The impact on business of adopting Living Wage policies:

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"Living wage" refers to an hourly wage that allows employees and their families to meet their basic needs. Living Wage policies have been in place since the mid 1990s and are now working in some 140 municipalities and counties in the United States, including Boston, Detroit, Chicago, Los Angeles and New York City. In London, UK, at least 115 companies have now committed to pay the London Living Wage of £7.85 an hour, including 50 private firms, 39 third sector employers, 16 public sector and 10 Higher Education and Think Tanks (City of London 2010). In 2010, the City of New Westminster, B.C., became the first Canadian municipality to enact a comprehensive Living Wage policy.

There are many obvious benefits to workers who receive a living wage, especially when it boosts working poor people and their families out of poverty. But what does living wage mean for employers? The costs of paying a living wage are often cited as a significant barrier to its implementation. In actuality, however, these costs either do not materialize, are counter-balanced by reduced costs in other areas (such as lower turnover rates and less sick leave among employees), or are minimal. Based on a search of research reports and scholarly articles, this briefing paper makes the business case for the living wage.

How paying a living wage benefits employers

Decreased employee turnover; cost savings for staff hiring and training; improved job quality, productivity and service delivery; lower absenteeism

- A study of employers in Los Angeles found lower rates of labour turnover, absenteeism and overtime rates and higher rates of training amongst 75 living wage contractors when compared to 210 similar non-living wage firms. Staff turnover rates at firms covered by the law averaged 17% lower than at firms that were not (Fairris and Reich 2005).

- A leading study of the San Francisco airport by researchers at the University of California found that after the airport boosted wages, turnover among contracted security screeners plummeted from 95% to 19% as their hourly wage rose from $6.45 to $10.00 an hour. Service quality improved dramatically, as did morale: 35% of employers reported improvements in work performance, 47% reported better employee morale, 44% reported fewer disciplinary issues, and 45% reported that customer service had improved, and the airport saved thousands of dollars per worker in new employee recruitment and training costs (Reich, Hall and Jacobs 2005).

- A study of home-care workers in San Francisco found that turnover fell by 57% following implementation of a living wage policy.

- In 2004, Barclays Bank in London specified that its cleaning contractees in Canary Wharf provide a better pay and benefits package that included pension contributions, sick pay, bonuses, an increased holiday entitlement and training to an industry recognised standard. Barclays deemed the increased costs to be “completely commercially viable” by attracting higher quality employees and improving cleaning standards. Indeed, the new policy resulted in a dramatic drop in absenteeism and turnover, from 30% to 4%, along with rising performance and customer satisfaction levels. In 2007, Barclays expanded the living wage rate for cleaners to all its City offices (cited in SERTUC, n.d.: 6).

- KPMG London halved its turnover rate after it introduced a living wage policy for all its in-house and contract staff. Other benefits were seen as well: “No one abused the new sick pay scheme”, said Head of Corporate Services Guy Stallard, “and absenteeism is very low. We get the benefit of reduced training costs and increased staff continuity. It is a much more motivated workforce” (cited in SERTUC, n.d.: 6).

Top London Accounting Firm KPMG signs on to Living Wage

London KPMG was one of the first firms to sign on to the London Living Wage policy in 2005. According to John Griffith-Jones, chairman of KPMG in the UK:

We pay our staff a Living Wage because we firmly believe it is the right thing to do. It also makes good business sense. We have found that paying the Living Wage results in higher levels of motivation, loyalty and productivity. Turnover amongst staff receiving the Living Wage has more than halved. In short, paying the Living Wage seems right from a moral standpoint and more than pays for itself.

- Harvard Business Review article finds that wholesale retailer Costco’s higher wage rate than other retailers results in less turnover. Turnover is unusually low, at 17% overall, compared to 44% a year at Wal-Mart which is close to the industry average. Study also found greater productivity and lower levels of employee theft at Costco (Cascio 2006).

- A study of San Francisco's 2004 minimum wage increase found workers in fast-food restaurants remained employed for longer periods of time (an average increase of 3.5 months) and were more likely to have full-time jobs (Reich, Dube, and Naidu 2005).

- A 2005 study of a living wage for home care workers in the San Francisco Bay Area found that turnover fell by 57% following an increase in their wages (Howes 2005).

- An investigation of the decision by Queen Mary University of London to bring its cleaning service in-house and become a living wage employer found that it stimulated improvements in job quality, productivity and service delivery, with very little increase in costs (Wills, Kakpo and Begum 2009).

Boosts competition for contracts

- The state of Maryland found that encouraging living wages boosted competition for state contracts by expanding the pool of "good" firms that could compete on a level playing field (cited in *Los Angeles Times* editorial, July 6, 2010).

Benefits the broader economy by stimulating consumer spending

- A 2009 Goldman Sachs report confirms that increasing the income of people with lower wages has a proportionately larger stimulating effect on the economy than increasing the income of those on high incomes. Low–earners tend to spend more of their increased income than those on much higher incomes, because those on low-incomes have more essential spending needs to be met by any income increases. Higher income populations deliver only 3-5 cents increased spending per additional dollar of wealth (Goldman Sachs 2009).

- A 2008 study by economists at the Federal Reserve Bank of Chicago, which examined 23 years of household spending data, found that an increase in the minimum wage leads households with a minimum wage worker to significantly increase their spending over the next year: for every dollar increase in the minimum wage, families with minimum-wage workers tend to increase spending by more than $800 per quarter (Aaronson et al. 2008).

- Other researchers have concluded that increasing the minimum wage is an effective stimulus that helps workers who need it the most and supports the economy by boosting consumer spending (Filion 2009:3).

Greater corporate social responsibility and firm reputation

- Private firms are becoming increasingly aware that commitment to corporate responsibility is essential to their public image. Private companies and public institutions are conscious of their “brand” image, but lofty mission statements mean little if the public becomes aware that they hide the exploitation of low paid staff.
- Statement from KPMG London: “Research suggests that most people want to work for a company whose values are consistent with their own and that a majority of young people believe in the power of responsible business practice to improve profitability. Thus corporate responsibility is increasingly a key factor in attracting and retaining a talented and diverse workforce. Our last annual People Survey showed that almost all of our people believe KPMG is socially responsible and makes a positive contribution to the communities in which we operate.”
- satisfies growing consumer demand for ethical consumption (Turcotte 2010)

City of Hamilton already has a limited 'fair wage' policy

Since at least the late 1970s, the City of Hamilton has had a fair wage policy in the Industrial Commercial and Institutional (ICI) construction sector, with its own minimum standards and wage levels. The policy is meant to ensure that all contracts tendered through the procurement process offer fair compensation and proper training to workers.

This existing policy sets an interesting precedent. If ICI construction workers deserve living wages, shouldn't this extend to people doing other types of work for the City?

Conclusion

Raising wages reduces costly employee turnover and increases productivity. Under living wage policies, employers can enjoy these benefits of paying higher wages without being placed at a competitive disadvantage, especially when all employers in their field are required to do the same. Raising wages also puts money in the hands of consumers, boosting demand for goods and services.

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