

Influencing employers so more people break free from poverty through work

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 wider 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.

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Key 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. Some employers pointed to training and in-work progression strategies as a means of providing a route to better jobs for employees.
- 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.

The research

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Background

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. Employers are undoubtedly key actors in solving in-work poverty. Business decision-making defines key elements of the employment relationship beyond the legal minimum.

This project 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, it identifies practices that have helped to reduce poverty, and gives an analysis of effective influencing strategies in changing behaviour, such as incentives so that employers can support more sustainable incomes. Case study employers were drawn from the traditionally low-paid sectors of retail, hospitality and facilities management.

Key points

- 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 higher voluntary Living Wage 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.
- The research established a number of practical ways to engage employers on these issues and drive change.

Awareness and understanding

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. 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.

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

Employers identified a whole set of actions which they had already, or could, put in place to reduce in-work poverty. These included: paying the real Living Wage; working towards pay predictability and hours sufficiency; offering pay compensation and fringe benefits; supporting skills development and progression; providing support and advice on financial and other issues. Businesses can also influence commercial partners in their supply chain over policies such as wage setting.

Making the business case

Recruitment and retention: 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.

“Our staff know that we’re offering competitive pay. We have lower staff turnover than you would expect for our sector.”

Employer

Improving 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.

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.

Employee performance and discretionary effort benefits: 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.

“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.”

Employer

Key challenges facing employers in addressing in-work poverty

Lack of information and advice services, and the challenge of ‘designing it in’: there are gaps in information and advice services that largely ignore issues of low pay and potential in-work poverty. 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.

“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.”

Employer

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.

Cost/competitive pressures: all employers acknowledged that the idea of ‘costly overheads’ is a key part of counterarguments to investing more in staff and reward.

Stigma: 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.

“When you mention the word ‘poverty’, they run for the hills.”

Employer

Lack of sector leadership and wage setting practice: 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. 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.

Recommendations: promoting 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 in-work poverty, which we have summarised in a framework in the main report, and below. 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.

- Engage in organisation-level dialogue about people-management and other practices that help to address in-work poverty (for example, emergency support arrangements, salary sacrifice schemes).
- Destigmatise the experience of poverty by collective approaches to the problem of in-work poverty.

- Support and encourage sector-wide collaboration on how dominant business models can be challenged to reverse negative impacts on pay and job quality.
- Give explicit attention to the risk of generating in-work poverty at key business decision and transition points, notably at start-up, expansion and succession.
- Offer 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.
- 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. An example, in relation to ethical issues, is the campaign for the removal of free plastic bags.
- Create opportunities for business-to-business learning around people management, job design and organisational practices that shape and guard against in-work poverty.
- Use policy levers to build consensus and reinforce employer behaviour that addresses in-work poverty, for example through public procurement.
- Consider stronger regulatory action: employers should be mindful that policy makers retain regulatory levers that can be deployed in the absence of employer action.
- Support practice-sharing and advice services that can constructively challenge assumptions around following the sectoral norm on wage setting.

Conclusion

Low pay is trapping people in in-work poverty, restricting their options, and employers have a responsibility to help people to achieve a decent living-standard and thrive. This project has shown there are many ways employers can alter their business models and practices to bring about positive change, and the benefits of taking action, not only for their employees but also their own businesses.

About the project

This research is 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.

For further information

The full report, **Influencing employers so more people break free from poverty through work**, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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