Barriers and Enablers to a “Living Wage” in Public Sector Contracts

Karen Wontner, Helen Walker, Irina Harris, Jane Lynch
Cardiff University

Logistics and Operations Management, Cardiff Business School, Cardiff University, Aberconway Building, Colum Drive, Cardiff, CF10 3EU. Phone: +44 2920 876083, Fax: +44 2920 874419, WontnerKL@cf.ac.uk, WalkerHL@cf.ac.uk, HarrisI1@cf.ac.uk, LynchJ2@cf.ac.uk

The importance of offering more than a National Minimum Wage (NMW) and a “Living Wage” is an increasing area of focus in corporate social responsibility (CSR). We identify and analyse the key barriers and enablers for successful Living Wage adoption in contracts and compare them to other CSR measures identified in the literature. An exploratory study is conducted to assess the extent to which such barriers and enablers are present within the context of the Living Wage. One of the most surprising findings is the lack of resistance and high level of support offered from all buyers and suppliers interviewed.

Keywords: CSR, Living Wage, drivers, barriers, enablers, public sector, contracts

Acknowledgements: This research is supported by the ESRC

Submission category: Working Paper

Introduction
Sustainable supply chain management (SSCM) is a “rapidly developing field” (Ashby, Leat and Hudson-Smith 2012, p. 498). Previous literature reviews indicate that the majority of research has been related to environmental sustainability (Gimenez and Tachizawa 2012; Hoejmose and Adrien-Kirby 2012; Miemczyk, Johnsen and Macquet 2012). The social aspects of CSR, or socially responsible public procurement (SRPP) remains less explored. For example 26% of articles reviewed by Hoejmose and Adrien-Kirby (2012) were concerned with social issues compared to 51% environmental issues and in the former, there was a heavier emphasis on corruption than labour conditions. SRPP literature has largely neglected contractual measures that emphasise the importance of offering a decent wage for employees (Gimenez and Tachizawa 2012). Furthermore, research in this area has largely been focused on income and working conditions within the supply chain in developing countries, sometimes focusing on codes of conduct or fair trade (Huq, Stevenson and Zorzine 2014; Karjalainen and Moxham 2013; Preuss 2009). Public procurement in the United Kingdom (UK) is considered “a neglected policy instrument” (Worthington, Ram, Boyal and Shah 2008, p 323) and there is a particular need for empirical studies concerning the social aspects of sustainable procurement in the public sector (Miemczyk et al. 2012; Walker and Brammer 2009).

The concept of the Living Wage in the UK represents a voluntary hourly pay rate above the statutory legal NMW, set independently and updated annually, calculated according to the basic cost of living; with the conceptual differences underlying the calculation of the NMW and Living Wage (Lawton and Pennycook 2013). One justification for including Living Wage provisions in UK public sector contracting is that, as a major UK employer, the public sector “has a key role [in] paying the living wage and as a beacon for change among private companies” (Lawton and Pennycook 2013, p. 5). The introduction of Living Wages within
contracts is seen as a method of ensuring a level playing field between firms which compete for public contracts, reversing a trend of paying employees lower wages in a “race to the bottom” to secure contracts (Reynolds and Kern 2001, p.27). Furthermore, it is argued that public funds should not support firms paying poverty-level wages (Reynolds and Kern 2001).

According to the Living Wage Foundation Website (Living Wage Foundation 2014), over 900 organisations had gained Living Wage Foundation (LWF) accreditation at the time of the research, of which over 100 were UK public sector organisations (Living Wage Commission 2014, p32). As a condition of accreditation, LWF employers apply the higher hourly rate to contracts such as catering and cleaning. Therefore, requiring suppliers to pay a Living Wage to employees engaged in the performance of contracts is a growing phenomenon (Wills 2009). However, from the SSCM literature, it seems that asking suppliers to pay a Living Wage is not yet a widespread SRPP practice (Brammer and Walker 2011; Carter and Jennings 2002). For example, Brammer and Walker (2011) found that asking suppliers to pay “living wages” was among the five least prevalent SRPP practices internationally within the public sector.

Although this practice was reported most highly by UK participants (Brammer and Walker 2011), there has been little research into how this has been achieved. Better understanding how barriers are overcome can assist in the effective implementation of CSR programmes (Carter and Jennings 2004). Hence identifying the barriers and enablers can inform the development of guidance for practitioners seeking to implement a Living Wage in contracts. This research seeks to fill a gap in the literature by exploring the implementation of a Living Wage in Welsh public sector contracts and linking barriers and enablers identified in the literature to empirical findings in public sector organisations in Wales and their suppliers. This has clear implications for the organisation’s supplier management policies and practices.

Research Questions
From the above analysis of the SCM literature concerned with CSR, two key research questions emerged:

- What barriers and enablers for the implementation of a Living Wage in contracts are identified in the literature? This includes a comparison against barriers and enablers to CSR in the supply chain management literature.
- How do these factors compare to barriers and enablers identified by organisations that have successfully implemented a Living Wage in Welsh public sector organisations?

Research methodology
The methodology used in our paper consists of two stages. In Stage 1, CSR and Living Wage literature were reviewed to identify common barriers and enablers to sustainable procurement, and compared with barriers and enablers specific to Living Wage implementation. Stage 2 entailed two exploratory case studies, with data collection including interviews, email questions and secondary data analysis.

Stage 1
The aim of the literature review was to determine the barriers and enablers identified by other researchers to facilitate a comparison with findings between the SSCM literature and literature concerned specifically with implementation of a Living Wage. Firstly, a search was made in databases including EBSCO, Emerald, Abi/Inform Global, Web of Science and Scopus to identify relevant articles and books. Search terms used were Supply Chain
Management and Corporate Social Responsibility or Socially Responsible Public Procurement. This resulted in 184 articles including 11 previous literature reviews. In analysing the results based on abstracts, particular reference was paid to articles including barriers and enablers. This resulted in ten articles being analysed, listed as [1-10] in Table 2. Secondly, ABI/INFORM Global was used to search for “Living Wage” in the title for journals, dissertations/thesis, working papers and conference papers/proceedings. A search of JSTOR resulted in the addition of three articles. The abstracts of the resulting 68 articles were analysed for reference to barriers or enablers. As the Living Wage is a developing area of research in the UK, a further search was carried out using internet sources to find organisation reports to provide information specific to the UK context. Where appropriate highly relevant citations were also included in the analysis. From these results, 15 articles, books and reports were the main sources used to identify the key barriers and enablers associated with implementing the Living Wage, detailed in [11-22] in Table 2.

**Stage 2**
The majority of studies concerned with SSCM have comprised case studies (Ashby et al. 2012). This methodology is particularly valuable for researching under-developed fields and studying contemporary phenomenon in context (Eisenhardt 1989; Walker and Preuss 2008; Yin 2014). Whilst the case study offers many benefits, particularly for exploratory research, it also has some potential drawbacks, including perceived lack of rigour, difficulty of generalising from a low number of cases and the level of effort required (Yin 2014, pp. 20,21,221). Measures were put in place to overcome the potential drawbacks identified by Yin (2014), which included devising and following systematic procedures and ensuring a manageable workload within the available time.

**Table 1: Case study participants.**

<table>
<thead>
<tr>
<th>Org. Type</th>
<th>Organisation</th>
<th>Size</th>
<th>Participants</th>
<th>Research Method</th>
<th>Holds LWF accreditation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector organisations</td>
<td>A</td>
<td>Over 4,000 employees; 6 contracts</td>
<td>Purchasing Manager; Contract Manager; Chair of Board</td>
<td>SSI + DA</td>
<td>Seeking *</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Circa 400 employees; 2 contracts</td>
<td>Contract Manager</td>
<td>SSI + DA</td>
<td>Accredited</td>
</tr>
<tr>
<td>Suppliers</td>
<td>AS1</td>
<td>SME</td>
<td>Account Manager</td>
<td>E</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>AS2</td>
<td>Large Multinational</td>
<td>Regional Account Manager</td>
<td>SSI</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>AS3</td>
<td>SME</td>
<td>Managing Director</td>
<td>SSI</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>AS4</td>
<td>SME</td>
<td>Managing Director</td>
<td>E</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>BS1</td>
<td>SME</td>
<td>On-site Contract Manager</td>
<td>SSI</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>BS2</td>
<td>SME</td>
<td>Managing Director</td>
<td>E</td>
<td>No</td>
</tr>
<tr>
<td>Other participants: two representatives of external organisations involved in campaigning for a Living Wage</td>
<td></td>
<td></td>
<td></td>
<td>SI</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>2</td>
<td>8</td>
<td>10</td>
<td>DA = 3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E=3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>SSI=8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>T=1</td>
<td></td>
</tr>
</tbody>
</table>

Key: Document Analysis [DA]; Email questionnaire and correspondence [E]; Semi-Structured Interview [SSI]; Telephone interview [T]

* This organisation has obtained accreditation since the initial interviews.
The current study does not aim to generalise the results. The Living Wage issue is of particular relevance to Wales because it has very high percentage of employees who earn less than a Living Wage (around 24%), with only Northern Ireland reporting a higher percentage (27%) compared to the UK average of 22% (Markit 2014). However, only 34 (3.8%) of LWF accredited employers on their website (Living Wage Foundation, May 2014) were based in Wales. An internet search was conducted to find organisations that had successfully implemented a Living Wage in contracts and six Welsh public sector organisation were invited to participate, with two organisations subsequently agreeing. The resultant case studies explored implementation issues at two Welsh public sector organisations, their contractors and two external campaign organisers, one of whom was directly involved in campaigning for implementation within Organisation A. Twelve participants contributed to the two case studies, as set out in Table 1.

None of the participating suppliers were common to both organisations, although several participating suppliers had experience of including payment of a Living Wage in more than one contract. The empirical research was carried out between July and August 2014. Semi-structured interviews were carried out wherever possible, supplemented by questionnaires and email correspondence where a face-to-face meeting could not be arranged. Both organisations provided documentation for triangulation. The aim was to obtain an insight into the participants’ understanding of barriers and enablers and make a comparison with the existing literature. In order to ensure that the analysed data accurately reflected their views, each participant was asked to review their record and ensure that an approved version was used. Particular attention was paid to any quotations that might be published, even if on an anonymised basis.

Findings and Discussion

Stage 1

Interest in SSCM has been growing since Carter and Jennings’ (2002) examination of social responsibility within the supply chain. A number of authors have since built on their work, resulting in the identification of a number of barriers and enablers to CSR implementation. The findings in relation to the Living Wage largely emanate from the US in research fields outside the SCM discipline. There is a very small body of academic literature concerned with implementing the Living Wage within the UK context. From these materials, supplemented by reports, it was possible to compile a list of barriers and enablers for CSR measures in general and the Living Wage specifically and compare the two sets of literature.

The findings of the literature review are summarised in Table 2, with several findings worth highlighting. The most frequently noted barrier to implementation was cost (or anticipated cost), which is well documented in the sustainable SCM and the Living Wage literature, as indicated in Table 2. Other barriers include the lack of clarity or communication of the goals of the CSR or Living Wage policy, the lack of time for implementation, low levels of commitment and cultural and organisational factors such as procurement processes or the attitudes of procurement staff. In some situations, the lack of an enabler can be seen as a barrier, for example, a lack of support and training (Hoejmose and Adrien-Kirby 2012; Walker, DiSisto and McBain 2008).

It is worth noting that a number of barriers and enablers were uniquely linked to Living Wage implementation, rather than other CSR measures. These have been highlighted in italics in Table 2 as including the cost of maintaining pay differentials and concern over the effect on
competition or a reduction in the number of tenderers. A number of enablers were located in both CSR and Living Wage literature, many of which may address specific perceived barriers. For example, organisational support ensures that the costs of implementation are fully met without impacting on other budgetary priorities. The strategic role of the purchasing function can influence suppliers’ support, and the relative power of the buying organisation is particularly important. Organisational structure and size and availability of training and guidance may also enable effective implementation of CSR and Living Wage policies. Legislating for a Living Wage or the raising of legislated minimum wage rates was also viewed as an enabler in the literature. However, Lawton and Pennycook (2013) warn against following the US practice of mandating the Living Wage in public sector contracts, as this would have minimal impact on private sector wages, where there is a predominance of low paid employees in the UK private sector (86 percent in 2011 according to Lawton and Pennycook 2013, p. 22), leading them to conclude that many US campaigns, using public sector procurement as a policy tool, have hardly impacted on private sector organisations with no direct relationship with the public sector (Lawton and Pennycook 2013, p. 45). This research has identified a strong similarity in the literature related to barriers and enablers for implementation of the Living Wage and other CSR measures.

Stage 2
In our exploratory study, we found support for some of the barriers identified in the literature, as indicated in Table 2. The main barrier was cost, (for example Lawton and Pennycook 2013; Reynolds and Vortkamp 2005). This was cited by all participants, with around 20% on average added to the contract cost, a fairly significant cost for the larger organisation studied. There was clear evidence that cost is a major consideration when formulating tenders. As supplier AS3 stated:

“Generally people procure to the cheapest, so we can’t just say this will be our price or we will get priced out”.

This supports the “race to the bottom” effect (Reynolds and Kern 2001) and mitigates against formulating bids based on the Living Wage unless requested by the client. Lack of clarity (Luce 2004) over the coverage of the policy was expressed by participants in Organisation A (the larger of the two organisations). This may imply that communication problems are greater in larger organisations. Lack of time (Reynolds and Vortkamp 2005) was also an issue for participants in Organisation A and their suppliers. In this case a very short timescale for implementation was determined by senior managers without prior reference to the staff involved in implementation, which also implies a lack of communication. Although this was overcome and the implementation date was met, participants had to prioritise implementation whilst continuing to perform other tasks.

Competition concerns (Brenner and Luce 2003) may act as a barrier for suppliers considering implementing a Living Wage. For example, extending a Living Wage to other contracts, where it has not been requested by the client, had not occurred. Bids are submitted in a very competitive market, hence as supplier AS2 stated:

“The NMW tends to be applied to most contracts in order to be competitive, unfortunately”.

One of the external campaigners raised an important point relating to cultural barriers. Organisations may believe that contractors’ employees pay rates are not their responsibility
because it is outsourced to a private company. This view is refuted by campaigners because it ultimately comes from the organisation’s budget. Although not confirmed by organisational participants, external organisers still held the view that buyers consider “cheapest is best.” The majority of enablers identified from the review of the literature were supported by both organisations. A key enabler was the fact that both organisations were prepared to fully meet the resource implications of implementation (Luce 2004). This included maintaining pay differentials for employees (Reynolds and Vortkamp 2005), including those already paid in excess of the Living Wage. The fact that the organisations met the cost of implementation created a “level playing field”, as expressed by one supplier, which was very important. This was largely due to the level of strategic support within the organisations for the policy. In each organisation a champion (Luce 2004) was identified as being influential in ensuring support, deemed crucial by external organisations as ensuring sufficient financial resources required to implement the policy. The relative purchasing power of the larger organisation was a clear lever or enabler (Miemczyk et al. 2012; Preuss 2009) and according to one external organiser “the role of procurement and purchasers is integral”. It was clear that suppliers did not feel they were given a choice, with one organisational participant expressing the view that the suppliers’ willingness to implement the policy was “not particularly surprising”, given the size of the organisation’s contract.

Whilst a number of these factors contributed to the successful implementation of a Living Wage, the findings of the literature review were not supported in several respects. Organisational structure or size (Luce 2004; Walker and Brammer 2009) was not viewed as a barrier to implementation, with a mix of large suppliers and SMEs all equally capable of making the required changes within a relatively short timescale. In addition, neither organisation had a formal implementation plan in place (Luce 2004); but this did not impede progress. There was no support for legislating for a Living Wage (Luce 2005a; Luce 2005b; Wills 2009) either regionally or nationally, or for raising the NMW to the Living Wage rate. To the contrary, one supplier expressed strong resistance, as in their view, this would result in a rise to the cost of living and raise costs across the board, hence the Living Wage should remain voluntary because “if clients agree to pay these rates people can benefit”. (Supplier AS3)

With one exception, the suppliers expressed strong support for the policy and one supplier had started to include a Living Wage bid as an option in contracts. Suppliers also welcomed the initiative and felt they were bidding on a “level playing field” (Luce 2004, p.170) in terms of staff costs. This support could not, however, be extended to employees on contracts where the Living Wage was not requested or accepted by the client, due to the competitive nature of the markets in which the suppliers operate. Whilst the perceived culture of buyers (Luce 2004; Von Bergen, Mawer and Solper 2007), for example to seek bids based on the lowest cost, was viewed as a barrier in both sets of literature, this was not substantiated in our study. Concerns over the possibility of reduced competition is documented in the Living Wage literature (Pollin 2005) but this has not resulted in a perceptible negative effect. There were no concerns expressed by the organisations over any potential decline in the number of bidders and no evidence had emerged at the time of the study in this regard. Hence, our findings demonstrate that not all barriers and enablers identified in the literature apply within the context of a Living Wage implementation in Welsh public sector contracts.

In summary, barriers to Living Wage implementation have been identified in the academic literature and supported in many respects by the results of the exploratory study. The study strongly confirms that cost is the major barrier to implementing the Living Wage as a specific
CSR measure. There is therefore a high degree of similarity across both sets of literature and our findings. However, not all barriers or enablers suggested by the review of the literature were confirmed. In terms of enablers, the study confirmed that many of the enablers identified in the literature are instrumental in ensuring smooth implementation. The most notable of these was the high level of support within the organisations, which ensured adequate resources for implementation. The most surprising result was the high level of support for the Living Wage expressed by both buyers and suppliers participating in the research, in contrast with the literature which suggests both parties may resist such a policy due to cultural or other factors.

Conclusions and limitations
The researchers identified a need for more research into the social aspects of Corporate Social Responsibility and in particular into the introduction of measures providing for a decent income (Gimenez and Tachizawa 2012), such as a Living Wage, within public sector contracts. Furthermore, a need for more empirical studies into the social aspects of CSR in the public sector was established via a prior literature review (Walker and Brammer 2009; Miemczyk et al. 2012). This paper makes a significant contribution by investigating the barriers and enablers to introducing CSR measures and in particular a Living Wage within public sector contracts.

A number of enablers and barriers emerged as specifically related to implementation of a Living Wage in contracts. Exploratory research was undertaken to determine the extent to which these barriers and enablers were identified within two Welsh public sector organisations that had successfully implemented a Living Wage in contracts. This facilitated a further comparison between the findings of the literature review and the experience of these two organisations and their suppliers. In several respects the study did not confirm the findings of the literature review. This support was largely attributed to the fact that both organisations fully met all the costs associated with introducing the Living Wage for contractor’s employees covered by the policy and that suppliers tendered on a level playing field with the level of pay largely removed from the competitive element of tender cost.

The research has several limitations, including the timescale for data collection and analysis. The case study research was exploratory in nature and examined implementation at the supplier-buyer dyadic level in the Welsh public sector. Researching implementation within the buyer-supplier dyad allowed comparison across a wide range of issues, yet few differences between the cases emerged. In terms of the implications for practice, these barriers and enablers will inform the development of guidance for practitioners seeking to implement a Living Wage in contracts. Future research could examine the implementation of a Living Wage in contracts within other contexts and could extend the comparison between SCM literature concerned with CSR with other specific social measures, for example the implementation of “community benefits” clauses in public sector contracts.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost, or perception of costs. Conflict with pressure to reduce rather than increase costs.</td>
<td>[2] [6] [10]</td>
<td>[11] [13] [18] [19] [22]</td>
<td>✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓</td>
<td>✓ ✓ ✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional costs such as maintaining pay differentials.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market forces / competition concerns, opposition. Effect on tenders, for example declining to bid.</td>
<td>[9] [12] [13] [17] [18] [20] [21]</td>
<td></td>
<td>✓ ✓ x x x x x x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of clarity/communication of policy or goals</td>
<td>[8] [14]</td>
<td></td>
<td>✓ ✓ x x x x x x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of support / training / advertising to ensure staff are aware of entitlement.</td>
<td>[8] [14]</td>
<td></td>
<td>x x x x x x ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural and organisational factors including culture of purchasing professionals, resistance to change. Industry/sector specific barriers.</td>
<td>[6] [10] [14] [21]</td>
<td></td>
<td>x x x x x ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of time /low priority/commitment /lower priority for social than environmental aspects</td>
<td>[3] [10]     [18]</td>
<td></td>
<td>x ✓ ✓ ✓ ✓ ✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Enablers                                                                 |                |                        |                    |       |       |                |                |               |
| Organisational Support including role of “champions”                    | [1] [9] [10]   | [16] [21]              | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Implementation plan                                                     |                |                        | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Resources for implementation, incl. funding/staffing/training           |                |                        | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Informing those covered by the policy, including employees               |                |                        | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Strategic role of purchasing function                                  | [2] [4] [5]    | [9] [16] [21]          | ✓ x ✓ ✓ x x x x x |       |       |                |                |               |
| Alignment with organisational goals and processes/procedures.           |                |                        | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Relative power of buyer / supplier in forcing / encouraging suppliers to adopt SERP practices. | [2] [9] [16]  [21] |                  | ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ |       |       |                |                |               |
| Organisational structure/size including consideration of SME readiness. | [7] [9]       [14] |                        | ✓ ✓ x x x x x x |       |       |                |                |               |
| Government policy and legislation, eg raise NMW to level of the Living Wage | [9] [15] [16] [21] |                  | x x x x x ✓ ✓    |       |       |                |                |               |

Barriers or enablers highlighted in italics were specifically located in Living Wage literature.

References


