

**An independent study of the business benefits of
implementing a Living Wage policy in London**

GLA Economics

Executive Summary

prepared by



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February 2009

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Background and Context

Under its remit of economic and social development within the Greater London area, the Greater London Authority (GLA) seeks to promote a Living Wage policy throughout public and private sector organisations in London, known as the London Living Wage (LLW). London Economics were appointed by the GLA to investigate the experience of organisations that have adopted the LLW (in terms of both benefits and costs) in order to form quantitative evidence of the impacts of the LLW.

Methodological Approach

To undertake a balanced assessment of the outcomes associated with the implementation of the London Living Wage, we undertook several elements of research activity.

In the first instance, we assessed the economic and policy literature associated with minimum/Living Wages and assessments of the economic impact of Living Wage initiatives (predominantly from the United States). In terms of qualitative research, we collected qualitative evidence of productivity and efficiency benefits, in addition to barriers and costs of LLW implementation through a number of face-to-face interviews with LLW employer organisations (Buyers and Contractors), LLW employees, trade unions, academic experts and one non-LLW adopting organisation. A separate semi-structured interview questionnaire was designed and utilised for each group.

London Economics also sought to gather employment and financial data (specific to LLW contracts) in order to undertake quantitative analysis of the impact to organisations of implementing a Living Wage policy in London. In collecting and analysing this data, we sought to explore the actual recorded outcomes that might have occurred over time and since the implementation of the LLW in each organisation. We also sought to understand whether any change in business performance might be linked to the implementation of the LLW.

This study was ambitious in its objectives. However, limitations on the possible analysis imposed by data constraints have meant that the report and its findings are subject to some important caveats, as detailed in the main report text.

Findings of literature review

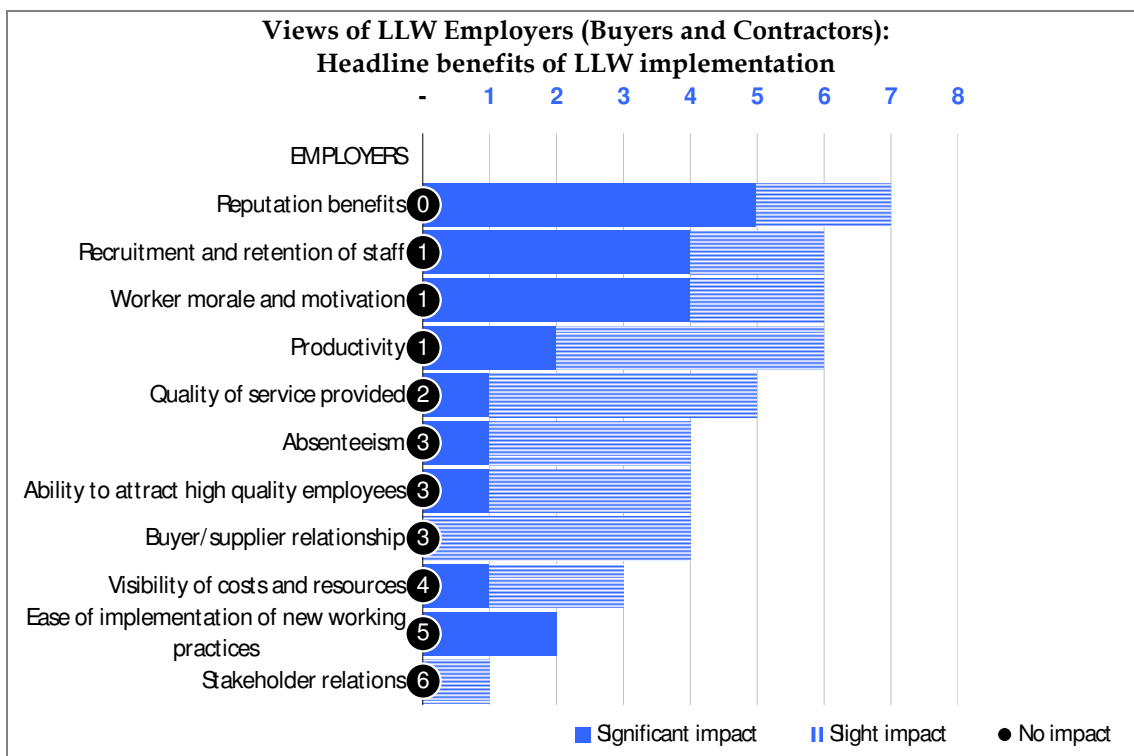
The findings of our review of the existing literature in the area of minimum wages and Living Wages may be summarised as follows:

- Living wage provisions are not generally associated with job losses or worker displacement
- There is some evidence of productivity increases (often not statistically significant) associated with higher effort, lower staff turnover, reduced absenteeism, increased stability of workforce, and improved worker morale, motivation and commitment

- Increased cost pressure leads firms to seek efficiency and cost savings elsewhere, such as reorganisation of workflows and substituting FT workers for PT workers (saving NI, training, etc)
- Increased training of staff and higher service quality
- Some evidence of ‘ripple effects’ to maintain pay differentials

Benefits of LLW implementation

Our study found clear evidence that employers have benefited across a wide range of areas after implementing the LLW. The following graphic summarises the views of employers surveyed relating to the benefits experienced. The most significant impact noted was recruitment and retention, improved worker morale, motivation, productivity and reputational impacts of being an ethical employer.



To fully understand the nature and drivers of these headline benefits experienced by organisations that have implemented the LLW, we investigated each of these benefit areas in greater detail. Following this in-depth research, the following are amongst the most significant benefits identified:

Recruitment and retention of staff

- Significantly lower rates of staff turnover
- Substantial cost savings on recruitment and induction training
- Employees more likely to stay with organisation
- Increased tenure of workers and continuity of workforce

Recruitment and retention is an area in which the LLW has made a significant impact, and reflected in particularly strong support from Contractors, as the direct employers of most LLW workers. All but one employer with employees affected by the LLW reported a positive impact in general on recruitment and retention within their organisation with two thirds reporting a significant impact.

Absenteeism and sick leave

- Lower rates of absenteeism and sick leave

For the majority of firms, the Living Wage has had an impact on reducing absenteeism and sick leave. One Buyer reported that following the introduction of the Living Wage into contracted-out services, absenteeism had been fallen by approximately 25%.

Productivity

- Evidence of enhanced quality of work
- Widespread efficient work reorganisation

More than 80% of employers believed that the LLW had enhanced the quality of the work of their staff. Employees (almost 75%) also reported increases in work quality as a result of receiving the LLW.

Worker morale and motivation

- Significantly boosted worker morale and motivation

Worker morale and motivation is one impact of the London Living Wage that employers feel is significant with all reporting some positive impact.

Reputational benefits

- Significant benefits for LLW organisation's Corporate Social Responsibility reputation and public image

Nearly 70% of both Buyers and suppliers felt that the Living Wage had increased consumer awareness of their organisation's commitment to be an ethical employer.

Employee benefits

- Substantial financial and welfare benefit for employees

All employees reported that this wage difference has not only made them far happier in their work but has improved their standard of living enabling them to better manage their bills, have a better standard of family life and pay for education and training. The following quotes are instructive:

"It is interesting that some people want to improve the standard of low paid jobs thanks to the Mayor of London. Now I can manage my bills and transportation easier but my main worry is still the cost of living. In London the cost of living is higher than the low paid jobs are being paid."

"The cost of living is more expensive...with the Living Wage I can give my daughter more things...it also gives us more motivation to keep cleaning."

"Being paid the higher wage means I can pay to go to college – I'm studying in the evenings to be a computer programmer."

"I'm starting college in the evenings to be an accountant".

"The Living Wage means that my children can enjoy trips outside of London."

Implementing change in workplace

For employees, approximately half felt that the Living Wage had made them more willing to implement changes in their working practices; enabled them to require fewer concessions to effect change; and made them more likely to adopt changes more quickly.

Barriers and costs of LLW implementation

In the course of our research, we also investigated the implementation costs experienced by the surveyed employers. Views on perceived barriers to more widespread adoption of the LLW were also sought. Finally, we considered induced impacts within the organisations and the strategies used to recoup the potential increased wage costs as a result of LLW implementation.

The main **barriers/difficulties** in deciding to implement the LLW perceived by Buyer organisations surveyed were:

- Re-negotiation of employee/Contractor contracts
- Issues of maintaining pay equivalence
- Increased wage costs
- Impact on profits, prices or share price
- Ensuring Contractors pay LLW

Our research also sought to identify and quantify the **costs** experienced by Buyer and Contractor firms. Significant costs experienced by Buyers include:

- Increased price/costs of contracted services (for Buyers)
- Increased costs from renegotiation of existing contracts (for Suppliers)

Costs experienced by Contractors are:

- Increased labour costs
- 'Ripple' wage increases to maintain wage differentials.

We found evidence of little or no impact on business performance of London Living Wage implementation. All LLW employers reported no change in sales/turnover. Half of employers also saw no change in their profits, with two seeing a slight decrease and one a slight increase. The majority also experienced no change in prices or output.

Conclusions on potential benefits of LLW implementation

Our findings indicate that there is some evidence of significant financial and non-financial benefits achieved by those employers that have implemented the London Living Wage. Although some organisations indicated that there were non-trivial implementation costs, the absence of any evidence of substantial negative impacts on business performance on an on-going basis suggests that there is a likely positive net benefit of London Living Wage implementation for a typical firm.

In general, both Buyer and Contractor organisations are very supportive of the London Living Wage initiative, owing to the range of benefits that they reap – especially in relation to recruitment and retention of staff, worker morale and their enhanced reputation as a socially responsible organisation. These benefits identify that there is a real business case for organisations to implement London Living Wage provisions. Finally, one finding speaks volumes: All Buyers and Contractors reported that they would, if faced with the same choice today, implement the London Living Wage.