Inequality, in-work poverty, justice: The new priorities for HR and reward leaders?

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For the 40 years that I have worked in reward research and consulting, diversity, inclusion and equal opportunities (as we used to call it), have always been an important area of our work. But inequality and poverty? That was traditionally seen as being down to governments rather than employers.

However, as a British Standards Institute (BSI) stakeholder roundtable I attended last week made very clear, Covid-19 has 'highlighted and exacerbated excessive inequality'. It was described alongside global warming as 'one of the major challenges of our time'. BSI already has a number of 'best practice' standards on sustainable development and social value, as well as HR management, but nothing directly on income and wealth levels and their distribution.

The aim of the roundtable was to consider 'how businesses and organisations can improve their positive impact in reducing income and wealth inequality', and the role of standards in improving organisation practice. The government and employer policy agendas are merging; and as in addressing discrimination, both are proving critical to ameliorating the problems.

So just what are these problems, why are they important for organisations, and how can HR and reward functions and employers help in addressing them?

Inequality during wartime and Covid-19

Up until the Second World War poverty and inequality hadn't unduly been the concern of UK governments, nor of its major employers. As Peter Hennessy explains in his magisterial post-War history *Never Again*, before 1939, "the feeling remained that poverty was the fault of the individual and should be punished".

But the collective privations and suffering of War helped create a consensus in Churchill's coalition government. It was captured in William Beveridge's famous 1942 report, for "the positive purpose of promoting common welfare through the management of the economy and the provision of social security", so as to provide "a subsistence income for all… geared to current perceptions of human needs".

With five million Armed Forces personnel returning to civilian life three years later, the priority for Atlee's subsequent government, which built our modern welfare state, was getting these people back into jobs, rather than what they would earn in-work, addressing Beveridge's 'five evils' of 'idleness, ignorance, want, squalor and disease'.

75 years later, more than nine million people at the height of the Covid-19 first wave were rescued from likely unemployment and 'idleness' by the Chancellor's hastily-assembled, but extremely successful Coronavirus Job Retention Scheme.

By the end of June this year, despite the still rampant Delta variant pushing the number of cases recorded up, the number of employees furloughed was down to under two million, and fears of a "rush of redundancies" have so far been unfounded. But a series of reports published during July highlighted just why UK employers and their reward leaders now need to be highly attuned to addressing poverty and inequality.

Poverty and inequality: What?

Our BSI roundtable covered three areas:

1. The emerging wealth of evidence of disproportionately high and growing inequality in the UK.
2. Why it is important to address this national and global challenge.
3. And most importantly for me, how employers have contributed to the trend and what they can do in practice to counter it.

Given that the attendees at the roundtable included representatives from well-known business and trade union groups, government and finance providers, and research organisations from across the political spectrum, there was perhaps a surprising degree of consensus on the first two areas.

Inequality has undoubtedly got worse in the UK in recent decades; and Covid has amplified this. Moreover, this is a serious problem that needs addressing, rather than as often in the past being regarded as a result of uncontrollable economic forces, or even a necessary means of economic incentivisation.

The BSI notes that after climate change, "the main societal challenge is increasingly recognised to be that of excessively high levels of inequality in wealth and incomes (as well as persistent poverty levels including in-work poverty). These disparities occur between individuals, areas of the country, and across sectors of the economy (such as in the relatively low pay of retail or social care compared to that of finance). They are not only seen as problems in their own right, but also through their impacts on human and collective wellbeing, social cohesion, sustainability and a functioning economy, both now and in the future".

By international standards, the OECD finds that the UK has a high level of income and wealth inequality relative to other countries (the sixth highest amongst its membership). The Equality Trust, based on Office for National Statistics figures, reports that the share of income earned by the top 1% in the UK has been rising over time – by 2015, it was 13%, and in 2016, the richest 10% of households owned 44% of all wealth, with the poorest 50% owning only 9%.

Giving evidence to the House of Commons' Women and Equality Committee's inquiry into the unequal impact of the pandemic late last year, Dr Monica Costas Dias from the Institute for Fiscal Studies reported their evidence that income inequalities between richer and poorer households have increased, with wider intergenerational divides and higher regional and sector inequalities.

But the pandemic has affected all communities. For example, leafy High Wycombe in the prosperous South East was identified as having the UK's highest levels of food insecurity by a Sheffield University study published in July – 14% of the residents reported going hungry in January and February, while a third struggled to afford food.

A major difference with Churchill and Atlee's time is how many of the poor are now in work. Rates of working poverty according to the IPPR have grown steadily over the past 25 years, from 13% to a new high of 17% in working households, before the arrival of the pandemic in 2019.

The Living Wage Foundation's latest analysis of the Labour Force Survey (LFS) and Family Resource Survey (FRS) found that 3.7 million people are in insecure forms of work and earn less than the real Living Wage of £10.85 per hour in London, and £9.50 outside of London.

In London, the most recent London poverty profile – produced by WPI Economics on behalf of Trust for London, showed that the proportion of Londoners in poverty had increased to 28% in 2020. In 2018, there were an estimated 875,000 employees in London earning less than the real London Living Wage, so 20% of all employees were earning an amount that is insufficient to live on. By 2020, 76% of London children that lived in poverty were in working families – up from 68% five years previously.

At the other end of the income distribution, those already with substantial wealth have been getting even wealthier, and so the earnings differentials between the highest and lowest paid even wider. Analysis by the High Pay Centre of the UK's new pay ratio corporate reporting requirement found that in the largest FTSE 100 companies, the median CEO/employee pay ratio was 73:1. When I started my career in HR the median chief executive was paid 18 times the median employee in their company.

Employers increasingly are recognising these issues. According to a new study from the Social Market Foundation (SMF), 39% of employers in London admit that half or more of their workforce is directly affected by poverty. And more than half of firms of all sizes surveyed agreed that workforce poverty 'should be a concern' for London businesses.

Poverty and Inequality: Why?

With owners, investors and governments increasingly concerned with Environmental, Social and Governance factors rather than pure economic growth and financial profits, employers are recognising the moral, economic and social drivers for helping to address poverty and inequality. 'Doing the right thing', 'the reputation of the business community' and 'improving the quality of employees' were the three most frequently mentioned motivations for these London employers that wanted to help address poverty.

Performance and productivity is also being impacted, with employers reporting to the SMF that poverty effects the health and wellbeing of their workers (26%) and increases the amount of sick leave taken (24%). But more broadly, it also demoralises their whole workforce (25%) and damages their productivity.

IES research for the CIPD in 2017 found one in four employees said money worries had impacted on their ability to do their job. By 2021, this proportion had increased to almost one in three. Reduced work performance was evident in fatigue caused by lack of sleep, not being able to focus on tasks, having to take time off from work, as well as higher levels of mental stress.

CEBR (2018) estimated that low financial wellbeing costs London businesses £173 million per annum, through lower levels of employee productivity, innovation and customer service, as well as higher levels of absence and accidents.

The SMF research identifies common employment trends, along with state benefit changes, as important contributors to this situation, such as a rising number of employers not paying the National Minimum Wage (NMW), insecure work contracts and 'poorly monitored conditions due to a lack of transparency in procurement and outsourcing'. 70% of firms said businesses should be 'willing to take additional (to minimum legal requirements) voluntary measures' to help address poverty among their own workers.

For the renowned epidemiologist Sir Michael Marmot and his UCL research team, Covid has made the link between poverty, inequality and health horrifically obvious. Their latest analysis highlights that in London and throughout the UK, "the more deprived the area, the higher the mortality rate". This latest Marmot report update makes the employment and wider social responsibilities of business and employers clear, as it advocates "two approaches to reduce suffering: control the pandemic, and reduce inequality. Both are vital".

The relevance of their recommendations for employers should be obvious, including the need to:

- "Give every child the best start in life and enable all children, young people and adults to maximise their capabilities" (through training and progression, for example);
- "Ensure a healthy standard of living for all, creating and developing healthy and sustainable places" and to "Strengthen the role and impact of ill health prevention (through health and wellbeing policies)";
- Create fair employment and good work for all (pay, benefits and job design).

And we in HR and reward functions were the ones who designed those executive incentive plans for our best remunerated staff, and the zero hours contracts and outsourcing arrangements for our worst paid employees.

So what should employers and their HR functions be doing, alongside of perhaps the most obvious initiative of paying higher wages and complying with often poorly enforced employment legislation?

Poverty and Inequality: How to address it

In their new report, *Just Work: Humanising the Labour Market in a Changing World*, Christian think-tank Theos make the moral case for addressing not just the impact of Covid on inequality, but also the longer-term drivers: "Three waves of disruption – the technological, the ecological, and anthropological – creating massive change in labour markets." This will require, they argue, "a coherent response from employers, policy-makers and others".

Interestingly, at the BSI roundtable there was much less shared agreement evident on the solutions to growing inequality and rates of poverty in key areas, such as:

- The relative emphasis on state and employer actions – such as adopting a BSI standard or signing up to the London Mayor's Good Work Standard.
- The balance between voluntary initiatives versus compulsory and legislative action – such as introducing the currently mooted new right to flexible working, or banning Zero Hours Contracts and strengthening labour market enforcement.

Following Sir Michael Marmot's priority areas, the CIPD's Charles Cotton highlights "three simple, low-cost things employers can do" in order to address poverty and poor financial wellbeing:

1. **Pay a fair, secure and liveable wage**

Despite this important aim, Cotton notes that "the statistics prove that this is not enough". Providing pay and career progression for all and especially low-paid employees is also critical to address in-work poverty and the UK's stalling rates of social and earnings mobility.

IES's UK and international work on progression for low paid workers highlights many innovative initiatives and examples of how companies, such as Corbin and King, Ambea care and Scandic hotels, have addressed labour shortages and boosted productivity through their HR policies in this space.

Even straightforward actions, such as carrying out an equal and/or gender pay audit can demonstrate and reassure employees that pay policies are indeed non-discriminatory and fair, and I personally have seen significant growth in pay audit work during the pandemic.

Theos' recommendations include that "Investors should add clear requirements on the fair handling of wages, benefits, agency work, outsourcing (including their supply chains) to the social criteria they look at within environmental, social and governance investing."

While achieving the Living Wage Foundation's Living Wage accreditation depends on demonstrating the payment of a living wage throughout an employer's supply chain, as well as within its own workforce.

2. **Introduce a financial wellbeing policy**

The latest CIPD 2021 Reward Management Survey found that 12% of organisations have introduced an employee financial wellbeing policy because of the pandemic, taking the total number of employers with such a policy to around half of the more than 400 participants. The components of such policies are numerous, ranging from financial education and healthy eating regimes to employee assistance programmes.

Covid-19 has seen increased investment in and greater variety of these programmes, including for example mental wellbeing apps, virtual GPs, online counselling, and money and debt advice.

Surveying the current state of your employees' financial wellbeing is a vital prerequisite to targeted action and improvement. There are many excellent tools and company examples available to support you in doing this, for example, based on research I led for the government's Money Advisory Service.

3. **Increase and improve investments in employee training and development**

Tony Wilson of IES told the BBC that, "The answer to rising unemployment is not extending furlough, but re-skilling people to take up the record number of new vacancies being advertised."

The government clearly has an important role to play here, and many of us have been arguing for a revamped and more flexible Apprenticeship Levy scheme, as well as improvement and expansion to the £2 billion Kickstart job placement scheme for young people announced by the Chancellor last July.

My work with CIPD on digital learning in 2020 highlighted the huge boost afforded to this format by the pandemic and associated lockdowns. But we also found that 25% of employers had actually cut their training budgets, despite the widespread requirement for employees to operate in new ways and learn new skills.

Digital learning we conclude is not necessarily cheaper, but can be at least as effective a form of development as traditional face-to-face methods, generally used most effectively in conjunction with, rather than instead of. We highlight the importance of getting the online learning design and the learning support structures right, and fostering learner engagement through methods such as learner recognition and specific instructor training.

Theos' proposals in this area, to humanise work and the workplace, include more widespread sector and firm initiatives to reskill and help displaced employees into growing areas of the economy; and individual lifelong learning funds with contributions from government, employers and individuals.

The Future: Just Work, or just work?

Enhancing employee voice and re-establishing stronger trade union activity (as argued for strongly in a recent IPA report on the lack of progress on employee involvement in the boardroom); executive pay re-design (with a new post-Covid model recommended by the High Pay Centre), and further reform of corporate law and governance; as well as broader concepts of employee ownership such as social enterprises and B Corps, stakeholder capitalism and the circular economy, all proved to be more controversial areas in our discussions at the BSI roundtable, both in terms of their desirability and practicality.

But despite what he calls the 'confusion' on the best ways forward, there was near-unanimous agreement with the Resolution Foundation's Mike Brewer's evidence presented at the roundtable that 'inequality is among the most pressing issues of our time'. So I came away from our online roundtable feeling that this is very much the start of a major, sustained movement in the business world and in HR's focus, rather than a temporary response to the privations and frustrations of Covid-19 that will disappear as soon as this virus (hopefully) does.

The Social Market Foundation's conclusion from its research is that, 'while poverty is not currently the top priority for many businesses, there is an appetite among many firms (large and small) to confront the poverty problem and help improve the situation'.

For Lord Hennesy, 'The Covid-19 experience has sharpened our sense of the duty of care we have one for another, that a state has for all of its people, to a degree we have not felt collectively since World War Two and its aftermath'. 'Can we see' he asks as the virus starts to recede, 'the possible outline of a New Beveridge, a post-corona banner we can all rally round ... a worthy memorial to the COVID fallen?'

Theos presents it as a choice for employers, to continue to react to technological and economic change by driving employment costs down and employment conditions further; 'or we could seize these disruptions as an opportunity to humanise work and working conditions'.

Sir Michael Marmot's conclusion is unequivocally positive: 'the "normal" (levels of health and economic inequality) that existed in February 2020 is not acceptable now or in the future. The COVID-19 pandemic must be taken as an opportunity to build back a fairer society.' Or as Theos puts it for employers, a shock and 'an opportunity to humanise the workplace and create 'just work' for all'.

Graham Griffiths, Director of the Living Wage Foundation, is more cautious, seeing 'a real danger that as we look to recover from the huge damage of the pandemic, we fail to recognise the vital need for an economy built on jobs with decent pay and secure hours. This is what we need for a modern, dynamic economy that delivers stability to workers, families and businesses."

We may well be, as this roundtable suggested, at a critical inflection point in business practice and work and employee relations. REBA would be pleased to hear your thoughts on this post-Covid employment and rewards world and the choices you are making right now, hopefully to create a fairer and more equal and engaging future for people in the UK workplace, with a wealth of resources and material to help you on your improvement journey.

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