethically good employers, and looking after your employees. We frown strongly upon unpaid work – we have had offers [of unpaid work], but we won't take them up. As a landlord, we can't tell our tenants [start-ups] not to do something – but we found out about one company using unpaid interns and we evicted them …'
> KS7

The same organisation highlighted that hosting mainly technology companies within their incubator means that, at least on the face of it, very low pay is not an issue, with starting salaries of around £25,000 a year. Of greater concern were the demands placed on employees and expectations of long working hours, which reduce effective hourly rates of pay and raise concerns over employee wellbeing:

> 'A big problem is overwork, excessive hours, and the possibility for a low hourly rate within that … Starting a business involves spinning plates. It's difficult to think about these things beyond "We've got two employees who we pay £25k each" – but they need to set foundations for growth, future employees … Managing growth is hard, and start-ups are notoriously hard work … It feels inevitable – you're trying to do a lot with so few people. How can employers support staff working excessive hours?'
> KS7

A clear finding from our research, discussed further below, was therefore that business advice and support services – especially those that are publicly funded – could achieve much by engaging proactively with employers on issues around pay and in-work poverty. However, key stakeholders also suggested that this might be challenging. There is a wide spread of business support providers and no easy way to access and influence them. This may not represent the same challenge in relation to publicly funded business support services (where these exist), but key stakeholders noted the crucial fact that relatively few employers engage with public agencies on pay or any other issue.

The challenge of 'designing it in'

Facilitating and embedding fair work practices and payment of at least the real Living Wage at the start-up stage of a business can prevent the perceived challenge of introducing higher wages later on in a business's development, a key barrier in the view of several case study employers. These employers – both large and small – said that they could understand how daunting it could be for a firm to introduce a real Living Wage uplift for staff when this had not been planned from the start. This reinforces the value of business advice services' timely and appropriate intervention, which several participants reported making use of, encouraging start-ups, for example, to budget for and pay the real Living Wage from their inception. As discussed earlier in this report, case study employers reported that some of the barriers that they face in paying higher wages are particularly relevant to organisations at start-up stage. Several case study employers, particular in the hospitality sector, said that paying the real Living Wage from the organisation's beginning had meant that recalculations, uplifts and longer-term changes to budgets had not been required. But they recognised the challenge that this could represent for some organisations:

> 'We knew from day one we would always pay staff the Living Wage. It was always in our forecasts, our cost models. We knew it was how much we would need, and that it would go up every year. Businesses that have never done that, to suddenly change it, it does seem like a much bigger challenge.'
> HR2

Finding ways to support employers in any sector who are motivated to raise wages, but feel overwhelmed by the financial and logistical implications, would be a useful service for local business support and advice hubs to offer.

Wage-setting practices

Key stakeholders acknowledged that improvement is needed in employers' understanding of how to set wages in order to get the most from their staff and to address organisational challenges and priorities. However, they also highlighted concerns that improving wages needed to be balanced against any risk to employment and to be sensitive to variation in the capacity of different employers to absorb cost. This was typically invoked with reference to small- and medium-sized enterprises, citing relatively higher risks that these enterprises as employers face compared with large companies. One of the key concerns for most low-pay commissioners is that rises in the NMW and the NLW should not result in job losses. Stakeholders reported that while many employers accept the principle of yearly increases to the NMW/NLW, they often contest the scale of the increases, and that many employers are unhappy with what is considered 'political interference' in wage setting.

Our data points to an absence among many employers of a clear wage strategy, which was a minority practice across our case study employers. Larger organisations were more likely to articulate aspirations to be, for example, at the bottom of the upper quartile for wages in their sector. Employers made reference to market rates, what feels fair, what is affordable and, more rarely, salary surveys as informing their wage positioning, although one case study respondent voiced discomfort with the view that benchmarking against other salaries is always appropriate: "We do a lot of benchmarking data in all those different sectors … but if ever there was a dark art that's it, because you can, in one respect, the numbers mean anything you want them to mean" (R1).

The absence of a clear and explicit wage strategy – and any employer–employee wage-setting mechanisms – may mean that employers are less alert to changes in relative pay patterns over time. As one manufacturing employer illustrated, the departure of a valued shop-floor worker employee earning £18,500 a year for a job earning £1,000 a year more acted to:

> '… trigger a thought in our mind to say, oh, if someone's prepared to move for £1,000 then, one, we're investing in the person and we're not going to get that return on that investment but also if it's that … if, you know, £1,000 is making a difference to someone's life, let's get our salary up to a point where this doesn't happen again.'
> MF1

As a consequence, this firm recognised that it had perhaps lagged a little over time from where it wanted to be and awarded the pay rise to all shop-floor workers on the lower rate. These findings suggest a lack of specific expertise in wage-setting strategies – beyond informally following the perceived market rate – among some managers. Previous studies have suggested that low pay and low productivity in some UK sectors feed into a cycle of under-investment in management capacity, which in turn leads to decision-making that assumes the need to minimise labour costs based on incomplete information. For example, Forth and Aznar (2018) have suggested that low pay in sectors such as retail feeds into problems in recruiting management skills, which may reinforce poor practice in wage setting. Our evidence appears to concur with this research.

Wage setting, fairness and pay comparisons

Only a small number of the employers we interviewed articulated a view of their organisation as one in which choices could be made about the distribution of value – for example, lowering profits in the short term in order to raise wages. Those that did present an understanding of their role as an employer to involve making choices like this, did so in a context of family ownership and the absence of shareholders (as discussed in the next subsection). Business models and associated ownership structures appeared to be a key limiting factor in case study employers' willingness or ability to engage in conversations about value distribution.

Key stakeholders also pointed to some 'copycatting' with regards to discourse and practice around wage setting in the UK. This includes a '2% increase norm', and local labour market wage setting clustering around the same levels. Reflecting this, several case study employers who participated in interviews said that a large employer in their sector taking a lead and offering higher wages and/or improved terms and conditions could reset norms for other employers. These findings concur with other research, which suggests that informal business networking is an important source of information on wage setting for some employers at the lower end of the salary distribution (National Institute for Economic and Social Research, 2018).

Prevailing ideas about what is 'normal' within any given sector also hampered discussions of this nature. For example, stakeholders and case study employers operating in hospitality referred during interviews to 'high staff turnover' as a key feature of the industry, with the implication that this is to be expected. Year-on-year changes in staff turnover within an organisation could be compared, but these comparisons and the expectations that framed them remained within the parameters of a sectoral 'norm'.

The establishment of norms between competitors within a given sector also appeared to leave some employers relatively uncurious about the possibilities of workplace innovation, change and alternative business models. Making decisions about wage setting based on what local and/or sectoral competitors are doing, as opposed to what sort of wage rates might produce the best organisational outcomes, is a key example of this. This form of localised wage-setting behaviour can exacerbate the challenges facing low-paid workers in depressed labour markets. Small businesses are already demonstrating that increased profitability can be achieved through tackling in-work poverty – and specifically through raising wages – but this is not leading employers to change their business models (Carré and Tilly, 2017). One explanation may be that employers – in particular, large employers – have come to accept certain organisational practices and consequences as normal and inevitable. Another may be that shareholders are constraining possibilities for changes to business models.

Strategic choice, ownership and business models

Our research with case study employers and key stakeholders also pointed to ownership models and other institutional factors that could act as a facilitator of engagement with issues around low pay and in-work poverty. For example, almost all of the participating employers who pay the real Living Wage and/or offer other benefits designed to tackle in-work poverty are operating independent or family-owned businesses. Some interviewees argued that they did not feel it would be possible to raise wages in the way that they had, or to offer better-quality jobs, if shareholders and/or private equity had a decision-making role in the organisation. One case study employer had direct experience of private equity firms showing interest in their growing business, but making their capital investment conditional on lowering staff costs:

> 'One of the unusual things about our business is that, we've spoken to quite a few private equity companies … Because of our size and because hospitality has been a hot sector we've spoken to quite a few, and I've had feedback from them. And one of the areas of feedback they've given us is that our staff costs are a bit higher than the norm: "Your wages are about 2% higher, 1%/2% higher than the industry average." So that, in my opinion, is one of the main contributing reasons that these larger companies aren't going to, don't have the ability to do something different. Whereas a privately owned company like us, that's owned by my family … can say we are willing to sacrifice £100,000 of our profit in order to do something good with our people. You couldn't do that with a private equity company, mostly because it's all about share price or the value of the company and the results. It's all about the next results. It's a short-term view.'
> HR5

Some participants were able to draw on previous experience working in a public limited company context to inform this view, suggesting also that attempts to combat in-work poverty in the organisational context of a public limited company are difficult to embed and diffuse across the company:

> 'The family are the shareholders, so that's it, so … unlike PLCs [public limited companies] where I've worked before, you're not at the behest of the City, so it's not driven in the same way. And that's some of the beauty of having a small business where it's the name and the reputation that are as important, if not more important, than the shareholder returns … they probably all talk the same language to begin with, but there's so many layers within a PLC, that no matter how determined somebody can be to deliver in the inclusive role, the social

values, it can get thwarted at various times, so there's more hurdles to cover. And that's not to decry PLCs – I know some exceptional work is done by them – but that is done perhaps more in silos.'
FM1

Key stakeholders and some case study employers also suggested that labour costs relative to other business costs shape employers' pay setting. The businesses that we engaged with that most struggled to address low pay operate in labour-intensive sectors such as retail and hospitality; whereas some manufacturing case study employers explained their capacity to act on pay with reference to the relatively limited role of labour costs within their capital/plant-intensive business.

Cost/competitive pressures

There were varying perspectives on the extent to which different overheads (for example, rents, business rates, duties on alcohol, utilities) are a significant barrier to raising wages, but all employers acknowledged that the idea of 'costly overheads' is a key part of counterarguments to investing more in staff and reward. Some case study employers said that the cost of renting a premises, particularly as a start-up that does not have access to a network of established businesses and landlords, is prohibitively expensive:

> 'Getting a lease is very hard when you're starting out – you don't even have accounts. Landlords are only interested in money, and there's lots of pension funds and the like involved in the letting landscape. It is very hard for a start-up or SME [small- to medium-sized enterprise] to get a lease, especially if you are not part of the Old Boy's Network. We need legislation to tackle this – I think that one in three properties on a high street should be offered at affordable rents to start-ups.'
> HR3

Specifically within the pub trade, one employer described how they had been able to develop their business while paying the real Living Wage and supporting sustainable incomes in other ways because they had avoided the cost and restrictions of a co-tenancy. However, they were looking to expand their business, and were finding rents on additional premises prohibitively expensive:

> 'It would be really effective to get at the rent issue, but then you'd need to get at private landlords, which is very difficult. This pub is in an unusual situation – we are just leasing the building off a landlord, but we are not part of a chain. A pub in a co-tenanted situation is different, and that can be a difficult model to work in … We've been looking for a year and a half for a second project. We're coming up against high rents, and hence rates are very high. If we make it part of the same business, then we suddenly become liable for higher rates on both premises – this skews it towards not setting up a second business. Nothing seems to work yet.'
> HR1

Several case study employer representatives said that business rates, and the impact these have on utilities, are becoming an unmanageable cost that is out of step with the seasonal realities of their business:

> 'Our main barrier to maintaining payment of the Living Wage is that the costs of everything are rising. There's been a revamp of rateable values, and it's now nearly doubled. We were previously entitled to [the] Small Business Bonus, but the threshold has now moved and we are slightly above it. We pay over £1,000 a month in rates. In quiet times, we might be completely empty, so we are not necessarily even making that each month. Our water rates are based on our rateable value, so these have now doubled. We pay £4,000 for a quarterly electricity bill. We just can't increase our prices in line with this.'
> HH3

Rising costs of already expensive utility bills, and a lack of regulation that employers said facilitated utility companies' unfair practices, are a key challenge for some of the small businesses and start-ups that participated in this research:

> 'The key cost that could jeopardise an employer's ability to pay the Living Wage in hospitality is utilities. There is a monopoly – the default providers for new start-ups and premise occupiers make up rules as they go along, and charge what they like. I've been charged for rain dripping off the roof of the building that the café is a ground-floor occupier of. I was charged £1,000 for 11 days of 'water usage' when the café was not even open. Even getting out of a contract is hard – you need to give them 14 to 21 days' notice, during which time they charge what they like. I really want Ofgem to regulate here, to ensure a fair rate. Then the utilities overspend that so many cafés will face could be repurposed for wages.'
> HR3

While employers' complaints about the cost of doing business have an air of inevitability and must be seen in the context of their responsibilities as corporate citizens, there is always a balance to be struck by policy-makers who are required to raise funds through local business rates and other taxation, but who also want employers to resource decent jobs for their employees. There is some, albeit mixed, evidence that constraining business tax (or in this case property rates) increases can feed through to have positive impacts on employees' wages, but a range of other factors (such as employees' bargaining power and employment regulation) are likely to mediate this relationship (Moore et al, 2014).

Lack of sector leadership/'frontier firms' leading change

Studies of technology diffusion have pointed to the potential role of so-called 'frontier firms' in disseminating practices that support productivity improvements (Andrews et al, 2015). (Frontier firms are firms that are sector leaders in terms of productivity and growth.) As discussed elsewhere in this report, employers who participated in this research outlined a range of positive consequences that followed from their payment of the real Living Wage and/or their efforts to enhance job quality for their workforce. Good examples of frontier firms addressing in-work poverty have not yet led to sector-wide diffusion, an issue also seen in relation to productivity and low pay, in which 'the diffusion and adoption of innovations and best practices that already exist' have also been slow to occur (Institute for Public Policy Research, 2016). This may be attributable in part to the absence of large employers among these frontier firms. As noted in the subsection 'Wage setting, fairness and pay comparisons' above, key stakeholders, reflecting on sectors such as retail and hospitality, argued that movement by a large and leading employer in the sector could have a rapid knock-on effect on sectoral competitors' wage-setting behaviours. Our retail case study employer reported their aspiration to be at the forefront of firms in their sector in terms of total reward package, rather than simply in terms of hourly rate.

Sector-specific challenges

Our research with case study employers highlighted sector-specific barriers to progress on pay. For example, within hospitality, case study employers and key stakeholders argued that a focus on 'peak' seasons is not compatible with offering a workforce sustainable incomes, and that industry bodies need to lead change towards a year-round approach. Supporting the hospitality and tourism sectors to diversify their year-round 'offer' to customers could help employers generate a more consistent and higher annual income, which could in turn facilitate year-round employment of staff on higher wages.

The sectors in which firms are effectively 'price-takers' are particularly challenging arenas in which to address in-work poverty. This applies in significant part to facilities management firms. Participants said that leadership in government procurement and at the sectoral level is still needed in order to bring about broader poverty-reducing shifts across individual firms:

> 'The biggest frustration I've got and the one which I suppose I'm beating a drum about just now … is to change the way procurement is handled in the first place, because regardless of what happens, they have this wonderful race to the bottom … the margins are wafer thin when it gets to that stage. When it goes down to there … I'm going [to be] cutting back on

everything I do, looking for ways in which I can economise, because if I end up not making money, what's the point in us doing it, I can't develop anything. There's a price which is the normalised price, and if you go either side of it, you're either going to cut your service down or you're going to make obscene profits from it. So what I believe should happen is the government or the technical advisers for them should be saying: "The price for drawing a service for FM [facilities management] doing this building is going to be £1.2 million, and if you get anything that's super low or super high from that, discount it straight away." So if that's your target price, why not go for that?'
FM1

Stigma

Finally, some key stakeholders suggested that employers may be less inclined to participate in programmes designed to tackle in-work poverty for fear of being associated with in-work poverty at all. As one business stakeholder commented: "When you mention the word 'poverty', they run for the hills" (KS4). Stigma also threw up major challenges to the completion of this research. The research team faced considerable challenges in engaging employers – the contribution of low pay to in-work poverty is a subject that many employers simply did not want to talk about. However, key stakeholders participating in our Chatham House roundtable event reported that they appreciated the opportunity to discuss a complex and challenging issue in a confidential forum. In addition, framing the debate around the total reward package, and emphasising the potential business and other benefits of employees' greater financial wellbeing and sustainability, appear to present a potential route to opening up discussions with employers. There was also a sense from our discussions with employers and key stakeholders that engaging the former in broader discussions of job quality and/or fair work may offer a way of addressing more specific issues of in-work poverty.

In conclusion, employers offered a wealth of insight on the challenges and barriers they face in addressing low pay and in-work poverty and, unsurprisingly, for some their knowledge of these matters heavily outweighs their understanding of their employees' experience of in-work poverty. Indeed, consistent with the findings in preceding sections of this chapter, a lack of awareness and access to good information and advice on addressing in-work poverty was a recurring theme. Gaps in knowledge and understanding affected employers' decisions throughout the business life cycle, but an important emerging finding appears to be that the start-up phase can be crucial – embedding decent pay and good practices for addressing in-work poverty can be challenging, but designing in these practices at the outset makes them more sustainable in the long run. There is a need for business support and advice at start-up and thereafter that assists employers to weigh the costs and benefits of different approaches to pay, and indeed different business models. A continuing challenge among those who participated in our research appears to be the relative absence of such support and advice. For some employers in some sectors and circumstances, the barriers discussed above may appear almost insurmountable. Yet notwithstanding these challenges, participants in the research put forward suggestions for action to promote positive change. These are considered in the next section.

Promoting employer action on in-work poverty

This section presents insights from all participants, presented thematically, on the kinds of action either that employers might take, or that policy-makers might attempt to influence, to reduce in-work poverty.

Improving awareness

Many stakeholders and employers pointed to the need for awareness raising across the employer community, with three particular foci:

- to support better understanding of the reality and experience of in-work poverty
- to gather better insight and data on – and from – their own employees
- to inform employers of practical information and options available to them.

Proactively disseminating existing resources – like one of those from the Chartered Institute of Personnel and Development (2017) – to support appropriate engagement with employees' financial circumstances, and to foster understanding about employers' vital role in shaping these circumstances, would be useful for those employers struggling to begin discussions of this nature. These types of resources may be valuable in facilitating conversations between employers and their workforce about the best financial arrangements for different employees.

Case study employers spoke about the need for greater awareness across employers and employees of practical options for delivering valued benefits, for example through salary sacrifice schemes. While not an alternative to sufficient pay, such benefits are valued by and can be of use to employees, and may be cost effective for employers and employees alike.

There may also be value in sharing insights from those employers taking a range of other actions to support employees' financial wellbeing (such as the practices discussed in this report, ranging from offering staff discounts on products, to providing loans for specific needs such as rental deposits, and facilitating access to financial learning).

Improving awareness at an organisational level requires engaging in these discussions with staff and addressing the complexity of the total reward package. The latter may not be an area where employers have reliable data, however, making effective engagement with staff all the more crucial.

Key stakeholders argued that sharing good practice on pay could focus on identifying lessons from success stories, but also learning from challenges encountered and (wholly or partially) overcome. This could be achieved by celebrating successes in this area, and by not penalising too harshly those employers that make genuine attempts to resolve in-work poverty but who fall short in the process. Key stakeholders identified collective bodies and accreditors such as Investors in People and the Chartered Institute of Personnel and Development as having the capacity to play an influential role in this process.

A broader programme of activity could focus on sharing evidence of the business benefits that flow from addressing low pay and job quality. There is significant evidence that paying staff well, and offering good-quality jobs, have significant positive impacts on businesses across a range of different sectors and could address many of the challenges that UK businesses face (Guthrie, 2007). This includes:

- improving productivity
- facilitating recruitment and lowering staff turnover
- identifying new directions and opportunities for innovation for the business.

That more employers do not draw on this evidence to inform a more progressive approach to pay is likely to be due to a range of organisational and market constraints and sectoral conditions discussed previously. An increasing number of employers are recognising this and should be encouraged to tackle in-work poverty as quickly as possible, to ensure the health and wellbeing of the people whose labour is fundamental to the UK economy:

> 'I am convinced that profitability would come through and all the hidden parts of that, recruitment, retention, reputation – all that side of it, from generally doing the right thing. In many ways, that's the hardest thing to get over to people. But take them along to Carillion and say: "Look, there's the empty offices, that's what you get if you go down that road."'
> FM1

Improving business support and advice around in-work poverty issues and dominant business models

Evidence gathered from the case study employers and key stakeholders suggests that business support services should ensure that anyone looking to set up a business and employ staff, or expand a business, is not just fully informed about their rights and obligations, but is also engaging with a broader set of ideas and practices around acceptable pay and job quality that reduce the likelihood of in-work poverty.

Similarly, cross-sectoral and government efforts to publicise and embed at the start-up phase the positive benefits of paying at least the real Living Wage, and offering terms and conditions that are associated with job security and job quality, could be of significant long-term value in terms of tackling in-work poverty.

The start-up phase could also be a moment for intervention to encourage alternative ownership structures – every case study employer participating in this research who was offering higher wages and better-quality jobs than is 'normal' in their sector was doing so in the absence of shareholders or private equity investment. Several employers, across different sectors, directly attributed their ability to raise wages and offer superior terms and conditions to the freedom offered by having no shareholders external to themselves and their families.

This appears to be of particular importance as businesses are established, since addressing low pay and work and employment practices once a business model and associated policies and practices are established may be more difficult. A number of participating employers who have paid the real Living Wage since their organisation's inception, suggested the value of initiatives that focus on encouraging start-ups to 'design in' decent pay at the outset of their operations. The idea of 'designing in' fair work has gained considerable currency in academic and policy circles. There is mixed evidence on the extent to which start-ups are exemplars of good practice in this area. Limited access to capital and scale, and the insecurities associated with early-stage business development, mean that while start-ups often deliver on other elements of job quality, they are often less competitive in terms of financial reward (Block et al, 2018). Nevertheless, there are some examples of the 'design in' approach to addressing pay issues, especially in those start-ups where technical skills are required to establish a competitive strategy for early growth (Findlay et al, 2015). Research for the Chartered Institute of Personnel and Development also suggests that certain ownership models in start-ups – such as some types of family-owned firms – may be less likely to focus solely on profit maximisation at an early stage, and therefore be more open to investing in decent pay at the outset (Findlay et al, 2017b).

Supporting start-ups to access funds in ways that do not restrict the payment of higher wages could therefore provide a context in which employers can act on a business case that they endorse, but which they could struggle to implement when answering to 'impatient' shareholders. Business support services could also assist individuals and companies in exploring buyback options, co-operative ownership models, or social enterprise or community interest company models, for example, when a business is made available for sale, or a service is to be outsourced.

One key stakeholder, while commending research and engagement with employers in relation to in-work poverty, highlighted that although many employers consider these issues as their concern, crucially they do not engage with any external parties on the subject. They felt that it is imperative to reach these employers if strategies for solving in-work poverty are to be effective.

Key role models

As discussed elsewhere in this report (see the section earlier in this chapter on 'Key challenges facing employers in addressing in-work poverty'), participants in the research considered the idea that a large company needs to operate a more ethical business model profitably in order to 'prove' the value of this approach as credible in the abstract, but that this influence has so far proved difficult to foster. Developing and replicating the good example that frontier firms who pay the real Living Wage and offer good-quality jobs have set will also require joint working between a range of stakeholders, finding ways to bring about sector-wide diffusion that has to date proved elusive.

Several participants, particularly within the hospitality sector, referred to the need for a large employer in their sector to demonstrate that paying the real Living Wage and engaging with job-quality issues to address in-work poverty are financially viable and lead to a range of positive consequences. Such an example could incentivise others to follow, or would 'show up' those firms that do not improve their rates of pay and job quality. This was balanced with a sense that a sector-wide approach – for example, led by industry bodies, trade unions and the Government – would be needed in order to consolidate the good example a frontier firm might set, facilitating other employers following.

Within the hospitality sector, the only participants who are real Living Wage employers are from small- to medium-sized enterprises. Among these participants there was a feeling that smaller employers could not lead the sectoral diffusion of better employment practices:

> 'Having a big player, an industry leader [pay the real Living Wage], is needed … that's a brave commercial decision, which shows leadership. To have a chain come on board, nail their colours to the mast – that could kick everyone else up the butt.'
> HH2

Stakeholders agreed that a 'philosophical shift' is needed and might only be possible if a competitor demonstrates that a different business and employment model can be financially successful. They presented sector-wide diffusion as possible if superior financial returns at the level of capital and for front-line staff could be credibly evidenced to follow from enhancing job quality. Suggested examples included demonstrating that a workforce's increased discretionary effort has led to higher sales, or that decreases in staff turnover have led to lower recruitment and training costs. There may be value in policy stakeholders targeting their efforts around encouraging action on in-work poverty among potential frontier firms that might be persuaded to test and model the benefits of such fair work practices to their broader sector.

Engaging customers

Marketing research has long established that while consumers' beliefs about whether businesses engage in socially responsible behaviour may not be consistent with their buying behaviour, for consumers who are more knowledgeable around social issues and who rate these issues as important, how a business behaves is a significant influence on their decisions as customers (Mohr et al, 2001). This group is growing in size. In a study by YouGov and the Global Poverty Project, 74% of respondents reported that they would pay 5% more for clothes if workers were being paid fairly and working in safe conditions, an action that could take millions of people working in the global fashion industry out of poverty (Baker, 2015). While there is less direct research on intergenerational variation in consumer willingness to spend more to solve in-work poverty, and while support for ethical purchasing is reported as growing as a whole, analogous research on ethical consumer behaviour reports that millennials are most willing to pay extra for sustainable offerings. This might suggest that millennials are both an interesting target population for initiatives addressing in-work poverty but also a group facing particular economic and financial challenges (Nielsen, 2015). Research in this area also highlights that reputational issues are important for consumer behaviour, but also that company strategies matter in providing sufficient information to convey reputation to potential consumers (Smith and Brower, 2012).

In this research, hospitality case study employers paying the real Living Wage referred to praise that they have received from customers as a result, and a sense that they have attracted custom because of their ethical credentials. One participant suggested that an 'ethical map' of the UK – where to stay, eat and spend money 'ethically' – could be a useful way of incentivising firms to change their approach to employment, and specifically low pay, in order to attract more customers. While it is challenging to monetise the reputational benefits associated with socially responsible approaches and fair work (including action on sustainable incomes for employees), case study evidence suggests that employers are able to identify positive responses from customers who are aware of progressive workplace practices (Simms, 2017). Furthermore, survey research with real Living Wage employers suggests that perceived reputational gain among customers is seen as an important benefit among business leaders (Heery et al, 2017). Accordingly, there may be value in developing tools that seek to evidence the **potential** reputational benefits of addressing in-work poverty as a means of influencing employer behaviour.

In our research, a key contribution was the idea that consumers could be mobilised to support action to tackle in-work poverty. Participants referred to successful consumer campaigns in relation to ethical issues, such as removing products that use animal testing, ending the provision of free plastic bags or reducing the use of plastic straws, with respondents emphasising how improving awareness of the problem, changing mindsets and appropriate legislation could significantly influence employer practice. They felt that localised initiatives have the greatest potential for success in relation in-work poverty.

Addressing sectoral challenges collectively and collaboratively

Some participants suggested additional reasons why a wider spread of existing practices to combat in-work poverty has not occurred. They referred to changes needed at the sectoral level:

> 'We're trying to create a change of mindset – an industry with people who are in it for the long term, not just transient, temporary or seasonal. That's one of the backdrops to what we do. We wanted to create year-round permanent jobs. You need to pay people properly; they can't draw on a backup wage. Beyond that, how do we encourage a year-round tourism industry, rather than just employing people in the summer?'
> HH2

More directly under the remit of employers and industry bodies is the seasonality of much work in the hospitality and tourism industries, and a procurement process that works to drive down costs in facilities management/business services, often at the expense of wages and job security. Both jeopardise the ability of employers to offer their staff wages, as well as terms and conditions, that might reduce in-work poverty. There is a need for sector-wide collaboration on how dominant business models can be challenged to reverse negative impacts on pay and job quality.

Accordingly, supporting the hospitality and tourism sectors to diversify their year-round 'offer' to customers could provide employers with a more consistent and higher annual income that could facilitate year-round employment of staff on higher wages. Within hospitality, case study employers and stakeholders said that a focus on 'peak' seasons is not compatible with offering a workforce sustainable incomes, and that industry bodies rather than individual businesses need to lead change towards a year-round approach due to the need for strategic collaboration across what is a highly competitive sector.

One stakeholder observed that there is relatively little difference between hotels within certain price brackets, especially at the level of larger firms. For a mainstream hotel to offer something qualitatively different to its customer base could lead to more customers and higher revenue, as several small- and medium-sized enterprises that participated in this research have experienced:

> 'Some guests appreciate the fact that they know they are at a place where people are paid a decent wage … that they aren't living off sweat-shop labour. There is a feel-good factor with these purchasing decisions. The hospitality sector is not using that to its best advantage – it could be a marketing tool.'
> HH2

Given the inherent seasonal variations in demand in sectors such as hospitality, arriving at solutions to this problem is likely to prove challenging. However, previous case study research in the food production sector (areas of which have similar seasonal fluctuations) suggests that employers who invest in multiskilling their staff have helped employees to sustain employment, thus mitigating the risk of work insecurity and in-work poverty (Findlay et al, 2015).

Our research with facilities management case study employers – and broader engagement with key stakeholders – highlighted the potential role of procurement in shaping practice in terms of fair work and in-work poverty. Limited recognition of the value of services provided by facilities management companies (for example, cleaning and general maintenance) is, according to one participant, leading to a tendering process that drives costs down to the point where wage rises are impossible. This participant suggested an alternative approach to tendering, which focuses on 'inclusive growth':

> 'Why not KPIs [key performance indicators] that actually are about inclusive growth? "You want to take on this contract? Here are the things I expect from you: I expect you to be looking at working with underprivileged, unemployed people; make sure you're paying the National Living Wage to people; the number of people you have to have employed in this time should not be less than X for the number of hours … because otherwise there'll be people saying: 'I'll just put them on zero-hours contracts.' So have number of hours actually spent on the business. So work that way and you can add on all these other benefits: so I also want you to do work experience in schools … help out with English classes for migrant

> workers coming in. Overhead is probably covered anyway, and we've got a contract we know has got a value to it, and we know we need to be targeting this."'
> FM1

There is a business case for rethinking at the sectoral level how, when and in what form, organisations contract and offer products and services. Innovations of this nature could be led by a focus on what practices and processes will produce the best-quality jobs, and in particular will facilitate higher and more stable wages for those in the workforce who are on lower rates of pay. In addition to the organisational benefits of pursuing these practices, case study employers said that for an organisation to openly pursue these changes could attract customers and lead to higher revenues.

Policy-makers and business support service providers need to consider how best to influence large procuring organisations to factor in action on low pay in their engagement with supply-chain and service delivery partners. Embedding the payment of the real Living Wage in procurement practices and improving supply-chain monitoring to ensure that standards of fair work are being upheld could compel firms to improve their wage rates and improve their contractual offer to staff. It is likely that these firms would then experience improvements in recruitment, retention and productivity, as evidenced in this report.

Early engagement of employers to design solutions

Overwhelmingly, participants in our research felt that employers should be involved in strategies to address in-work poverty from the early or commissioning stages, and that responses need to be active rather than passive – that is, promoting action as well as reflection.

Employers and stakeholders participating in our research emphasised that it is important and necessary that employers are actively involved in the development of plans and the implementation of practices to address in-work poverty, as seen in the Low Pay Commission's arrangements for informing government strategies on the NMW and the NLW. There is value in understanding the impact that any policies and practices might have at a local and organisational level – firms will often have unique insight as to the likely consequences of particular approaches to address in-work poverty. This research offered employers the opportunity to be involved in this conversation and to develop ideas to address in-work poverty. If employers are to continue to advocate for a 'voluntarist' approach to these issues, they need to take an active and constructive role in the discussions that this research has attempted to engage them in.

Recognising interactions with other factors/systems

All of the contributing factors to in-work poverty, the barriers to addressing in-work poverty, and the existing good practice to prevent in-work poverty discussed in this report, sit at a nexus of employer-led interventions and broader sectoral, labour market and political contexts. Recent significant rises in the cost of living have had the impact of lowering the value of pay rises for employees, while the rising cost of overheads that employers are subject to – in particular, utilities and property rents – direct an organisation's resources away from wages. Overcoming these barriers to employers addressing in-work poverty will require cross-sectoral efforts, and the involvement of local and national governments. It is essential that trade unions as a voice for labour are also involved in these processes and their implementation.

Business practices and business models

The scope employers have to adopt business practices that address in-work poverty are shaped by business models and strategies. Influence and intervention to reshape business practices as outlined above have a greater likelihood of success where business models and practices are in alignment. Our earlier discussion of socially responsible or 'virtuous' business models highlights how these can influence business practices in ways that can be directed at reducing in-work poverty. However, as O'Toole and Vogel (2011) have argued in their constructive critique of 'conscious capitalism', such firms are few in number and their 'virtuous' approach is one choice among multiple competing business models – many of which are highly profitable while generating negative outcomes for workers, not least in relation to in-work poverty. We have already pointed to the role of investor expectations in shaping the strategic choices open to firms, and the constraints on employer choice where high levels of profitability are not evident. Further, O'Toole and Vogel (2011, p. 66) argue that such 'virtuous' approaches are difficult to maintain: '[F]or the vast majority of socially responsible companies, a change in leadership, in technology, or in competitive pressures and, almost always, a takeover, will undermine the kinds of behaviours promoted by Conscious Capitalists.'

These factors highlight the need for balance in reflecting on the potential of – and limitations in – managerial/business 'voluntarism' in addressing in-work poverty. Yet employers' orientations remain important – as we have argued above, employers' consciousness or willingness to look for and recognise the business case for 'doing good' can be important, for example where firms can see a business benefit (or, at the very least, the absence of a business cost) to taking action to address in-work poverty.

O'Toole and Vogel's framework for considering the potential of 'conscious capitalism' can usefully be adapted to identify the 'zone of opportunity' for employers to address in-work poverty (see Table 1). Recognising these zones is useful in reflecting where business action has the potential to influence in-work poverty and where government action is likely to be more effective.

Table 1: Business practices, benefits and impact on in-work poverty

Cell 1 Business benefit – reduces in-work poverty	Cell 2 No business benefit – reduces in-work poverty
Cell 3 Business benefit – no impact on in-work poverty	Cell 4 No business benefit – no impact on in-work poverty

Businesses/employers are more likely to identify the opportunity to address in-work poverty in cells 1 and 2, where measures to reduce in-work poverty either generate a business benefit or are cost neutral. Employers in cell 2 might be motivated to address in-work poverty because of strong business values or for conventional corporate social responsibility reasons. This is most likely in businesses with the scope and the resources to adopt 'virtuous' practices that reduce in-work poverty, which are unlikely to be a random or representative sample of businesses.

Cell 1 is where most potential exists for employers' voluntary actions – where addressing in-work poverty can also generate business benefits. This takes us back to more complex discussions of the awareness, understanding and competencies of businesses/organisations and their managers to seek and endorse solving the problem of in-work poverty through actions that can also benefit their businesses.

We have described some such actions above, and these are categorised in the section on our Framework for Employer Action on In-Work Poverty at the end of this chapter.

Cell 3 highlights scenarios where government action may be required – where businesses are profitable/successful but adopt practices that increase or maintain in-work poverty and where employers are unlikely to make voluntary actions. As O'Toole and Vogel (2011, p. 72) have argued, '[g]overnment regulation is necessary to overcome the effects of non-internalized costs and free-rider behaviour'. Action in Cell 3 does, however, have the potential to benefit businesses in cells 1 and 2 by providing a fairer competitive environment.

Stronger regulatory action

A range of factors, including the impacts of the tax and benefits system and the costs that individuals and families face (including housing), clearly play an important role in shaping experiences of in-work poverty, but our research highlights the importance of employers' decisions around pay and workplace practices. Where change to solve in-work poverty does not happen at the employer level, local and national governments need to consider other routes for action. This can include favouring employers who address in-work poverty in procurement, and may need legislative backing in order to have sufficient influence to bring about meaningful change. There is a need for more research on the extent to which, for example, national, devolved and local government procurement frameworks can be shaped to encourage service providers and contractors to take action on in-work poverty and the broader fair work agenda. Furthermore, we should acknowledge that UK employment is relatively weakly regulated, which, alongside sectoral shifts, has contributed to declining collective bargaining coverage. Accordingly, there is scope for policy-makers to consider new legislation to improve conditions for trade union organising and/or collective bargaining that can, in turn, challenge low pay.

While well beyond the scope of this research, assessing the reality of the impact of 'overheads' on a range of different businesses, and taking action to address unfair costs where necessary, could be a useful route to encouraging greater engagement with the benefits of raising wages.

At a most basic level, there is a need for government to review the effectiveness or otherwise of current NLW and NMW legislation in addressing in-work poverty, and to consider all necessary policy responses and supports, particularly those that can shape longer-term business orientations and practices towards solving in-work poverty.

Our Framework for Employer Action on In-Work Poverty

Our research with case study employers and key stakeholders has identified a range of potential areas for employer action to address low pay and solve in-work poverty, which we have summarised in a framework (see Table 2). As the framework shows, there is a need to recognise the problems that must be addressed, the desired outcomes and the drivers of/incentives to change. Rather than focusing solely on barriers to progress on the reduction of in-work poverty, we highlight potential strategies that might lead to change. In making explicit these sorts of strategies, we also note the need for collaboration across a range of key stakeholder groups. Our point here is that, despite the complexity of the challenges discussed in this report, there are practical actions that our research suggests might be of value **if** we can build a consensus on the need for change among these relevant stakeholders.

While this will not always be the case – and government intervention is more likely to be effective for system-wide change – there are actions that businesses can take in terms of both business models and practices. Values-driven business models have considerable potential, but may be restricted in scope across the population of businesses. A much broader and larger group of businesses is likely to be influential in addressing in-work poverty through identifying win-win scenarios where tackling in-work poverty also benefits businesses.

In the next chapter we summarise the actions that emerged from our research that might challenge employers and give them an incentive to change their decision-making so that they address low pay and in-work poverty.

Table 2: Framework for Employer Action on In-work Poverty

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
1. Employers' limited awareness of in-work poverty				
Employers lack a general understanding of in-work poverty	Better general understanding among employers of the experience and impact of in-work poverty	• Desire that employers can become a key part of the solution to in-work poverty.	• Provide more general information and insight on in-work poverty. • Provide more specific information to employers on the demographic, occupational and sectoral profile of in-work poverty.	• Employers • Employers' organisations • Campaigning/civil society organisations • Trade unions • Researchers • Chartered Institute of Personnel and Development • Investors in People
Employers lack a specific understanding of in-work poverty in relation to their own employees	Employer awareness of in-work poverty as it affects their own employees	• Recognition of the 'invisible' business impact of in-work poverty. • Recognition of the potential business impact of a better understanding of, and engagement with, the reduction of in-work poverty. • Alignment of anti-poverty objectives with other organisational values.	• Open up a dialogue with employees about in-work poverty. • Identify potential in-work poverty risk factors (low pay, hours variability, job design factors, changed domestic circumstances, changes in employee behaviour). • Share examples of good practice, as discussed in this report, where employers have been able to evidence the benefits of addressing in-work poverty in terms of reduced turnover and associated costs to the business. • Establish confidential communication channels and emergency response arrangements for individual employees at risk of or experiencing in-work poverty.	• Employers – human resources practitioners in particular • Employees • Trade unions and other employee advocacy organisations

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
			• Conduct cost–benefit analysis of the potential impact of in-work poverty at the organisational level. • Engage in organisation-level dialogue about human resources and other practices that help to address in-work poverty (for example, emergency support arrangements, salary sacrifice schemes). • Disseminate anonymised learning stories.	
Employers' concerns over employees' privacy in relation to tackling in-work poverty	Better employer knowledge of privacy duties and responsibilities alongside better understanding of opportunities to engage constructively and appropriately with employees on in-work poverty concerns	• Alignment of employers' legal, ethical and civic responsibilities in dialogue with employees can not only help address in-work poverty but also improve the quality of communication and trust.	• Develop opportunities for collective and individual dialogue. There may be value in public business support agencies working with employers to facilitate 'safe spaces' for employers to explore challenges and share practice in confidence. • Draw on available resources (for example, the Chartered Institute of Personnel and Development and others) to frame dialogue around in-work poverty. • Destigmatise the experience of poverty by collective approaches to the problem of in-work poverty.	• Employers • Chartered Institute of Personnel and Development • Advocacy organisations • Public business support agencies

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
2. Scarcity of relevant advice, support and learning for employers on in-work poverty				
Business support and advice that employers receive do not promote addressing in-work poverty	Employers are better informed by the range of business support and advice services and organisations of the need to, and potential benefits of, reducing in-work poverty	• Firms rely on varied sources of business support and advice and the quality of this is crucial to the development of successful and effective businesses and organisations. • Public funding for business support and advice services requires that such services deliver for employers, employees and society.	• Business support and advice services: be better informed about, more engaged with and more willing to tackle issues of potential in-work poverty. • Give explicit attention to the risk of generating in-work poverty at key decision and transition points, notably at start-up, expansion and succession. • Advocacy organisations: engage with business support organisations to inform and influence their practice.	• Public business support agencies • Private sources of business support – banks, consultancy firms, solicitors • All providers of business funding, including central and local government • Employers' organisations • Advocacy/ campaigning organisations
Adoption of business models and strategies that lead to in-work poverty	More widespread adoption of business models and strategies that 'design in' the avoidance of in-work poverty; rejection of business models most closely associated with insecure work and low pay	• Emerging debates highlighting the negative consequences of particular business models provide a context for consideration of more 'stakeholder' oriented business models that address in-work poverty and lead to a more equitable distribution of the value created in businesses.	• Base business support and advice on alternative business models and organisational/business forms. • Provide opportunities to share practice on the costs and benefits where start-ups have designed in fair work and real Living Wage pay settlements at the outset of their business growth. • Direct publicly funded business support at promoting higher-value business models and deterring cost minimisation/low-value business models. • Address the issue of in-work poverty in management learning and development provision, especially from professional bodies/associations and business schools.	• Public business support agencies • Private business support agencies – banks, consultancy firms, solicitors • All providers of business funding, including central and local government • Employers' organisations • Advocacy organisations • Management educators

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
3. The impact of narrow market and customer narratives on producing in-work poverty				
Dominance of specific customer narratives that increase the likelihood of in-work poverty	Customers who demand the resolution of in-work poverty in the businesses with which they interact/contract	• The role of consumer preferences and pressure on management decision-making. • Recognition that customers are often both consumers and producers of goods and services. • Recognition of the endorsement and potential of ethical consumer narratives.	• Mobilise customers to address the solving of in-work poverty in purchasing decisions. • Make marketing strategies explicit about the full costs of business models that lead to in-work poverty. • Encourage consumer-led campaigns to conquer in-work poverty, particularly in sectors where levels of in-work poverty are high.	• Employers – public relations/marketing managers in particular • Customers • Consumer organisations
Sectoral pressures driving down pay and increasing in-work poverty	Development of bespoke sector-specific strategies to address in-work poverty	• Potential for negative public relations in businesses and sectors associated with in-work poverty. • Difficulties in recruiting staff or the right quality of staff in low-pay sectors and, conversely, potential benefits to employers in staff commitment and engagement where in-work poverty is addressed.	• Disincentivise competitive strategies based on low-cost, low-pay approaches by highlighting higher-value approaches within sectors. • Build consensus, commitment and strategies at the sector level to reduce in-work poverty that protect employers within the sector from 'unfair' competition.	• Employers • Sector bodies • Trade bodies

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
4. Limited opportunity to learn from good practice				
Limited awareness among employers about specific practices that might address in-work poverty	Informed employers who can apply practical insights and lessons from other organisations to their own context	• Employers may be oriented towards solving in-work poverty but be constrained in making practical change happen. • Accessible information on 'what works' can support and shape employer practice.	• Share good practice, for example on the benefits of training investments and progression opportunities for improved customer service and product knowledge among employees. • Share examples of key obstacles and challenges, and ways these can be overcome – for example the use of job rotation to create opportunities for skills development and diversification in organisations where scope for 'traditional' training and progression is limited. • Create opportunities for business-to-business learning around human resources, job design and organisational practices that shape and guard against in-work poverty.	• Employers • Employers' organisations • Advocacy/campaigning organisations • Trade unions • Researchers • Professional bodies/organisations
Lack of relevant role models/ frontier firms	Role model employers are identified and willing to share lessons on practices, challenges and outcomes with other employers and to stimulate other employers to address in-work poverty	• Evidence on the effectiveness of employer-to-employer or business-to-business learning. • Evidence on the power of isomorphic pressures on firms within sectors.	• Identify and engage with frontier firms to disseminate effective practice in reducing in-work poverty, starting with the adoption of the real Living Wage. • Encourage frontier firms to use influencing strategies with other firms. • Encourage frontier firms to use their supply-chain position to influence other firms.	• Frontier firms • Industry networks • Trade bodies

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
5. Employer absence from the design of solutions to in-work poverty				
Lack of employer ownership and leadership in addressing in-work poverty	Employer ownership and leadership of solutions to addressing in-work poverty	• Employers are more likely to be engaged in, contribute to and be influenced by employer networks. • Employer involvement in designing responses is more likely to result in well-designed solutions that gain traction with employers.	• Tap employers' knowledge and experience as active agents in addressing in-work poverty. • Engage employers as partners and co-creators in the analysis, research, design and development of solutions and campaigns.	• Employers • Campaigning and advocacy organisations • Researchers
6. Lack of a holistic understanding across in-work poverty stakeholders of structural business constraints				
Insufficient understanding and analysis of facilitators and constraints at the business and sector levels	Development of broad, multi-stakeholder analysis and consensus building on strategies to address in-work poverty	• Need to recognise constraints and challenges that employers in particular sectors face in addressing in-work poverty if employer behaviour is to be understood and shaped.	• Establish new networks to share evidence and analyse practice on factors that facilitate and constrain employers in challenging in-work poverty. • Create confidential and non-judgemental spaces for employers to discuss their practices in relation to in-work poverty.	• Employers • Employers' organisations • Campaigning and advocacy organisations • Researchers

The current problem	The desired outcome	Drivers of/incentives to change	Potential influencing strategies to deliver change	Key actors
7. Insufficient understanding of the potential impact of 'hard' and 'soft' policy levers in influencing employer behaviour relevant to in-work poverty				
Insufficient understanding and analysis of how policy levers can influence employer behaviour in terms of in-work poverty	More informed, evidence-based policy to shape employer practice on in-work poverty	• Policy levers can target in-work poverty effectively without exacerbating the challenges that employers face. • Policy levers can be used to encourage 'voluntary' solutions where appropriate, and regulatory solutions where employers' 'voluntary' response is insufficient to tackle in-work poverty.	• Review and report on the impact on in-work poverty of the range of 'soft' and 'hard' policy levers on employer behaviour and outcomes. • Use policy levers to build consensus and reinforce employer behaviour that addresses in-work poverty, for example through public procurement.	• UK Government • Devolved government • Local government • Public bodies and agencies • Researchers

5 Summary and conclusions

In this chapter, we offer a brief summary of our key findings.

- Engaging employers on issues of low pay and in-work poverty is challenging. Many employers in low-paying sectors and organisations demonstrate limited awareness of their employees' financial situation, broader issues around in-work poverty or potential solutions. The perceived stigma of being seen to be aware of the problem may also mean that some employers are reluctant to engage on these issues. However, employers and key stakeholders participating in our research acknowledged that, for those willing to investigate, aspects of employee behaviour (from taking on additional hours elsewhere to asking for advances on wages) could lead to a discussion of whether employees are coping financially.
- Relatively few employers participating in this research have a consistent, formalised approach to engaging with employees on issues of financial sustainability and wellbeing, but there were some examples of good practice in terms of both discussing in-work poverty and signposting staff to financial education and support services.
- The distribution of value between employers and employees was largely absent from the discussions with employers and key stakeholders. This represents a fundamental challenge to having a more expansive, action-focused discussion on opportunities and responsibilities to address in-work poverty.
- Both stakeholders and employers acknowledged the practical importance of paying employees at or above the real Living Wage and also paying attention to contractual arrangements (ensuring that employees have desired and sufficient hours of employment) as a route to income security. Not all employers participating in our research considered this feasible, but acknowledged the potential consequences for employees. Both stakeholders and employers acknowledged that zero-hours contracts were a barrier to delivering security of hours and income, and could result in retention problems.
- We found evidence of a range of practices around fringe benefits that could be more or less directly related to addressing in-work poverty. Employers' commitment to providing fringe benefits varied considerably, from offering relatively minor discounts to providing access to employee assistance programmes and other benefits. Employers and stakeholders provided insightful accounts of the need to consider, understand and measure total reward packages that are broader than hourly pay and the real Living Wage.
- There was evidence of good practice in offering skills development and progression opportunities as a route out of in-work poverty and into better-paid jobs. However, some employers felt that flatter organisational structures, especially in lower-skilled sectors, created significant barriers to progression for most. Both stakeholders and employers acknowledged the need to develop creative solutions, so that employees have opportunities for learning and career development even in workplaces where there is limited scope to progress to management or other more senior roles.
- Key stakeholders identified a range of business case arguments that might be deployed to influence employer practice, including: recruitment and retention benefits; linked opportunities to develop employee skills; increases in discretionary effort; reduced staff absence and improved wellbeing; and resulting performance benefits for businesses. Both stakeholders and employers acknowledged the reputational benefits associated with addressing low pay. Both customers and prospective employees (at all levels) are showing an increasing interest in businesses' pay strategies and other issues around ethical practices. There is a clear need to develop further and share evidence on the business benefits of addressing in-work poverty.
- Key challenges identified included gaps in information and advice services that largely ignore issues of low pay and potential poverty. Indeed, there is a need to ensure that publicly funded business advice services do not adopt a default position that early and rapid business growth should be prioritised over providing decent pay. Employers and key stakeholders noted the importance of establishing decent pay (and other 'fair work' conditions) at the start of the business development phase. There was therefore consensus on the need to offer advice to start-ups to 'design in' pay and conditions that do not lead to in-work poverty, from the outset.

- Business support and advice services are also largely silent on the relationship between business and ownership models and employers' decision-making around pay. These services need to help business owners and investors to consider a broader range of business and ownership models, and their potential impacts on employees' pay and conditions.
- An additional barrier relates to the acceptance among employers of sectoral norms and a lack of transparent and robust wage-setting mechanisms that are capable of reflecting employee voice. There is again a need for practice sharing and advice services that can constructively challenge assumptions around following the sectoral norm on wage setting. A linked finding relates to the need to identify, encourage and disseminate lessons from frontier firms – sectoral leaders that can model good practice to other employers in their sector. There is a need for collaboration with sectoral and employer representative bodies, so that there is improved dissemination of lessons from frontier firms that are able to point to the business benefits of paying the real Living Wage.
- Both stakeholders and employers acknowledged the need for action to promote renewed leadership on addressing low pay from within the business community in the form of frontier firms whose influence might shape behaviour across supply chains and within sectors; and from customers as the key constituency to which employers respond.
- Priorities for action include: the need for all relevant stakeholders to raise awareness of the problem of in-work poverty and the roles and responsibilities of employers; the usefulness of engaging staff in discussions of financial wellbeing; and better sharing of practice and challenges between employers and within and across sectors.
- As noted above, a further priority area for action is the development of a broader range of business support and advice, so that employers are informed of the potential benefits of taking action on low pay and in-work poverty, challenged (and assisted) to consider the costs and benefits of paying the real Living Wage and beyond, and engaged in broader discussions around profit maximisation versus alternative business strategies and models.
- At one level, employers' key role in defining work and terms of employment requires their genuine engagement in addressing in-work poverty. Businesses are at very different stages of engagement with this issue. Nevertheless, employers should be mindful that policy-makers retain regulatory levers that can be deployed in the absence of employer action.

To conclude, low pay is locking people in in-work poverty, constraining their options, and employers have a responsibility to address this so that people who are in work can escape from poverty. This report has shown that there are many ways in which employers can alter their business models and practices to bring about positive change and it is hoped that they will see the benefits from taking action, not only for their employees but also for their own businesses. We have set out a Framework for Employer Action on In-Work Poverty to help inform this process, drawn from the findings of the research reported here.

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Appendix: Further information on research methods

Our research included in-depth interviews with key stakeholders and employers (see Table A1 for a summary).

We conducted 16 key stakeholder interviews to look at the issues and provide direction for the data collection process. These interviews also informed the identification and selection of case study sectors and organisations, and in some instances helped to facilitate contact with the organisations. We selected the stakeholders in question in part as a recognition of the fact that the process of addressing in-work poverty involves not just employers, but also a variety of interconnected parties. The stakeholders included representatives of sectoral bodies, business representative organisations (including, for example, Business in the Community and chambers of commerce), trade union organisations and business support service providers.

We conducted 14 interviews with employers in each of the five sectors under study, ensuring that we included different-sized employers (from micro-, small- and medium-sized employers to large employers).

Additionally, towards the end of the fieldwork process we conducted a roundtable event to allow key stakeholders to discuss the specific themes arising from the research, with the intention of sense-checking emerging findings and discussing potential solutions. The event operated along the principle of the 'Chatham House Rule' to ensure the stakeholders in attendance were able to speak freely about the emergent themes. (At a meeting held under the Chatham House Rule, participants can use the information they receive at the meeting but they must not reveal the identity or affiliation of the speaker or any other participant.) The event also provided space in which to triangulate the material from the stakeholder and employer interviews in a constructive and discursive manner. Eight representatives of employers, business representative organisations and trade union organisations participated in the roundtable.

This combination of methods provided a rich source of qualitative data on the challenges and opportunities around engaging employers on low pay and in-work poverty.

Table A1: Employer and stakeholder interviews

		Interview codes
Employer interviews by sector		
Hospitality (hotels, B&Bs)	1 rural B&B – small employer	HH1
	1 rural hostel/camping/activities centre – small employer	HH2
	1 rural large holiday park – small employer	HH3
Hospitality (restaurants, cafés, bars)	1 urban craft beer pub – micro employer	HR1
	1 urban premium bar – small employer	HR2
	1 urban animal café – small employer	HR3
	1 urban bar/café – medium employer	HR4
	1 urban restaurant chain – large employer	HR5
Facilities management	1 facilities management – large employer	FM1
	1 cleaning and maintenance – large employer	FM2
Retail	1 large supermarket – large employer	RT1
Food production	1 food producer – medium employer	FP1
Manufacturing	1 scientific manufacturer – large employer	MF1
	1 textiles manufacturer – small employer	MF2

Key stakeholder interviews	
Trade – hospitality	KS1
Trade – pubs/brewing	KS2
Trade – facilities management	KS3
Trade – retail	KS14
Supply chain	KS4
Business organisations and business support services	KS5, KS6, KS7, KS11, KS12, KS15, KS16
Trade unions	KS8, KS9, KS10
Research organisation	KS13

Note: Micro businesses are defined as those employing 0–9 employees, small businesses employ 10–49 employees, medium-sized businesses employ 50–249 employees and large businesses employ 250 or more employees.

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