



A New Living Contract? Cases in the Implementation of the Living Wage by British SME Retailers

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Structured Abstract

<i>Purpose of this paper</i>	This paper aims to provide evidence for the motivations of SMEs for introducing the Living Wage, focusing on retail as one specific sector. It develops understanding of the strategic benefits and challenges these employers face in balancing financial, ethical and social considerations in small businesses.
<i>Design/methodology/approach</i>	The study employed mixed methods: a survey and semi-structured interviews. The interviews are presented as part of three case studies.
<i>Findings</i>	Findings indicate that employers were, for the most part, motivated by personal ethics and beliefs about fair wages and social justice. They suggest that SME accrue benefits from Living Wage accreditation such as reputational benefits and higher employee morale, but that there are also potential pitfalls of Living Wage adoption related to pay structure and incentives. The sustainability of the Living Wage emerged as an issue in terms

	of the long-term strategy and brand positioning of the companies involved.
<i>Research limitations/implications</i>	The nature of the research was exploratory and thus the study only allows for limited generalisation. Recommended avenues for further research include gathering data from different levels of organisations and from different stakeholders.
<i>What is original/value of paper</i>	This is the first paper to investigate the drivers for, and implementation of, the Living Wage in SMEs. The specific characteristics of SMEs – their ethos, low visibility, reliance on trusting relationships and limited resources, among others – make the study of why and how they choose to implement the LW very interesting. This study is the first to gather and analyse data from SME retailers and wholesalers that have implemented the Living Wage.

Keywords

Living Wage, Ethics, Small to medium-sized enterprises (SMEs), Retail/wholesale, United Kingdom, Case studies

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Introduction

Over the past few decades, developed economies in the West have continued to grapple with a series of seemingly intractable problems in the context of labour productivity, intense competition from emerging markets, the rise of low-skilled and low-paid jobs, chronically un- and underemployed workers, and stagnant or decreasing wages (Eurostat, 2016; Clarke and D’Arcy, 2016). The more recent rise of the ‘gig economy’ involving zero hour work contracts and ‘forced’ self-employment has further intensified employer-employee conflicts (Pennycook et al., 2013; Broughton and Richards, 2016).

The specific issue of low wages is a persistent concern in the UK. It was estimated in April 2015 that 21 per cent, or 5.7 million individuals, were ‘low paid’ in Great Britain (Clarke and D’Arcy, 2016). In response to this, there has been a growing debate around the Living Wage (LW) in the UK (Wills, 2009) and elsewhere, as employers seek to balance profit-seeking with increasing demands for fair wages. Part of the impetus for introducing the LW, a wage that enables workers to meet the cost of living, is the restoration of a greater degree of social and economic justice and fairness in the economy as it seeks to address the twin problem of in-work poverty and societal inequality (Waltman, 2004; Wills, 2009). Neo-liberal critics, however, have been more sceptical as to the business and economic sense of the concept (Bourne, 2015).

A policy response to the issue of low wages in the UK has been the introduction of a mandatory National Living Wage (NLW) for over 25s, which was implemented in April 2016. Its current rate (£7.50 in April 2017), however, is not deemed to be sufficiently high

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3 enough for people to make ends meet (Inman, 2016). A more suitable benchmark for
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5 addressing low pay remains the ‘real’ or ‘full’ LW which is set by the Living Wage
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7 Foundation¹. The current LW rate is £9.75 in London, and £8.45 elsewhere in the UK.
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11 Unlike the NLW, the ‘full’ LW is paid voluntarily by employers. The voluntary nature of
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13 this scheme makes it an interesting research opportunity, for several reasons: It allows to
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15 explore the motivations of employers for adopting a higher than legally required wage rate,
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17 the impact of its adoption on organisational strategy, as well as challenges, costs and benefits
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19 of LW implementation for the organisation (Werner and Lim, 2016a).
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25 Following on from previous, published research that analysed the philosophical and political
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27 dimensions of the LW in both the United Kingdom and the United States (Werner and Lim,
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29 2016a), this article focuses on empirical research findings of SME employers in the UK.
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32 This study is the first of its kind to explore the adoption of the voluntary LW in small and
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34 medium-sized enterprises. To date, the motivations and implementation of the LW in
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36 British SMEs have not been researched in depth; despite the fact that 99.9 per cent of all
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38 private sector businesses are SMEs, and SMEs contribute £1.8 trillion to the UK economy,
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40 employing over 15.7 million workers (DBEIS, 2016).
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46 Private sector SMEs constitute over half of all accredited LW employers (at the time of
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48 writing 3,300 in total). The large number of SMEs among accredited LW employers may
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50 appear somewhat surprising, given that small businesses are usually perceived as having
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52 fewer resources available (Carland et al., 1984) and thus less able to afford paying higher
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54 wages to their staff. At the same time, characteristics of SMEs, such as the co-incidence of
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¹ <http://www.livingwage.org.uk/>
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3 ownership and control, may also *enable* SMEs to act responsibly (Spence, 1999; Egels-
4 Zanden, 2017).
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10 This paper focuses on SMEs in a range of sectors including hospitality, care, retail,
11 construction and manufacturing, many of which are perceived to be low-waged sectors. To
12 keep this article tractable, we focus on the retail industry. This study makes several key
13 contributions to the subject. First, there is a paucity of empirical research on the motivations
14 of SME employers for signing up to, and paying, their employees the LW. This study
15 provides important insights into the drivers and motivators for the decision to adopt the LW
16 in a neglected segment of the economy: SMEs. SMEs contribute hugely to the British
17 economy and yet, their contributions to making Britain a fairer society is still under-
18 recognised. This article addresses this imbalance in the literature on employee relations,
19 wages and the economy as a whole. Second, this study identifies the benefits and challenges
20 employers face when implementing the LW within their organisations. Last, but not least,
21 this study paves the way for a better understanding of the likely future of the LW and its
22 implications for future policy and research in industrial relations.
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40 The article is structured as follows. Following this introduction, it will set out the
41 philosophical arguments for the LW, explain the reasons as to why SMEs are able to act on
42 social responsibility issues such as the LW, and provide some background to the retail sector
43 as the chosen context for this article. Further, a description of the research methodology is
44 given. Then, a summary of the survey findings and three case studies (an organic grocery
45 retailer, a specialist computer retailer, and a multi-channel clothes retailer) will be presented
46 and discussed. The concluding section reflects on the limitations of the study and makes
47 some suggestions for further research.
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Literature Review

The Living Wage

The LW relates to people's subsistence and needs and can be defined as the amount of remuneration that is sufficient to provide a decent standard of living for the worker (and his/her family) (Ryan, 1912). At its core, the LW is an ethical concept, as it challenges neo-classical assumptions of wages being "a market estimation of what a worker adds to the production of goods and services that society wants" (Stabile, 2008, p.2). Thus, concept of the LW has direct implications for business organisations as it concerns what they pay their workers at the bottom of the pay scale (Werner and Lim, 2016a). At the same time, questions arise as to how much should be paid and who, in fact, is responsible for ensuring that workers can make ends meet.

Three key arguments have been put forward by key thinkers to support the idea of a LW: sustainability, capability and externality (Stabile, 2008). All three rationales given for paying the LW carry significant advantages for employees and employee relations (Werner and Lim, 2016a). A sustainable wage facilitates self-reliance, organisational resilience and focused energy and efficiency from employees. Instead of scattering their attention across two or three jobs, workers who earn a LW are able to devote their time and energy to one employer, thus being more productive in the process.

The LW also enables capability. Capability can be understood to mean empowerment of the individual, a way by which she or he exercises the freedom to achieve the 'doings and beings' they have reason to value (Sen, 1992). While a higher income will enhance *individual* well-being, an argument can also be made that enhanced capability also helps people to

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3 become better citizens and workers. For example, if a worker is no longer forced to hold
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5 down several jobs and work long hours to make ends meet they will have more time available
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7 to spend with their family, to get involved in their communities, or to attend evening classes.
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11 Last but not least, externality is deeply relevant to arguments in favour of the LW. Workers
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13 who are paid very low wages inevitably impose costs on society, as people, for example, will
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15 have to claim means-tested welfare payments (such as tax credits and housing benefit) to
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17 make ends meet. Continuing to subsidise 'low wage' employers, therefore, may have a
18
19 negative effect on the social contract between business and society. From an economic
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21 perspective as well, wages that are below subsistence levels allow incompetent employers to
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23 continue to exist and thus distort true economic competitiveness.
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29 Although the benefits of paying a LW to employees appear to outweigh the disadvantages,
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31 however, adopting the LW - whether as a mandatory requirement (as, for example, in a
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33 number of municipalities in the United States) or as a voluntary commitment (as favoured in
34
35 the UK) - carries risks for business organisations. The most obvious downside is the higher
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37 wage bill that paying the LW often entails. Some scholars (e.g. Waltman, 2004; Pollin, 2005)
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39 counter this argument by referring to efficiency and productivity gains that businesses may
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41 enjoy, for example, through reduced absenteeism and turnover and a subsequent reduction in
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43 recruitment, training and supervision costs, as well as a better motivated, and thus more
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45 productive, workforce. Paying higher wages may also 'force' employers to think about how
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47 their resources, both labour and non-labour, could be more efficiently employed (e.g. through
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49 investment in better equipment).
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3 In contexts where a voluntary adoption of the LW is encouraged, LW employers may also
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5 enjoy reputational benefits (and those employers who do not pay a LW may face negative
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7 reputational consequences), although they may also find themselves at a competitive
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9 disadvantage if they adopt the LW while their rivals do not. In such contexts, the
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11 responsibility of customers and other stakeholders to recognise, and reward, LW employers,
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13 and shun those who do not pay a LW, will become more pertinent (see Ryan 1912, p. 264).
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16 17 18 *The UK and SME context* 19

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21 The LW has a long history (Werner and Lim, 2016a). In the UK, the concept was revived by
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23 campaigns spearheaded by civil society alliance Citizens UK/London Citizens in the early
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25 2000s, which started as a response to high incidence of ‘low-wage’ jobs in East London
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27 immigrant communities. Wills and colleagues documented and analysed these campaigns
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29 (Wills, 2004; 2008; Wills et al., 2009a), and examined the experiences of low-waged workers
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31 who received the LW (Linneker and Wills, 2016; Wills and Linneker, 2012) as compared to
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33 those who did not (Flint et al. 2014). Much of this work, however, focused on contract
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35 service providers. The study presented in this article complements this strand of research by
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37 examining the role of SMEs in promoting the LW.
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43 The fact that private sector SMEs today constitute over half of all accredited LW employers
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45 bears testimony to the fact that there is both the will and the capacity among SMEs to
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47 implement the LW, not just among large employers such as universities (Wills et al., 2009b),
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49 local councils (Prowse and Fells, 2016) and large corporations (Groom, 2014). Egels-Zandén
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51 (2017) summarises why SMEs are able to act on social responsibility issues, such as the LW.
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53 He acknowledges the fact that SMEs have limited resources available to them (see also
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55 Carland et al., 1984), but points out that other peculiarities of SMEs are, in fact, enablers for
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3 them to act ethically and responsibly within the societies they serve. Central to this ability to
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5 act are the co-occurrence between ownership and control in SMEs and the vital role of SME
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7 owner-managers in the business (Spence, 1999). Egels-Zandén (2017) states that numerous
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9 scholars have demonstrated that SME owner-managers engage in social responsibility due to
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11 ethical, rather than profit, motives. Ownership and control often lie with the same people in
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13 SMEs, and they have thus more autonomy and legitimacy to exercise discretion in how to use
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15 company resources and are less pressured by quarterly results. Egels-Zandén (2017)
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17 demonstrates the capability of SMEs to act responsibly by giving the example of a Swedish
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19 SME retailer that implemented the LW in its supply chain, which was perceived as a rather
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21 unusual move. The present article, by contrast, focuses on SMEs and their *direct* employees.
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27 ***The Retail Context***

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29 The retail industry deserves considerable attention in the context of LW debates because of
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31 its reputation as a low-wage employer (Tait, 2017). In fact, retail, wholesale and repair of
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33 motor vehicles is the second largest industry sector in the UK (after the professional,
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35 scientific, technical sector), accounting for 14.5 per cent of all businesses and employing over
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37 four million people (ONS, 2016).
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43 At the same time, some larger retailers such as IKEA have been reported to have become
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45 accredited LW employers whilst supermarket chains Aldi and Lidl have adopted the full LW
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47 but without formal accreditation (Butler, 2016; Sky News, 2017). The adoption of the LW in
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49 SME retailers, however, has remained largely unexplored, despite the fact that there are over
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51 540,000 SMEs operating in the sector, accounting for 15 per cent of *all* SME employment
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53 and over a third of *all* SME turnover in the UK (DBEIS, 2016).
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3 The retail sector in the UK has been perceived to be standing at a crossroads with regards to
4 its future (Tait, 2017). A number of industry reports on future trends in the industry that have
5 recently been published (BRC, 2016; DWF, 2016; Tait, 2017) have pointed to the narrowing
6 of margins due to cost pressures, and the growing influence of technology in the sector,
7 which has many implications for jobs and wages. The reports have also assessed the impact
8 of the introduction of the mandatory National Living Wage (NLW), with law firm DWF
9 finding that only 27 per cent of retailers see the NLW as a key threat to growth over the next
10 three years, as areas such as regulatory change, and IT and data security are being viewed as
11 bigger issues (DWF, 2016). The British Retail Consortium, whilst being supportive of the
12 idea of the mandatory NLW “in principle”, is concerned that the potentially negative effects
13 on employment have been underestimated and that they could lead to an even steeper decline
14 in employment, but potentially also to the creation of better if fewer jobs (BRC, 2016).
15 Scepticism around the NLW is also voiced by the Centre for Retail Research (Bamfield, n.d.),
16 which argues that the NLW could lead to staff reduction, fall in store numbers, higher prices
17 and the implementation of more self-scanning and self-service technology.
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38 The report published by the Fabian Society (Tait, 2017) sets out three future scenarios for the
39 retail industry: *squeezing the cost base* (finding new ways to reduce costs to keep existing
40 business models alive, including minimising labour costs and thus perpetuating a low wage
41 model), *automating to efficiency* (investing in new automated technologies and moving large
42 parts of business online, thus reducing staff and store numbers but also requiring higher skills
43 from staff) and *competing on connectivity* (investing in highly engaged workforces and in
44 forging stronger relationships with customers to compete on the strength of their ‘human
45 touch’). The report favours the last model, and policy recommendations set out in the report
46 include a push for training and skills development (also supported by the BRC), as well as
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3 government support not just for further rises in the mandatory NLW but also more support
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5 for the voluntary LW. These recommendations concur with the conclusion of the DWF report
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7 that the ability to retain and motivate the best staff is key to industry growth, that wages are
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9 clearly crucial to help achieve this, and that it is, therefore, fundamental that retailers buy into
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11 improved remuneration (DWF, 2016).
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16 The findings from these reports echo earlier academic studies such as Hart et al.'s (2007)
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18 research into employer perceptions of skills gaps in UK retail (multiple retailers and SMEs).
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20 Hart et al. (2007) stated that the sector had to grapple with a 'low skills, low pay' image, and
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22 people did not consider retail a long-term career choice due to perceived poor working
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24 conditions and pay. The industry's negative image was also felt to have a significant impact
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26 on retailers' ability to recruit and compete for long-term staff with the necessary skills to
27
28 succeed in the sector. Hart et al.'s (2007) research also highlighted that some SME
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30 employers, in particular, showed a lack of awareness of the need for their workforce to have
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32 specific skills (such as IT skills) and of the need for future skills development to maintain
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34 competitiveness against larger retailers (see also Byrom et al. 2002). Hart et al. (2007) further
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36 point out that reducing staff turnover needed to become a higher priority in order to retain
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38 skills levels and retail as a whole needed its profile raised to make retailing a first choice
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40 career destination. The question arises as to how the voluntary LW may contribute to
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42 addressing these issues.
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50 Whilst the literature on *SME* retailers remains limited, some studies have focused on the
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52 marketing and branding aspect of these companies (Mitchell et al., 2015; Hutchinson and
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54 Quinn, 2012; Coca-Stefaniak et al., 2010). An interesting insight pertains to the central role
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56 of the owner-manager in managing the branding in *SME* retail companies (Mitchell et al.,
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3 2015). This stream of literature, highlighting as it does features of successful branding - such
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5 as a strong company brand image/identity, niche strategies (Hutchinson and Quinn, 2012),
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7 high level customer service, and personal interaction with customers (Coca-Stefaniak et al.,
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9 2010) - opens up the opportunity to explore how LW accreditation may be used in SME retail
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11 branding (Werner and Lim, 2016a).
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14 15 16 **Method**

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18 The study employed mixed-methods research (Creswell, 2009). A survey as well as semi-
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20 structured, in-depth interviews were used. The purpose of the survey was to gain initial
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22 insights into SME's experience of adopting the LW. Survey questions asked about reasons
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24 for signing up to the LW; implementation, challenges and benefits of the LW; as well as
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26 about the company's current and future LW strategy. The survey was also used as a
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28 recruitment tool for follow up in-depth interviews. The interviews, which were semi-
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30 structured, probed for further detail on the topics covered in the survey but also allowed for
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32 new topics and issues to emerge.
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38 For the purposes of the survey, a sample consisting of 250 private sector SMEs was selected
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40 from the membership database managed and owned by the Living Wage Foundation.

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42 Following a pre-test, the survey was sent out using the Qualtrics platform. 60 responses were
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44 received (12 of which from retailers), which were analysed using Qualtrics and Excel. 38
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46 respondents indicated that they would be happy to grant the researchers an interview about
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48 their experience as a LW employer. From these responses, 23 companies were selected to be
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50 interviewed.
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3 Interviews took place between May and August 2016. Interviews lasted between 25 minutes
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5 to an hour and a half, with an average interview time of about 40 minutes. The respondents
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7 were in one or more of the following categories: founder/owner/managing director/functional
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9 director (HR, Marketing etc.). The interview sample included six retail companies. All
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11 interviews were fully transcribed and anonymised in accordance with Middlesex University's
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13 Code of Research Ethics. Interview transcriptions were then coded in NVivo10 using a
14
15 thematic analysis approach (Braun and Clarke, 2012).
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21 The data presented in this article comprises of a summary of the survey results for LW SME
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23 retailers, as well as three retail case studies from the study's interview sample. The case
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25 studies were not selected to generalise a population but on the grounds that they reveal, and
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27 enable discussion of, emergent issues with regards to LW adoption in SME retailers (Yin,
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29 2014).
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34 **Findings**

35 *Survey findings*

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37 As out of the 60 survey responses only 12 came from retailers/wholesalers, any analysis of
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39 the data needs to proceed with extreme caution. Nevertheless, the data allowed for some
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41 interesting insights.
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45 Whilst in the overall sample moral reasons were overwhelmingly cited as the main
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47 motivations for signing up to the LW (Werner and Lim, 2016b), the percentage among
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49 retailers/wholesalers were even higher ('the right thing to do' and 'in line with company'
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51 values were both cited by 92 per cent of retailers/wholesalers in the sample, compared to 77%
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53 and 87% by the total sample).
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56 A much higher percentage of retailers/wholesalers than the total sample stated that they had
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58 to increase staff wages in order to receive accreditation (92% compared to 50%), which
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3 indicates that LW accreditation has more implications for a retailer's wage bill compared to
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5 other SMEs. Approximately 75 per cent of retailers/wholesalers, however, said they had
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7 made no changes to the way they run their business (compared to 55 per cent of the total
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9 sample). Exactly 41 per cent relied on higher staff productivity to absorb the cost of the LW,
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11 whilst 34 per cent regarded a higher quality of service as an option to absorb the cost, and
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13 only 25 per cent engaged with the options of charging higher prices or investing in labour
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15 saving technology. The sample identified 50 per cent of retailers/wholesalers were willing to
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17 accept lower profit margin, compared to 36 per cent of the total sample.
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21 The main challenges with regard to LW adoption mentioned by retailers/wholesalers were
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23 'keeping up with the cost of a LW employer' (58%), the ability to compete with low-cost
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25 employers (50%), and the maintenance of pay differentials (41%).
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29 The most frequently cited benefits of LW accreditation among retailers/wholesalers were
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31 enhanced brand reputation (75%), good/better employee relations (58%) and more motivated,
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33 productive employees (50%).
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37 We will now turn to three case studies that examine issues around adoption and
38
39 implementation of the LW in more detail.
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42 ***Three case studies***

43 *Case 1: OrganiCo – the ethical retailer*

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45 OrganiCo's core business is an organic vegetable box scheme, which supplies customers
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47 within a 20 mile radius of the company headquarters. The company also has a wholesale arm:
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49 it supplies organic fruit and vegetables to shops in the local area. The company was founded
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51 18 years ago by its current owner-manager; it employs ten people, about half of which are
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53 part-time.
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3 The LW was first introduced to the owner-manager by the Local Council, which had been
4 very active in promoting the LW. The owner-manager says that it “resonated with me
5 because ... it was in line with the ethical principles that underpin the company”, referring to
6 OrganiCo’s aim to be a “people organisation” and “nurture an environment of wellbeing for
7 employees”. The thought that he would be “trail blazing” as one of the first small businesses
8 to sign up to the LW also appealed to him, and, so he argues, he “also wanted to be
9 recognised as being someone who was in a low wage industry but going for [the LW]”. He
10 also sees a clear link between the company’s LW accreditation and its core business: “You
11 want people, society, to be able to earn enough money to be able to afford good quality food
12 and to be educated about nutrition”.

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27 As a result of LW adoption, OrganiCo had to raise the wages for about half of its employees
28 to meet the threshold. However, no organisational changes were made to absorb the cost of
29 the LW. The owner-manager does not believe, either, that LW rate rises should be simply
30 passed on to the consumer as “providing good value for money for our customers is almost as
31 important as providing a good level of remuneration for staff”, and that he rather accepts a
32 narrowing of the gross profit. The owner-manager says that all they do to absorb the costs of
33 the LW is to try “to trade well”; he also says OrganiCo has no specific LW strategy in place.

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45 At the same time, the owner-manager is very much aware of the benefits paying the LW
46 brings. He says that “it makes your staff feel good, feel valued by the company” and that staff
47 turnover is very low. He feels that LW accreditation has liberated him as he no longer has to
48 worry about having to calculate a fair wage himself but that he can now rely on the LW rate
49 as a benchmark.
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3 OrganiCo actively uses the LW logo on social media, and in the company's newsletters that
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5 are sent out to customers. The owner-manager believes that the company's LW accreditation
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7 improves OrganiCo's reputation amongst its customers with customers having responded
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9 with positive comments. The owner-manager has also become a champion for the LW in his
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11 local area and speaks at local business events promoting the LW.
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16 *Case 2: CompuCo – the strategic retailer*
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18 CompuCo started out as a PC repair store 20 years ago. In recent years, under the direction of
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20 the son of the company's founder, CompuCo has evolved into a specialist retailer, building
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22 and selling custom made desktops, laptops and work stations, which are primarily sold on-
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24 line (whilst still retaining a physical store presence). The company sells its wares all across
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26 the UK and exports them to 13 countries. It has recently experienced annual growth rates of
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28 25% to 30%. CompuCo seeks to distinguish itself from larger competitors through offering a
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30 high level personalised customer service. The company employs eight full time and two part-
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32 time staff.
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38 The trigger for adopting the LW was the 21st birthday of an employee, which would have
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40 required the owner-manager to raise the employee's pay to the over 21 minimum wage rate.
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42 This made him stop and ask why that employee was today "worth more" to the company than
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44 the day before, and should not all employees be on that same higher wage rate? The
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46 company's accountant then brought up the LW and was subsequently asked to find out more
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48 about it.
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53 Having become a convert to the LW, the concept has for the owner-manager a strong moral
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55 dimension: "If we can't give our team enough money to live on then there is something
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3 wrong in our business model”. At the same time, he is very much aware that paying the LW
4 aligns well with his business strategy. He argues that in order to build high performance PCs,
5 the employees should be given financial security so that they “provide the best level of
6 customer service”. CompuCo provides a lot of training in the area of customer service. The
7 owner-manager says that he tends to hire people that have good people skills as a prerequisite
8 and who then can be trained up to understand the products and technical side of the business.
9 He also takes an active interest in the developing his employees’ skills in line with their
10 interests and talents, so that they can be deployed in the parts of the business in which they
11 can give the most value to the company. The link between wages and level of customer
12 service provided is also communicated to customers so that they realise that “they’re not just
13 paying for the [service], they are paying for everything that supports [it]”.

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30 Implementation of the LW has not been without challenges for CompuCo. As it initially
31 increased the wage bill by £10,000 the decision was made (in consultation with the
32 employees) to flatten the pay structure in the business, as well as to accept a lower gross
33 profit and to postpone plans to move into bigger company premises. However, the owner-
34 manager sees that the initial investment is being absorbed by the company’s business growth.
35 He also aware of the benefits LW adoption brings: “Morale is higher, pride in what we’re
36 doing”, productivity (measured in amount of order shipped on time and successfully) has
37 increased, and the company no longer has a retention issue. The owner-manager takes
38 satisfaction in the fact that his employees can enjoy their lives more as they can afford to
39 things that are “inspiring, exciting and energising”.

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54 CompuCo is very outspoken about its LW accreditation, using the logo on its website, social
55 media and its shop window, and the owner-manager has – similar to OrganiCo’s owner-
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3 manager – been invited to speak about the company’s accreditation on local and regional
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5 public platforms on several occasions.
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10 *Case 3: ApparelCo – a failed experiment?*

11 ApparelCo is a multi-channel clothing retailer. Approximately 70 per cent of its business is
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13 conducted online, and the remaining 30 per cent in the company’s five retail outlets. The
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15 online business reaches customers worldwide with the UK, Europe, North America and Asia
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17 its main markets. The company was founded 20 years ago by the owner-director and employs
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19 52 people, of which 40 per cent are part-time.
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25 At the time this study was conducted ApparelCo was contemplating leaving the scheme.
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27 The company’s adoption of the LW a few years back had been driven by the owner-director’s
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29 moral motivations: “I think it was sort of the morally right thing to do to ensure that our
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31 lower paid members of staff are earning enough to get by on.” He had acted on some
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33 employee feedback that had indicated that people felt they were not paid enough. At that
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35 time, ApparelCo only had to adjust pay for half a dozen members of staff, and it was felt it
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37 was a feasible undertaking.
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43 However, since then the company had hired about 20 new employees, and the LW rate had
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45 increased, and thus the owner felt it was no longer financially sustainable to be a LW
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47 employer.
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50 The main problem was that the company had a pay structure in place that also took into
51
52 account “annual objectives and appraisals” for pay rises, and it was felt among the staff that
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54 the LW was, in effect, undermining this structure. People who had been with the company for
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56 a longer period of time felt aggrieved about the fact that the LW was eroding pay
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3 differentials. Despite the fact that their objective wage rate was above market average, staff
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5 continued to complain that they were not paid much above the entry pay level - in other
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7 words, they felt that they were not “valued enough”.
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11 As a result of these sentiments, the owner-director was forced into increasing everybody’s
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13 pay by the same percentage rate as the LW increase. He said, however, that he felt that doing
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15 this was not sustainable for the company. He said he did not want to take away performance
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17 incentives or the profit-dependent bonus that was shared out among the staff each year
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19 because doing so would be unfair to staff. He also acknowledged that the LW, in fact, *acted*
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21 *as a disincentive* for some employees: “The warehouse team, they wanted to get rid of
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23 objectives because they said ‘this is completely pointless, because we can get the best score
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25 in our objectives, but we know that we are already guaranteed an increase of at least that
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27 amount because we’re going to be paid the LW, so why should we bother?’”.
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34 The owner-director felt that there was only limited room for the company to absorb the cost
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36 of the LW elsewhere in the business, as it had no option of increasing prices (as the company
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38 operates within a Recommended Retail Price environment and has to deal with decreasing
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40 margins) and only limited opportunities for savings in operational areas. He further stated that
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42 he did not feel any tangible benefits of LW accreditation: staff turnover was still high, and
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44 there had been no discernible appreciation of the company’s LW commitment – neither from
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46 customers nor from staff, despite efforts to promote ApparelCo’s accreditation. The owner-
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48 manager insisted that he was “not a minimum wage employer, that’s not where I want to be”,
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50 but the commitment to the voluntary LW may have been one step too far in his efforts to
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52 reward staff fairly.
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Discussion

The findings of this study highlight that in the overwhelming majority of cases employers are motivated by strong moral values and personal beliefs in ‘paying a fair wage for a fair day’s work’, which came across strongly in both the case studies and the survey findings.

A surprising finding of this study is that the majority of the retail respondents surveyed stated that they made no changes to the way they ran their business following LW accreditation, although the vast majority had to increase wages to receive accreditation. OrganiCo’s approach to implementing the LW is a case in point here. The case also illustrates the apparent willingness of a number of LW accredited retailers to accept the possibility of lower profit margins as a compensation strategy, which is in line with research that found that due to their ownership structure SMEs are able to engage in profit satisficing rather than profit maximising (Spence and Rutherford, 2000).

The survey highlighted ‘keeping up with the LW rate’ as the main challenge that SME retailers face. The example of ApparelCo in particular illustrates how lack of planning for the LW and LW rises may lead SMEs to run into difficulties. ApparelCo also illustrates the difficulty of introducing the LW sustainably in an organisational environment where the existing pay structure takes into account employee performance and incentives, and the LW may erode resulting pay differentials (another challenge also highlighted by the survey). It appears that in such cases, the LW clashes with other considerations of wage fairness.

This study also provides insight into the perceived benefits of LW accreditation. Its survey showed that ‘reputational benefits’ ranked most highly among SME retailers, followed by better employee relations and more motivated and productive employees. In the interviews,

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3 the latter was particularly emphasised by CompuCo, whilst OrganiCo's owner-manager
4 talked especially about improved employee relations. Both, OrganiCo and CompuCo's,
5 owner-managers also stated low staff turnover as a main benefit; whilst interestingly,
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7 OrganiCo also appreciated the ability to delegate the calculation of a fair wage rate to the
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9 Living Wage Foundation. Their accounts show that different companies may appreciate
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11 different benefits related to LW accreditation. The personal moral benefit of LW
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13 accreditation for SME owner-managers, such as pride in being a trailblazer, and satisfaction
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15 at seeing how employees' personal capability is enhanced as they enjoy more freedom as a
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17 result of being paid the LW (Sen, 1992), should also not be underestimated. The absence of
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19 any perceived benefits in ApparelCo is thus telling; it is likely that the grievances regarding
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21 the erosion of fairness in the company overshadowed any positive effect of the LW.
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30 Another dimension related to benefits that is important, and comes through in the case
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32 studies, is the importance of engaging with the company's customers (and also wider
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34 audiences) about the business' LW accreditation. Positive reinforcement from customers (and
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36 others) appears to strengthen commitment to the LW, and is also linked to perceived
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38 reputational benefit.
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43 Whilst the moral dimension appears strong across the research sample, there were differences
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45 as to how the LW fitted in the overall business rationale. Unsurprisingly, perhaps, the LW
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47 formed an important aspect of the business model and ethos for companies that regarded
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49 themselves as being 'ethical' or 'green', as could be seen in OrganiCo's example. In such
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51 cases, the LW fits well with the niche branding strategy (Hutchinson and Quinn, 2012)
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53 chosen by the retailer, and it is perhaps those retailers that already have an 'ethical' business
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55 model that are especially open to the idea of adopting the LW.
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5 CompuCo, on the other hand, provided an example of how the LW tied in with the employee
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7 skills strategy the owner-manager had put in place in order to provide a high level of
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9 personalised customer service. Whilst CompuCo was the only company in the interview
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11 sample that took such a strategic view, it is perhaps the best illustration of a company that fits
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13 in with what Tait (2017) calls a 'competing on connectivity' scenario. This scenario, with its
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15 focus on investment in highly engaged workforces and the forging of stronger relationships
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17 with customers as basis for competitiveness, has been hailed as the most promising scenario
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19 for future developments in retail. Linking the LW with the development of staff skills and
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21 engagement to enable a high level customer service is likely to make commitment to the LW
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23 both desirable and more sustainable.
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29 **Conclusion**

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31 This was the first study of its kind that investigated in-depth the implementation of the LW in
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33 SMEs, responding to the call for more empirical research into LW employers (Werner and
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35 Lim, 2016a). New insights into the motivations, challenges and benefits of paying the LW
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37 emerged and should serve as timely and significant bases for companies to examine,
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39 especially those thinking of paying the LW to their staff. As such, the study's findings
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41 provide valuable insights for those wishing to encourage LW adoption among SMEs.
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43 Furthermore, this study makes an original contribution to the literature on SME retailers as
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45 well as to the literature on ethics in SMEs.
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51 This study, naturally, has its limitations. As one of the very few studies focused on SMEs'
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53 adoption and experiences of the LW, the research was (necessarily) exploratory in nature,
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55 focusing on a few companies. Although our wider survey of SMEs (Werner and Lim, 2016b)
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3 provides rigorous triangulation, findings cannot claim to be broadly generalisable, not
4 especially since the SME sector in the UK is so vast and diverse. Nevertheless, some
5 findings stand out in our study.
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11 First, an overwhelming number of participants clearly felt that adoption of the voluntary LW
12 was primarily driven by moral motives. This sentiment was echoed over and over again by
13 the owner-managers interviewed in this study. This rationale for adopting the LW show a
14 marked contrast to the studies that report on retailers' attitudes towards paying the mandatory
15 NLW: the voluntary LW in accredited SMEs is perceived as part of the company's ethos, and
16 not as a threat that needs to be resisted or managed.
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27 The study also shows that there are manifold benefits to adopting the LW in SMEs, with
28 enhanced brand reputation being cited as the most frequent benefit, which gives an indication
29 that in the long term LW adoption might not be perceived as a cost for SMEs. Further, the
30 research findings show that a more planned and strategic approach to implementation is
31 likely to make commitment to paying the LW more sustainable for SMEs.
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41 In addition to the fact that this study was exploratory and focused only on a few companies,
42 our sample was also limited to owner-directors or similar top managers in SMEs. There was
43 no verification of their views from the companies' employees. Whilst employee responses to
44 the LW have been studied elsewhere (e.g. Linneker and Wills, 2016; Flint et al., 2014) it
45 would be desirable in the future to ascertain employees' views in case studies such as ours,
46 including the views of middle managers (where applicable).
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3 Comparative studies with larger companies are another avenue for future research. More
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5 systematic research may also tease out any differences between medium, small and micro
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7 enterprises. Future research should examine in greater detail, and more systematically, the
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9 business case for paying the LW, beyond the, often intuitive, perceptions of the owner-
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11 manager (see Mitchell et al., 2015). Other research avenues may also include more
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13 systematic studies investigating the link between the LW and chosen business strategy, and
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15 investigating the strategies employers use to ensure they would be able to continue to pay the
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17 LW for the foreseeable future.
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23 At the time of writing, only a small percentage of British SMEs have implemented the LW in
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25 a meaningful way. There is enormous scope for many more companies to follow the lead of
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27 this small group of pioneers and so make a vital contribution to reducing the externalities
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29 associated with low pay. Understanding the motivations, strategies, benefits and challenges
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31 surrounding the LW, such as set out in this article, should enable policy makers, campaigners
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33 and intermediaries to better promote among SMEs the implementation of a wage rate that
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35 will contribute to the dignity and flourishing of their employees.
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41
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44 Living Wage Foundation for their assistance in gaining access to respondents.
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