

Advocating the Real Living Wage

This project is a joint initiative between the University of Southampton Business School, the Global Responsible Investment team of Aviva Investors and the Living Wage Foundation.



BACKGROUND AND CONTEXT

In transforming the world towards a global state of sustainable development, ethical and responsible investments have become buzzwords among the investment community, which has been more active than ever in promoting its Environmental, Social and Governance (ESG) agendas.

The UK's initiative on advocating the real living wage (RLW) among employers via the Living Wage Foundation (LWF) accreditation programme that advocates paying employees a wage sufficient to live a decent life has become a successful national move with the potential to generate impact across the globe going forward, particularly in achieving Sustainable Development Goals (SDGs). While it is perceived as 'the right thing to do', paying employees the RLW also provides a variety of benefits to the investors and their clients, employers, employees and society in general.

At present, paying the RLW instead of the national minimum wage or the national living wage is a voluntary commitment promoted by nongovernmental organisations and investment management firms. In the UK, the LWF has taken a lead in promoting the living wage among the UK employers through the living wage accreditation programmes. These run in collaboration with the investment community and living wage campaigners from NGOs. As of March 2019, following a decade of successful work, the LWF has accredited more than 5000 employers. This accounts for more than 30% of the FTSE 100 firms and 15% of the FTSE 350 firms listed on the London Stock Exchange (LSE).

FINDINGS

1. Most of investors tend to consider firms' reluctance to pay their employees the RLW as an ethical issue or a social responsibility-related issue rather than an economic issue with significant financial implications.
2. If RLW and human capital issues were presented with financial relevance, then many more firms would have been willing to consider these and obtain the RLW accreditation.
3. Responsible investors believe that their socio-political and ethical values are reflected in their investment choices and that paying employees RLW will benefit firms in a number of ways.
4. The cost associated with the RLW accreditation was presented as a challenge in gaining the accreditation status besides the accreditation status leading to greater employee satisfaction, better performance, and a variety of human resource management-related benefits.
5. The preliminary financial materiality study reveals that firms' decision to obtain RLW accreditation leads to better financial performance (0.45 higher firm value, 0.015 higher profitability and 23% higher productivity) than non-RLW firms.
6. Initial analyses further reveals that an increase in Sustainability (Governance) score increases the predicted probability of firms choose to obtain RLW accreditation by 2.3% (4.3%) and Firms that are larger, less risky, and more productive are more likely to obtain RLW accreditation.
7. Firms signing up for LWF accreditation directly and indirectly contribute to achieving the SDGs, SDG8: Decent work and economic growth; SDG 10: Reduced inequalities

RECOMMENDATIONS

1. **Bring RLW accreditation and human capital investment to the mainstream ESG agenda.** The investment community can strengthen their approaches to advocating the RLW accreditation as a part of the ESG agenda. The key findings should encourage: more investors to take on board the living wage as a part of their ESG agendas; more firms to acquire the living wage accreditation and commit to paying their employees the RLW.
2. **Recognise RLW accreditation as a solution to current social- and human capital- related issues.** Possible engagement topics to discuss with firms include: diversified benefits of LW accreditation and commitment; the alignment of the human capital management and RLW with the UN SDGs; and positioning RLW accreditation under 'social' component of ESG agenda.
3. **Promote financial materiality of the RLW accreditation.** This includes increasing firm value, enhanced productivity, attracting talented employees, and reducing absenteeism.
4. **Promote investment integration.** Investment firms should incorporate the ESG agenda into their voting policies and investment guidelines and should encourage businesses to align the executive compensation and performance incentive schemes with the ESG performance and sustainability, including RLW.

ABOUT THE STUDY

The findings emerged from the research project entitled 'The real living wage: sustainable investment'. The project is a joint initiative between the University of Southampton Business School, the GRI team of Aviva Investors and the Living Wage Foundation. The study was conducted independently by a team of researchers from the Southampton Business School. The aims of the project were "to investigate the financial materiality of the RLW accreditation, and to understand investors' perceptions on RLW accreditation status of companies that they invest in, as a signal of the sustainability of these investments, and inform investors whether and how living wage accreditation can be further incorporated within investment decisions".

The study employed a mixed method design including quantitative analyses of firm financial information, in-depth interviews and online survey with participants from investment management firms and 'investor workshop'. Please note that the research findings do not represent investment advice and any errors or omissions remain the responsibility of the university alone.

Acknowledgements

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STATISTICS



– **5.75 million** or **22%** of UK employees were earning less than the LW in 2018.



– Private sector jobs are more likely to pay below the living wage (**27%**) compared to public sector jobs (**less than 10%**).

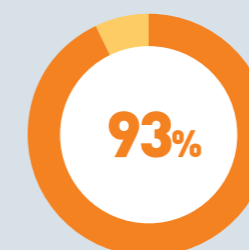


– Women are more likely to be paid below the living wage (**27%**) compared to men (**17%**).

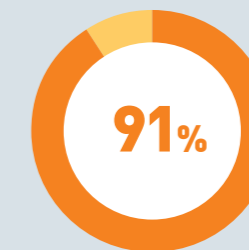
BENEFITS OF PAYING RLW:



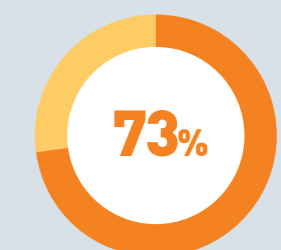
98% of investors perceive increased credibility as a major benefit of paying RLW and obtaining accreditation



93% of investors believe paying RLW improves employee relations



91% think that RLW provides reputational benefits



73% believe it increases staff productivity



Find out more:

www.bit.ly/real-living-wage-project

Research team

Dr Krishanthi Vithana (Project leader)

V.K.Vithana@soton.ac.uk

Professor Yehuda Baruch

Y.Baruch@soton.ac.uk

Professor Collins Ntim

C.G.Ntim@soton.ac.uk

Dr Zhifang Zhang

Zhifang.Zhang@wbs.ac.uk

