

# Employers' role in the low-pay/no-pay cycle

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**This study examines the pressures which lead to employers offering low-paid, insecure jobs and also considers the scope for change.**

Employers determine terms and conditions and how work is organised, including pay, the balance between temporary and permanent work, skill requirements and progression structures. In seeking to reduce intermittent poverty, it is, therefore, important to consider how employers' practices might be changed in order to reduce the extent of insecure, low-paid work.

The study:

- examines the pressures on employers which lead to insecure low-paid work;
- identifies how employer ethos affects response to these pressures;
- discusses how purchasers affect their suppliers' employment practices;
- identifies ways in which the state, as employer, purchaser and legislator, as well as trade unions and consumers, might reduce the extent of low-paid, insecure employment.

# Contents

List of tables	3
Executive summary	4
<b>1 Introduction</b>	<b>7</b>
<b>2 Characteristics of the case studies, the employment agencies and the purchasers</b>	<b>13</b>
<b>3 Employment in the selected occupations in the case studies</b>	<b>16</b>
<b>4 Factors affecting insecurity and low pay</b>	<b>26</b>
<b>5 Potential for reducing low-paid, insecure jobs</b>	<b>36</b>
<b>6 Conclusions</b>	<b>50</b>
Notes	53
References	54
Acknowledgements	56
About the authors	56

# List of tables

## Tables

1.1	Characteristics of low-paid, temporary employment: type of contract, Great Britain	7
1.2	Incidence of low pay by type of temporary job, Great Britain	8
1.3	Reasons for temporary working, Great Britain	9
1.4	Characteristics of low-paid, temporary employment: part-time, Great Britain	9
1.5	Organisations participating in the study	10
1.6	Employer case studies: occupations and industries	11
1.7	Low-paid, temporary employees in case study occupations, Great Britain	11
2.1	Key characteristics of the case studies	13
2.2	Key characteristics of the employment agencies	14
2.3	Key characteristics of the purchasers	14

## Background

Employers play an important role in shaping the low-pay/no-pay cycle. They determine terms and conditions and how work is organised, including the balance of temporary and permanent workers, skill requirements and progression structures. This study explores the scope for changing work organisation and human resource practices in order to reduce the extent of insecure, low-paid employment, and also examines the factors that may promote change.

## Method

The research focused on a selection of low-paid jobs: teaching assistants; childcare workers; sports and leisure assistants; cleaners; and operatives in waste management, food processing and packing. These jobs exhibit different skill needs and operate in differing markets and sectors. The occupations covered those which are typically male, those typically female and those typically mixed.

The research was conducted through qualitative case studies of 26 employers. Case studies ranged from small to large and included both private and public sector employers. Interviews were also conducted with four employment agencies, seven organisations which were major purchasers from employers with low-paid workers and with four trade unions. Field work took place in 2008 and 2009.

## Employment structures and practices in the case studies

The case studies exhibited three main human resource models which affected security in low-paid jobs:

- a core-periphery model of human resourcing (where organisations have a core of permanent workers, supplemented by the use of peripheral, temporary workers);
- a permanent model, with few temporary workers and variations in demand addressed in other ways, for example, through overtime and multi-skilling;
- ‘temp to perm’ recruitment, whereby employees are rarely recruited directly to permanent posts, but are employed temporarily and then, depending on demand and their performance, moved to permanent status.

Employers in the same sectors and which seemed otherwise similar differed in the human resource models used.

Progression opportunities were very limited, constrained by organisational size, by a flat organisational structure or by lack of career, skill and training routes to higher levels within the organisation.

## Factors affecting insecurity and low pay in the case studies

The most important factors conditioning employment practices in the case studies were cost pressures, demand fluctuations and the availability of suitable labour.

Cost pressures resulted in employers seeking to minimise labour costs. These pressures came either from the highly competitive markets in which the private sector case studies operated or, for the public sector case studies, from budgetary constraints. However, pressures appeared to be greater for those operating in markets where buyers had considerable power and for those sub-contracting services to the public sector.

Demand fluctuations arose from the nature of the product (with daily, weekly and seasonal demand patterns), winning and losing and changes within a contract. Where demand fluctuations were fairly predictable, the effects on security could be reduced by reallocating work across permanent staff (for example,

through overtime, the employment of part-timers with flexible hours), flexible tasking and skilling and through varying stocks. In some cases, demand itself could be smoothed, through, for example, differential pricing and product diversification. Loss and gain of business could be more difficult to predict. Demand fluctuations appeared to be exacerbated where buyers had considerable power and for those sub-contracting to the public sector, where competition rules required periodic re-tendering.

These pressures led to some case study employers operating a core-periphery model, so that labour costs were minimised by the number of employees closely matching demand. Some also used temps in order to eliminate redundancy costs. This approach was feasible only because of the availability of suitable labour. Availability seemed to exist because skill requirements were minimal or, where skill needs were higher, because the jobs were particularly attractive to women. However, other employers, with similar demands, labour requirements and labour supply, did not use the same model. They placed more emphasis on the importance and benefits of developing a committed workforce. Differences in ethos and organisational aims also appeared to affect whether the employer chose the core-periphery model. This suggests that, for some employers, it would be feasible to switch to more secure employment practices without damaging the business.

## **The potential for reducing low-paid, insecure jobs**

The study explores ways in which employers' practices might change to reduce low-paid, insecure working and also what might bring about this change.

### ***Employers of low-paid, insecure workers***

A key conclusion was that, whilst some employers could make changes which would improve security and progression without damaging their organisation, private sector employers of low-paid workers were unlikely to make changes of their own volition. Nor did it seem likely that changes in business pressures would drive these changes.

On the other hand, the public sector might be expected to consider the social impact of its organisational and employment policies and act to reduce insecurity amongst low-paid employees. The use of temporary workers may have been exacerbated by the devolution of budgets and operations to smaller units, thus reducing the possibility of spreading uncertainty and changes in demand. How this can be reduced will vary, but our examples of teaching assistants showed possible approaches in one area. Some approaches may be cost free, others may not. This needs to be recognised at a national level.

### ***Purchasers from employers with low-paid, insecure employees***

Purchasers could change their purchasing practices to reduce demand fluctuations or could stipulate minimum terms and conditions for suppliers' employees.

An example was a purchaser which had required its cleaning sub-contractor to pay a minimum wage higher than the National Minimum Wage. This had led the supplier not only to increase wages but, in order to compensate for higher costs, to invest in capital and training, with a consequent need to reduce turnover (due to the associated costs). At the same time, the purchaser had raised the contract price.

We would expect few private sector purchasers to take these approaches, particularly as they are unlikely to be cost free. However, for the public sector, there seems to be some conflict between an anti-poverty strategy (albeit for children) and pressure for the public sector to minimise purchase prices, which encourages suppliers' lean production models. Whilst Best Value regulations allow social factors to be taken into consideration in purchasing decisions, pressure on public sector budgets means that social considerations, and also quality, may often play a small or negligible role in public sector purchasing decisions. Easing price pressures, whilst requiring minimum terms and conditions from suppliers (as some have done) could lead to better-paid, more secure employment and improve the skills structure. For this approach to be promoted effectively, clarification of European law is required, so that public sector purchasers are clear about the scope for action.

As well as stipulating minimum terms and conditions, the public sector might review tendering practices which lead to insecurity. Moreover, the state, as legislator, might take further action under competition laws to reduce demand fluctuations and price pressures associated with dominant purchasers.

### **Trade unions**

Trade unions have a role to play, both directly through reducing the power imbalance between low-paid, insecure workers and employers and through wider campaigns, as in the London Living Wage, encouraging employers to change and workers to organise. Obviously, the extent of their success will be affected by their power and influence more generally; measures to increase these would be helpful.

### **Undervaluation of women's work**

The study raised the issue of the undervaluation of women's work, both in respect of childcare and teaching assistants. The state, as employer, needs to ensure that equal pay legislation is fully complied with. For the private sector to raise the wages of childcare workers in nurseries to those similar to men in other sectors with comparable qualifications would substantially raise costs. For many parents, nursery charges are already problematic, as they are weighed against potential earnings. Given the wide social benefits of nurseries, their high cost to the user, compared with many EU countries, it would seem widely socially beneficial to increase the subsidy, thus enabling pay rates, security and skill levels to rise.

### **Product and service quality, skills and security**

The link between product and service quality with skills and security (as well as with pay) was made in the study. Government purchasing and employment policies might take this link into greater consideration, particularly in considering the impact of cost minimisation. This might also be tackled through consumer campaigns (and legislation strengthening consumer power) raising consumer expectations and demand for quality.

### **Consumer power**

Consumer fair trade campaigns might be used to encourage employers to provide higher-paid, more secure employment.

## **Conclusion**

As a small-scale qualitative study we do not claim that the findings are representative of all employers. However, the main messages from the study are valid: a work structure based on insecurity is not always necessary; some employers have a choice and could survive offering higher-paid, more secure jobs; and employers are unlikely to change of their own volition and so pressure is needed to achieve change. The study considered the impact of change at the level of the individual organisation. Wider effects, such as those stemming from higher public sector purchasing costs, were not investigated. Further research could usefully address these aspects.

# 1 Introduction

The Joseph Rowntree Foundation's systematic review of research on poverty dynamics highlighted the importance of the 'low-pay/no-pay' cycle for recurrent poverty (Smith and Middleton, 2007). It identified access to secure, sustained employment and to employment progression as major routes out of recurrent poverty. The review highlighted the need for further research into the employers' perspective to inform how such routes might be supported. This study contributes to this by investigating how employers' practices affect the low-pay/no-pay cycle.

This chapter provides background to the study. First, it discusses the pattern of low-paid, insecure work and employers' role; it then describes the study's aims and methods.

## Pattern of low-paid insecure jobs

Identifying the extent and pattern of low-paid, insecure employment is problematic. Insecurity arises both from jobs being temporary and from employers' dismissal practices (and other practices which lead to employees feeling they will have to leave). 'Temporary work' in the UK is not legally defined. Whilst short-term contracts legally distinguish one type of temporary working, for most other temporary work there is no legal

distinction: a job is temporary because it is regarded as such. Even for agency workers, the position is not obvious: although they work at each placement temporarily, they may be permanently employed by their agency. Most employment protection rights apply after one year of employment with an organisation. Until then employees, whether regarded as permanent or temporary, can be dismissed at will.<sup>1</sup> After one year, both 'temporary' and 'permanent' employees have the same protection against dismissal. This makes measuring the incidence of low-paid, insecure work difficult: not only is insecurity through employers' dismissal practices extremely hard to measure but understanding of whether a job is permanent or temporary may vary.

Below we present data on the incidence of one type of low-paid, insecure employment in Britain: that where the employee considers the job temporary. The data is from the Labour Force Survey, in which people are asked whether their job is permanent or temporary. Therefore 'temporary' is defined by the employee's perception of their job. Low pay has been defined as hourly earnings (before tax) of less than two-thirds the median.

Low pay is much more common than temporary work: 22 per cent of employees are low

Table 1.1: Characteristics of low-paid, temporary employment: type of contract, Great Britain

	Percentage of temporary employees	
	Temporary, not low paid	Temporary, low paid
Type of temporary contract		
Contract for fixed period, fixed task	59	30
Agency temping	18	24
Casual work	8	22
Seasonal work	2	9
Not permanent in some other way	12	15
<b>Total in temporary work</b>	<b>100</b>	<b>100</b>

Data refer to employees' main job only. Students are excluded.  
Source: Labour Force Survey, April–June 2007

paid whereas 6 per cent of employees classify themselves as in temporary work (Labour Force Survey, April–June 2007). Only 2 per cent of the workforce are both low paid and temporary. If students working part-time are excluded, the percentage falls to 1.5.

There are important differences between low-paid and better-paid temporary jobs. Better-paid temporary working is dominated by fixed-term contract work (59 per cent, compared with 30 per cent of low-paid temporary work) (Table 1.1). Fixed-term contracts provide legal guarantees on the length of the contract and payment. Low-paid, temporary work is characterised by casual and seasonal employment. Agency temping is somewhat more common for low-paid temporary workers than for better-paid temps.

Turning these statistics around starkly shows the concentration of low pay in temporary, and in the least secure temporary, work. One-third of non-permanent jobs are low paid (Table 1.2). Seasonal and casual work are dominated by low pay (65 per cent and 56 per cent, respectively, are low paid), whilst a large minority of agency temping is low paid (40 per cent). In contrast, 80 per cent of fixed-term contract work is not low paid.

Temporary working was more likely to be involuntary for the low paid than for the better paid: 39 per cent of low-paid, temporary workers were in temporary work because they could

not find a permanent job compared with 28 per cent of the better paid temps (Table 1.3).

Those in low-paid temporary jobs are twice as likely to work part-time (44 per cent compared with 22 per cent) (Table 1.4). They are more likely to be working part-time involuntarily (i.e. because they could not find a full-time job): 30 per cent of low-paid, temporary part-timers compared with 10 per cent of non-low-paid or temporary part-timers.

Many low-paid jobs are characterised by lack of progression structures (Hall *et al.*, 2005) and the use of temporary contracts and agency workers. Temporary work is associated with lack of training (Booth *et al.*, 2002). Other practices found in low-paid jobs include zero hours contracts and few hours being offered to recruits (with hours increasing with seniority and performance). Temporary contracts contribute to recurrent poverty as individuals move out of employment when their contracts end. We would expect low and variable hours also to contribute to the low-pay/no-pay cycle through stress and other difficulties caused by variable earnings, leading to resignation or dismissal. Lack of training and progression helps lock individuals into low-paid work.

Thus, whilst temporary work may be rare, much is low paid and involuntary. The least secure temporary work (seasonal and casual) is predominantly low paid. At the same time, lack of training and development inhibits moving into more secure, better-paid work.

Table 1.2: Incidence of low pay by type of temporary job, Great Britain

	Percentage of type of job			Unweighted count
	Temporary, not low paid	Temporary, low paid	Total temporary	
Seasonal work	35	65	100	109
Casual work	44	56	100	325
Agency temping	60	40	100	464
Contract for fixed period, fixed task	80	20	100	1,221
Not permanent in some other way	64	36	100	325
<b>All temporary work</b>	<b>67</b>	<b>33</b>	<b>100</b>	<b>2,444</b>

Data refer to employees' main job only. Students are excluded.  
Source: Labour Force Survey, April–June 2007



## Employers' role in shaping the nature and structure of jobs

The balance of insecure and dead-end jobs is not fixed: within constraints, employers make choices about contractual status and progression structures (Casey *et al.*, 1997). Through shaping the nature and structure of jobs offered, employers determine the incidence of insecure and dead-end jobs and so the extent of recurrent

poverty. To reduce recurrent poverty, the incidence of such jobs needs to be reduced. This could be achieved through legislation or through supporting employers to offer different terms and conditions. However, flexible contracts have been supported by successive UK governments as enhancing UK competitiveness and the UK government has failed to support the EU Directive on Temporary Agency Workers, which is designed to improve the conditions of agency

Table 1.3: Reasons for temporary working, Great Britain

Reason for temporary employment	Percentage of temporary employees	
	Temporary, not low paid	Temporary, low paid
Could not find permanent job	28	39
Did not want permanent job	23	22
Contract inc training	7	5
Contract for probationary period	4	4
Some other reason	37	29
<b>Total in temporary work</b>	<b>100</b>	<b>100</b>

Data refer to employees' main job only. Students are excluded.  
Source: Labour Force Survey, April–June 2007

Table 1.4: Characteristics of low-paid, temporary employment: part-time, Great Britain

	Percentage of employees	
	Temporary, not low paid, or permanent	Temporary, low paid
Full-time	78	56
Part-time	22	44
<b>Total</b>	<b>100</b>	<b>100</b>
Reasons for part-time		
	Percentage of part-time employees	
<i>could not find full-time job</i>	10	30
<i>did not want full-time job</i>	87	66
<i>ill or disabled</i>	3	4
<b>total part-time</b>	<b>100</b>	<b>100</b>

Data refer to employees' main job only. Students are excluded.  
Source: Labour Force Survey, April–June 2007

workers. In this climate, it is vital to develop a much greater understanding of the need for such terms and conditions and of alternatives.

Research has identified a number of rationales for using temporary and agency staff. Most common are tailoring staffing to meet fluctuations in demand, providing coverage for maternity leave and other absence and as a recruitment device (essentially an extended, on-the-job competence test, before deciding whether to offer a permanent contract) (Kersley *et al.*, 2006). The use of temporary and agency staff and of zero hours contracts is also affected by labour market conditions, the skill requirements of the job, production and product technology and the market (Casey *et al.*, 1997). Employers also use the systems with which they are familiar and may not consider effective alternatives. However, they have a range of ways in which they can respond to pressures. For example, in some industries, demand fluctuations are addressed through stockpiling in down periods or through overtime, rather than through temporary contracts. Legislation in some other European countries prevents employers using temporary contracts as a recruitment screening device (recruiting to temporary contracts only, with small numbers moved to permanent posts as they prove their worth, and dismissing the rest within a year). Research does not show why similar employers respond to similar circumstances in different ways, with differing implications for the security of employment and for the likelihood of recurrent poverty.

## Aims of the study

The study aims to identify the potential for improving employment structures for low-paid jobs in order to increase job security and progression. Specifically, it aims to identify:

- alternative employment structures for employers offering insecure, dead-end jobs;
- the circumstances in which alternatives are possible;
- the constraints on change; and
- how those in low-paid jobs might improve their job retention and progression rates and how they might be supported in this.

## Research design and methods

The research was conducted through qualitative case studies of employers with low-paid jobs, together with discussions with employment agencies and trade unions and a small-scale literature review. The case studies suggested that customers' purchasing practices (particularly in respect of public sector contracting out of services and retailers' purchasing practices) were an important influence on pay and security and so interviews were also conducted with public sector organisations and with a major retailer to explore their purchasing policies. Table 1.5 shows the number of types of organisations participating in the study.

### The employer case study sample

The case study employers were selected to ensure a range of market and production conditions and labour markets, as these could be expected to influence low-paid, temporary jobs. They were selected:

- to cover a range of low-paid occupations
  - particularly those with a high incidence of low-paid, temporary working;
  - those which are predominantly done by men, and by women and by both sexes;

Table 1.5: Organisations participating in the study

Case study employers <sup>a</sup>	26
Employment agencies	4
Purchasers	7
Trade unions (Unite, TUC, GMB and Unison)	4

<sup>a</sup> Three other employing organisations were interviewed but did not provide useful information.

- to cover a range of organisation sizes, as employment practices tend to differ with size;
- from four areas of the UK, including two countries.

Within each case study, interviews focused on selected low-paid, insecure occupations: four manual (operatives in food processing; in packing and in waste management; and cleaners) and three non-manual (teaching assistants; childcare workers in nurseries and nursery schools; and sports and leisure assistants). These are listed in Table 1.6, together with the industry of the case studies. The

percentage of low-paid, temporary jobs in these occupations nationally is shown in Table 1.7.

The case studies were drawn from four areas of the UK: London, two metropolitan areas and their rural hinterlands (one in England, one in Wales) and an area comprising a cluster of small towns (in England). In addition to London, one other area had a relatively high ethnic minority population. In each area, case studies were conducted into four to six of the occupations and each area contained case studies from both the public and private sectors. Whilst all the case studies and temporary agencies operated in at least one of these localities, many operated over a wider area and

Table 1.6: Employer case studies: occupations and industries

Occupations	Industry	Number of case studies
<b>Non-manual</b>		
teaching assistants	schools	4
childcare workers	nurseries	3
sports and leisure assistants	sports and leisure facilities	3
<b>Manual</b>		
operatives	waste management and related	3–4 <sup>a</sup>
cleaners	cleaning and facilities management; hospital	4–5 <sup>a</sup>
operatives	food processing	3
operatives	packing	4

<sup>a</sup> One organisation was in both waste management and cleaning

Table 1.7: Low-paid, temporary employees in case study occupations, Great Britain

Occupation	Percentage of low-paid, temporary jobs
Educational assistants	6
Childcare and related personal services	6
Sports and leisure assistants	9
Refuse and salvage occupations	12
Elementary cleaning occupations	3
Cleaners, domestics	3
Food, drink and tobacco process operatives	2
Packers, bottlers, canners, fillers	15
<i>All jobs</i>	2

Data refers to employees' main job only. Students are excluded.  
Source: Labour Force Survey, April–June 2007

some were national (or international). For confidentiality reasons, the locations are not further identified.

The characteristics of the case studies and other participating organisations are described in Chapter 2.

### **The interview**

Interviews were conducted face to face, using semi-structured discussion guides, and, with the agreement of the interviewee, were recorded.

Interviews with employers were largely held with the head of Human Resources, the Chief Executive or the owner. They discussed:

- the nature of the business, including demand fluctuations (and their causes), production requirements, competitive pressures;
- the employment structure:
  - o the employment structure for low-paid workers (including contractual status, hours of work, skill requirements, training, progression routes);
  - o the use of agency workers;
  - o reasons for the existing structure (including business, production and labour market demands) and whether alternatives had been used or considered;
- alternative employment structures and their implications for the business;
- selection processes and criteria (for redundancy, movement from temporary/ agency to permanent, promotion and training);
- factors perceived as affecting employee departures.

Interviews with temp agencies followed a similar schedule, but also discussed the way in which the agency's customers used temp workers.

Interviews with purchasers investigated purchasing practices, price pressures, fluctuations in demand and variations in suppliers. Interviews were conducted with purchasing specialists (often the Purchasing Director).

### **Analysis**

The evidence was analysed to:

- describe the human resource practices resulting in and affecting low-paid, insecure jobs;
- identify the factors which led the employer to employ workers in low-paid insecure jobs; (these factors included product demand fluctuations, price pressures, skill demands, labour market pressures, product competition);
- identify the scope for shifting employment towards more secure employment, the barriers to this and how it might be achieved.

### **Report structure**

Chapter 2 describes the case studies' main business characteristics which affected the type of employment offered. Chapter 3 describes the characteristics of the low-paid, insecure jobs and the employment practices shaping these jobs. Chapter 4 details the factors affecting insecurity. These two chapters concentrate on the case study employers, identify the business pressures moulding the employment relationship and examine the decision whether to employ or to use agency workers. Chapter 5 discusses the scope for reducing and responding differently to these pressures in order to make employment more secure. It examines the role of employers with low-paid, insecure jobs, their customers, trade unions and the state. The chapter includes evidence from employment agencies and from purchasers. Chapter 6 draws some conclusions on the scope for change and policy approaches.

## 2 Characteristics of the case studies, the employment agencies and the purchasers

### Introduction

This chapter provides information on the case study employers, the purchaser and the employment agencies participating in the study.

### The employer case studies

Their key characteristics are described in Table 2.1. Manual case studies (i.e. where the case study interview concentrated on manual jobs) were in the private sector, with the exception of an NHS hospital with in-house cleaning. The schools were all state schools. Childcare case studies were drawn from the public and private sectors; sports and leisure case studies came from the public, the private and the not-for-profit sectors.

The private sector manual case studies operated in highly competitive markets, where price was the main competitive tool. These pressures were slightly less for the large food manufacturer which produced branded goods.

Competitive pressures were also high for the not-for-profit organisation operating sports and leisure facilities. The schools and the public sector nursery operated under local authority and school budgetary systems.

Product and service demand fluctuated in most of, but not all, the case studies. Seasonal fluctuations were important in food processing, packing, and sports and leisure. Sports and leisure facilities also experienced daily and weekly fluctuations. All these fluctuations were moderately predictable. Less predictably, in the private sector demand varied with the winning and losing of contracts. It also varied with the fortunes of the customer: for example, some food processing companies reported substantial variations within contracts due to variations in individual supermarkets' fortunes and demands. These were both unpredictable and tended to have short notice periods. For the public sector, demand varied with budgets. Demand also varied for teaching assistants according to pupils' needs.

Table 2.1: Key characteristics of the case studies

	Case study employers	Variations in labour demand	Additional information
<b>Cleaning</b>	Four private sector companies offering cleaning services: one small, privately owned; three large offering a range of facilities management services. An NHS hospital employing its own cleaners.	Fluctuations in labour demand caused by winning/losing contracts. The small company saw seasonal variations, the others did not.	Highly competitive industry, resulting in downward pressure on wages and lean staffing. Providing facilities management allows spread of costs.
<b>Food processing</b>	Three large food manufacturers, all with major sales to supermarkets: one producing branded goods, the others a mixture of branded and supermarket own-brand.	Predictable seasonal fluctuations; less predictable short- and long-term changes due to supermarket demands.	Degree of market power: higher for producer of branded goods; low (vis-à-vis the supermarkets) for the others. Difficulty of switching production when contracts changed.

*Continued on page 14*

	Case study employers	Variations in labour demand	Additional information
<b>Packing</b>	Four companies: two small (including one owner-managed), one medium-sized and one large (part of a multinational company).	Seasonal fluctuations in demand and fluctuations due to winning/losing contracts. The small business had constant demand.	Highly competitive industry for small packers; high degree of dependence on largest customer.
<b>Waste management</b>	Three waste management companies: one small, owner-managed (with a range of activities); two large (one of which also covered cleaning and related activities).	Demand relatively stable, except for the small company, which had experienced a substantial recent decline in demand due to the recession.	One of the large companies depended on Local Authority contracts (80% of their business); the other two mainly had private commercial contracts.
<b>Teaching assistants</b>	Four state schools: two primary and two secondary.	Variation with the number of children with special educational needs.	One of the schools was established within the previous five years. Its roll increased each year. It had diseconomies of scale until it reached full size.
<b>Childcare workers</b>	Three nurseries: a state nursery attached to a primary school; two private nurseries, one of which was part of a chain.	Relatively small seasonal variation.	
<b>Sports and leisure assistants</b>	Three sports and leisure providers: a Council running its own facilities; a not-for-profit company running both public and private facilities; and a private, single-site, owner-managed gym.	Seasonal, weekly and daily variations.	

Table 2.2: Key characteristics of the employment agencies

	Key characteristics	Interview focus
National	Large, all industries	National policy and practice
National	Medium, education, part of larger group.	Local (small towns and rural)
National	Large, all industries	Local (metropolitan)
National	Large, all industries	Local (metropolitan)

Table 2.3: Key characteristics of the purchasers

Type of purchaser	Key characteristics	Product/services of relevance to the study
Local Authorities	Three London Boroughs Two metropolitan Local Authorities	Range of outsourcing; relatively high in-house provision
Public sector purchasing case study	London	Cleaning and facilities management outsourced
Large retailer	Large, multi-site	Range of types of products

## The employment agencies

All the employment agencies were national agencies, varying in size from medium to large. Three were general agencies, supplying temps and recruits to a wide range of industries at all occupational levels. The fourth agency specialised in the education sector.

In the employment agencies, three of the interviews took place at the local level and explored the use of temps with agency managers who supplied temps to local employers. The fourth was conducted at head office and concentrated on policy and practice at the national level.

## The purchasers

The purchasers comprised Local Authorities, a public sector body (referred to in this report as the 'public sector purchasing case study') and a large retailer. The extent of sub-contracting varied across the public sector organisations: the Local Authorities in London outsourced more functions than the two other Local Authorities. Only facilities management and, specifically, cleaning were discussed with the public sector purchasing case study. The large retailer bought a wide range of products.

# 3 Employment in the selected occupations in the case studies

## Introduction

The case studies were selected because they were in industries which typically offer low-paid, insecure employment. Whilst all the case studies had low-paid jobs, the degree of insecurity varied. Insecurity seemed to derive largely from designation as a temporary worker (whether directly employed or from an agency), rather than from the organisation having a hire-and-fire culture.<sup>2</sup> The study therefore concentrates on the use of temporary workers.

This section describes the main characteristics of the low-paid jobs on which the study focuses: their gender composition, skill level, potential for progression and pay and benefits. It also describes the human resource practices which affected the extent of insecurity.

## Employment pattern

In most of the case study organisations, the low-paid occupations were the main production or service jobs, or one of the main ones if the organisation covered several products or services. The exceptions were teaching assistants and some of the organisations where cleaning was part of more general facilities management. Childcare also differed: childcare workers formed the majority of employees, but a grading structure, in part based on qualifications, meant that the majority of childcare workers were not low paid.

## Gender composition

The jobs were selected to provide typically female (teaching assistants and childcare workers), typically male (waste management) and typically unsegregated occupations and the case studies fitted these norms. However, segregation occurred within some of the unsegregated occupations,

with men and women in food processing and packing tending to do different jobs.

## Skill level

The skill level and qualifications required differed across the low-paid occupations.

The manual jobs were low skilled, particularly in food processing and packing where some jobs required as little as one hour on the job to learn. However, some took longer to learn because employees were expected to cover a wide range of tasks (i.e. each task was low skilled but it took time to learn a range of low-skilled tasks). Some of the sports and leisure jobs required slightly greater skills, with the main emphasis on softer skills affecting customer service.

Although qualifications were not required for all childcare and teaching assistants posts, they were sought for many. In the case of childcare, regulations restricted the number without qualifications. Thus, for the lower-paid childcare posts qualifications ranged from none to NVQ Level 2. For the unqualified, one case study reported that it took three months to be fully functioning and another that it took eight months to achieve a NVQ Level 2 qualification. Teaching assistant posts in the case studies tended to demand qualifications and skills.

## Pay and benefits

The jobs discussed paid the National Minimum Wage (NMW) or slightly higher. Many of the low-paid workers in the case studies received a simple hourly rate. Shift allowances and overtime premia were paid to some, but not others. For example, a small packing company said:

*There is one fixed salary so no overtime, only their normal hourly rate, when work spills over*



*into a twelve-hour day. Workers understand that rule as our clients will not pay for overtime.*

Pay could be enhanced by bonuses. In two of the case studies, low-paid workers receive an occasional bonus when the companies' financial performance is good. For example, the small gym paid:

*the odd discretionary payment, sometimes three or four times a year, when the business has done well over a given month.*

A small packer paid annual bonuses in the same way.

Pay can also be enhanced by other benefits. These were found in only one case study, a food processing company. The company paid its food operatives only slightly above the NMW. However, it offered a range of other benefits, including a final salary pension scheme, private health care and leisure learning. The company estimated that the pension and health care added around 8 per cent to labour costs.

### **Pay progression**

The low-paid jobs were characterised by lack of progression scales and small increments for promotion.

A lack of pay progression with qualifications, competence or work quality was found in a number of case studies (sports and leisure, childcare and teaching assistants). Even with substantial skill or qualification increases the premium could be low. For example, for childcare workers, low pay relative to the skills required continued into the higher qualification levels. Pay also failed to increase with experience. One nursery observed:

*Unlike teachers, who have proper pay structures, nursery nurses don't, so [you] could have someone with 20 years' experience earning a very similar amount to someone straight out of college and that to me is grossly, grossly unfair because you have a huge amount of experience which is vital ... there is a problem there and that's why I think there should be some sort of pay structure.*

Promotion, too, often led to only a small pay increase (e.g. 50p per hour on promotion to chargehand or team leader).

The case study exceptions to the lack of progression scales was for teaching assistants. Despite a lack of progression with qualifications found in some of the teaching assistants case studies, automatic annual increments could take employees out of the lowest paid (e.g. to almost £10 per hour in one school). Promotion to Higher Level Teaching Assistant led to higher pay.

### **The pay of temporary workers**

The treatment of temps varied. Some case studies paid directly employed temps less than permanent workers, and others paid the same or more. Lower pay seemed to reflect the attitude that temps were dispensable and of less importance to the organisation than permanent workers. A different attitude, that of 'the rate for the job', was reflected in one respondent's rationale for paying temps a higher hourly rate than permanent workers, and that the rate compensated for lack of holidays and other benefits.

Where temps were supplied through an agency, respondents were not always aware of their pay rate. Others reported that it was lower than for their directly employed workers. However, one, which paid amongst the highest rates in our case studies and did not employ directly comparable permanent employees, said that the rate (of approximately £8 per hour) was set to compensate for the shift patterns and to ensure relatively high-quality staff.

### **Security of employment**

Three main human resource practices affected security of employment in the low-paid jobs:

- a core-periphery model of human resourcing (where organisations have a core of permanent workers, with variations in demand addressed by using peripheral, temporary workers);
- a permanent model, with few temporary workers and variations in demand addressed in other ways, for example overtime and multi-skilling;

- ‘temp to perm’ recruitment, whereby employees are rarely recruited directly to permanent posts, but are employed temporarily and then, depending on demand and their performance, moved to permanent status.

Although each case study clearly operated either the core-periphery or the permanent model, elements of the other model might be present.

These practices are described in more detail below. Finally, we briefly describe dismissal.

### **Core-periphery models**

Core-periphery models of labour utilisation were found in all the case study sectors. Permanent workers were employed to cover the minimum level of demand and temporary and agency workers were used to cover periods of higher demand. Minimal staffing levels could also mean that temps were required to cover periods of relatively high permanent employees’ absence, such as summer holidays. For example, a small gym commented:

*In an ideal world we’d gear up to 120 per cent to cover sickness and holidays. The reality is we gear up to 80–90 per cent full-time [permanent] employees. Full-time [permanent] employees are preferred as they’re more committed and we get improved customer service.*

This approach was possible only because of the availability of adequately skilled temporary labour. In many cases this approach was facilitated by the minimal skill requirements for the job. However, in some occupations, such as childcare and teaching assistants, the model was supported by a structure of agency temping.

The main rationale for the core-periphery model was to match labour supply closely to product and service demand, thus minimising labour costs. The benefits of the model were amplified with product demand fluctuations, enabling a rapid response to demand change, but minimising labour costs at low-demand periods.

In some case studies (NHS hospital cleaners and childcare), however, demand fluctuations were low and absence cover was the main driver. A further attraction of this approach was the avoidance of redundancy costs, both direct

costs and the effects on industrial relations and morale.

Even among organisations with a core-periphery model, there was recognition that the model had its costs in terms of reliability, quality and productivity, as well as, in some cases, higher payments per head.<sup>3</sup> Costs were also incurred where temporary workers did not work regularly for the organisation where training and familiarisation were required. To minimise these costs, some case study employers supplemented their core-periphery model with other approaches (e.g. time and task flexibility) to meet demand and labour fluctuations. These are discussed in the next sub-section.

### **Core-periphery: pattern of employment**

The normal employment periods for agency workers in the core-periphery models were from six weeks to four months, with occasional use of up to eight months. Those directly employing temps often had a longer-term relationship with their temps. For example, the small gym relied on a handful of ‘regular’ temporary workers for several years. In the case of the Local Authority-run sports centres, this could result in continuous employment for individuals regarded as temps. However, all temps were moved onto permanent contracts ‘when it was noticed’ they had been continuously employed as a temp for two years (which meant, among other things, access to the pension scheme). Thus, the research did not identify the practice of dismissing temps immediately prior to one year’s service (when most employment rights are achieved) as found in other studies (see e.g. Metcalf *et al.*, 2009).

### **Core-periphery: agency and directly employed**

The periphery was staffed through agencies and through direct recruitment. For example:

- Large case studies in food processing and packing met minimum demand levels with permanent employees, taking on agency workers to meet higher levels of demand.
- A waste disposal company directly employed temporary workers to cover seasonal peaks

and time-limited special projects. Agency workers were used to cover holidays and sickness, when rapid response was required.

- The Local Authority sports and leisure provider relied on directly employed temps and casuals, having built up its own large bank of temporary workers. The NHS hospital had its own bank of temporary workers, who were called on to meet peaks in demand.
- The schools employed teaching assistants directly on temporary contracts, with employment directly linked to the pupil to whom they provided support.
- Both agency and directly employed staff were used in the childcare case studies.

The choice between agency and directly employed temps seemed to be influenced by skill needs and the skills provided by employment agencies, as well as, in some cases, additional services the agencies provided.

The food processing and packing companies had minimal skill requirements, whereas the sports and leisure organisations had skill and qualification requirements for some, although not all, of their temporary workers. An attraction of having its own bank of temporary staff for NHS hospital cleaners was that management felt they had greater control over standards (the quality of staff, the materials used and cleanliness).

For childcare, agencies had developed this area and built up a supply of suitable workers. Their workers had had the required criminal and other checks, meaning that they, unlike many direct applicants, could be fully employed immediately.

Another attraction of agencies was the ability to devolve Human Resource and other management functions for these staff to the agency. Examples in the case studies included the laundry and distribution of overalls and the checking of safety equipment.

For employees, agency and direct employment had different implications. While in the case studies some agency workers moved to permanent jobs, this did not seem the norm and was not automatic. Nor was the long-term use of the same temps. This

contrasts with the gym, with its 'regular' temps, and the Local Authority sports and leisure provider where temps who had been employed for two years were moved on to permanent contracts.

### Core-periphery case studies: other flexible approaches

The core-periphery model was complemented by other human resource practices to address fluctuations. These included overtime, flexible tasking and multi-skilling. These reduced the need for temporary workers, although the core-periphery model remained their main approach to meeting fluctuations or reducing labour costs. For example, the NHS hospital with its own cleaners said:

*If there are major incidents outside of the norm that require a rapid response then a designated rapid response team will deal with that or they will deploy staff from other areas and/or rely on the staff to be flexible and work a few additional hours or come in on days off; occasionally where there is no flexible capacity to handle specific/ additional cleaning effort then the hospital may outsource to an external company for a one-off, short-term contract, for example for a post-construction clean.*

To maintain the higher level of skills for its relatively highly mechanised production processes, one food processing company also shifted permanent workers to unskilled work during periods of low demand.

The small gym relied on a handful of 'regular' temporary workers. However, this was supplemented by permanent employees varying their hours and flexibility over job roles:

*We have the owner, the manager and three instructors (one part-time). Between them they cover all business functions, so they rotate between themselves to ensure the gym and front desk are covered. We use three students to cover holidays and other periods when we need an additional staff member. It lets us keep staff costs at a minimum and keeps costs down for the members. The reception staff double-up and do membership sales as well. Overall, staff numbers are kept at bare minimum and most*

*staff multi-task on the gym floor, covering reception and dealing with membership enquiries.*

### **Permanent model case studies**

Case studies which did not use the core-periphery model were found in six of the seven sectors: packing, cleaning, waste management, childcare, sports and leisure and for teaching assistants. The key difference between core-periphery and permanent model case studies was that the latter addressed normal fluctuations in demand and labour supply through the deployment of permanent employees. Temps were used in some of the permanent model case studies, but only in exceptional circumstances. Permanent workers were able to cover fluctuations either through higher staffing ratios (i.e. less lean organisations) or through human resource approaches which enabled permanent workers to meet variations in demand or in labour supply.

In some case studies, staffing ratios were higher as a result of indivisibilities (e.g. minimum staffing requirements in childcare). However, other permanent model case studies seemed less concerned (than the core-periphery case studies) to minimise headcount, either because the core-periphery approach was seen as a false economy or because of reduced pressure (or desire) to minimise labour costs. The latter certainly appeared to be the case for the public sector nursery compared with the private sector nurseries.

The practices enabling permanent workers to address demand and labour supply fluctuations were standard:

- Multi-skilling and flexible tasking (enabling workers to be moved to different tasks and products as demand varied). For example, a small cleaning company said:

*Occasionally we carry more staff than we need, but, rather than dismiss staff, we redeploy workers to other functions and maintain the staffing level, which allows flexibility in taking on short-notice opportunities within the market.*

- Overtime (unpaid, paid at standard rates and paid at premium rates). In some case

studies, this could entail large increases in hours. For example, a small packing company used unpaid overtime to meet peak demands, increasing daily hours to twelve.

- The employment of part-timers who were willing to extend their hours. This approach was more likely to be used for jobs with low training requirements, as some of the case study organisations did not employ part-timers because of the additional costs of training. For example, one of the schools had recently moved all teaching assistants to permanent contracts: temporary increased needs (e.g. for providing support for special needs and specific children) were covered through issuing temporary contract extensions.

Obviously, these approaches were often used in combination. For example, a small packing company had restructured to introduce multi-tasking whereby staff performed a variety of functions throughout the day. This, together with overtime, enabled it to adjust to demand fluctuations:

*The fluctuations have no effect on the numbers, which are pretty stable. Instead we increase the length of day to up to a twelve-hour day. You cannot bring in temporary staff, especially when it takes weeks to train people up and then a few weeks later let them go. We work on the proviso that we can increase the productivity of current staff.*

Although these alternative approaches tended to be used for regular and relatively small-scale or short-term fluctuations, examples were found of their use in response to large-scale or permanent changes. For example, a waste and cleaning company used multi-skilling across a range of its low-skilled jobs:

*Where the business has lost contracts the first move has been to redeploy staff. I learnt at [previous company] to multi-skill staff, so the window cleaners are also trained to carry out pest control, etc.*

However, the offer of redeployment was discretionary and made only to those the company wished to keep and who had worked well. (The contracts were covered by the Transfer of Undertakings and Protection of Employment [TUPE] regulations and so staff would be transferred to the new contract holder.)

A small cleaning company directed any additional work to cleaners whose contracts had been withdrawn or reduced and thus tried to ensure that no one's hours fell below an acceptable level. This directing of work was influenced by beliefs about an individual's personal circumstances and needs.

An alternative approach, taken by one of the schools towards its teaching assistants, was to assume that there would be adequate demand for specialist support and so to employ all teaching assistants on permanent contracts. To date, this had worked: as children with additional needs had left, they had been replaced by others.

*The reality is that after four years the contract is permanent and after a year they will have employment protection, so what's the point of not giving people that security from the beginning? And you want them to stay and to develop, so the last thing you want to do is train someone up in being really good in delivering a reading scheme and then they'll not be sure if they have a job next year and so they leave. So it's about building that capacity and retaining it.*

This approach contrasted with that of two other schools which operated a core-periphery model, employing teaching assistants who provided specialist support on temporary contracts because the funding was tied to the child supported.

### **Temps in the permanent model case studies**

Temps were used in the permanent model case studies, but their use was much more limited and avoided. In some cases, this was due to a perceived higher cost of temps. However, the main reluctance stemmed from lack of control over the selection of employees (one case study, for example, reported being sent a temp worker whom they had recently sacked from their permanent workforce) and from a perceived lower quality of

work. These case studies talked about the benefits of permanent over temporary workers in terms of building up a reciprocal relationship, commitment and trust. For example, a waste company stated:

*On a long-term basis we want all workers directly and permanently employed – it's part of a brand and part of the family – and having contractors and self-employed people does not fit in with our ethos.*

Even though the jobs were low skilled, training could also be an issue:

*We don't use casuals and temps because, although skill levels are low, we do need some training (H&S, sorting) and so it would be a waste of money. We used to have some temp drivers, but they often didn't know how to operate a skip lorry and so had to go out with them – it costs.*

The circumstances in which temps were used were:

- as a stopgap, where recruitment has failed;
- to cover unexpected shortages, due to either sudden increase in demand or exceptional levels of absence; and
- in exceptional circumstances. For example, a contract cleaner staffed one of its contracts by using an agency because the location required the provision of long-distance bussing, a facility that the cleaning company did not have.

### **Recruitment practices: temp to permanent**

'Temp to perm' (recruiting permanent workers from temporary workers who have proved good workers) is common practice throughout industry. However, in some cases, this is the main, or only, method of recruitment. Recruitment may be from agency or directly employed temps.

Although, as discussed, there is no legal distinction between 'permanent' and 'temporary' jobs in the UK, to designate an employee as temporary is to suggest a lack of long-term commitment to employing the individual. This is demonstrated in temp to perm where only a percentage of temps move into 'permanent'

designation. The alternative, of recruiting to permanent jobs (whether with a probationary period or not), suggests a greater long-term commitment, even though, in law, employees have little employment protection until they have one year's service.

In the case studies, temp to perm policies were found in food processing and packing.

- Two of the large food processing case studies recruited low-skilled workers from their agency temps only. In one, selection for permanent jobs was on the recommendation of the supervisor.
- A large packer recruited about half its low-skilled permanent workers from its agency temps.

However, for other food processing and packing case studies, the norm was direct recruitment, with temps moving to permanent jobs the exception. This was also the practice in cleaning, waste management, childcare, sports and leisure and for teaching assistants. Moreover, in contrast to the temp to perm case studies, which selected who to take on permanently, a public sector sports and leisure employer automatically moved temporary workers who had served more than two years on to permanent contracts.

Some of the case studies which did not use temp to perm were somewhat puzzled by the approach, saying that they ensured adequate quality of permanent workers through having a probationary period. In one cleaning company, this system to ensure quality included a formal assessment at the end of the probationary period, followed by monthly performance appraisals.

### **Dismissal**

In the main, turnover of permanent employees was seen as voluntary and case studies reported few dismissals. The concern was to reduce turnover, not to dismiss people. Reasons for dismissal were given by waste disposal companies and included:

- poor timekeeping
- operating unsafely
- threatening behaviour

- theft
- breaking health and safety rules.

## **Progression and training**

Most of the low-paid jobs were very low skilled. Food processing and packing had the least skilled jobs, with operatives requiring as little as one hour on the job experience to become productive. None of the jobs required qualifications, although they were desirable for teaching assistants and childcare workers and, for the latter, affected grade and pay.

### **Training**

Basic health and safety training was provided in many of the jobs and its provision was seen by the organisations as obligatory. Of more significance was the variation in additional, non-essential training. With one exception, discretionary training was provided for manual occupations and sports and leisure assistants in the large and medium-sized case studies and in childcare. It was not provided in any of the small case studies, nor in a large food processing company, which employed temporary workers only in low-paid jobs.

### **Manual and sports and leisure training provision**

The extent and nature of training varied between organisations.

For manual jobs and sports and leisure assistants, much of the discretionary training was for the job-relevant NVQs up to Level 2. For example, a food processing company offered NVQ Levels 1 to 3 for operatives, but reported that few progressed beyond Level 1, whereas a waste management company aimed for most operatives to have Level 2.

In some organisations, training was linked to progression. For example, the public sector sports and leisure assistants were eligible for the organisations' management training scheme, whilst another organisation required (and trained to) Level 2 or 3 for promotion to team leader.

In addition to their job skills training, training in basic skills was found (in a food processing company, a waste management company and the two larger sports and leisure

organisations, together with English as a second language in a cleaning company).

Training was restricted to permanent staff in most of the case studies. However, some (a food processing company and the public sector sports and leisure organisation) allowed temporary staff to participate in their own time.

### Manual and sports and leisure: rationale for training

The medium and large organisations provided training for a number of reasons: to improve quality and productivity, to increase staffing flexibility (through multiple tasking), to reduce turnover and improve recruitment and to provide team-leaders and supervisors. A large packer said:

*I think it has done something for their very low turnover now. I think it was the interest the company showed in the workers... the course also got over the sense of what the business needs and reinforced that... Productivity? Yes it is increasing. Not sure if I would put all that down to the course, but it all helps.*

Whilst a food processing company said that 'by training our people we become more efficient'.

These benefits were either not perceived by the small organisations or were unrealisable, whilst costs of training, including staff cover, were seen as too high.

Training in small organisations could also be seen as assisting movement out of the organisation. This was recognised in some of the larger case studies, but was not of concern. For example, a waste management company describing why it provided literacy and numeracy courses said:

*We're not worried about workers leaving for better jobs, as if we thought like that then [we] wouldn't do anything, such as training. The success of the business is down to the people who work for it and so we need to find ways to bring in these lower-paid workers and so such courses are important in attracting staff.*

Another waste management company commented:

*I'm not concerned that training may help them move elsewhere, but I don't like training passports, as they make it easier to use training to move.*

In a number of the case studies, training provision was encouraged by access to free or subsidised training.

### Training in childcare

There was greater emphasis on training in the childcare case studies, but the extent still varied substantially. The emphasis was, in part, driven by regulation (which requires minimum ratios of qualified staff to children). However, this could be met through recruitment of qualified staff, rather than training.

In the case studies, at one end of the training spectrum was the public sector nursery, which strongly encouraged all staff to progress to higher qualifications. Most staff were doing so and the rest were being encouraged to do so. This nursery had a training budget, and provided paid time off for training (including for study leave for NVQ Level 3). This contrasted with the private sector nurseries, one of which only automatically offered paid training to NVQ Level 2. The third nursery provided part-paid time for training but required repayment if the member of staff left within a given period.

The public sector nursery saw itself as particularly well resourced for training, not only with budgets, but with a high staffing ratio which allowed cover for training courses. At the same time, the manager had a strong commitment to training. She recognised that training could increase turnover as staff left for promotion but, on balance, did not see this as a problem, as she considered that training enhanced quality and commitment whilst staff remained with the nursery. Thus there were both benefits and losses associated with training:

*All the while they're training they're bringing ideas and things back to us and being an outstanding member of staff and when it's time for them to move on, yeah, we'll find it hard but then someone else will come in and replace them and work their way up again and do training.*

## Progression

The scope for progression in most of the case studies was very limited, with flat organisations providing few promotion opportunities and short promotion ladders. Moreover, the additional pay on promotion was small.

### Progression: manual and sports and leisure occupations

Many of the medium and large manual case studies could identify individuals who had started in the lowest jobs and progressed into management. However, this degree of progression was acknowledged to be exceptional. Progression was normally limited to one or two steps: to team leader or, at most, to supervisor.

There were some exceptions. One of the large packers promoted to all jobs. This not only created more progression into management but also allowed progression into more skilled manual jobs (e.g. toolsetter). Progression in this organisation was assisted not only by training but by a system of acting up:

*We tend to keep promotion going through the factory. I think it helps. You can start off as a packer and be a manager because we internally promote, unless there are specific posts we have to buy in like HR.*

*If someone in the next grade up is absent we do encourage staff to step-up and gain experience. They get a temporary rate change and by learning those skills [e.g. QA, supervisor] they are in a better position for progression when a vacancy arises. We invest a lot of money in training for permanent staff.*

This packer was influenced by the local labour market, in which there were few employment opportunities and so 'we have quite a few bright people doing pretty mundane jobs'. A waste management company also provided support for progression, through training (mainly operative training to NVQ Level 2) and an appraisal system. The large sports and leisure company had low progression rates but did assist progression through advertising all vacancies internally, providing training and allowing acting up. It saw itself, as well as the industry, as offering

progression opportunities for those who wanted them.

The small, manual employers provided no progression. This was due either to lack of any supervisory or management positions (with these roles taken by the owner) or to lack of vacancies at higher levels. In these organisations, employees had to move to other employers to progress.

Soft skills, such as communication and team working, tended to influence who was promoted. Other factors included diligence. In some cases promotion required qualifications (NVQ Level 2 or 3), for which training was provided.

For temporary staff, the move to permanent tended to be based on attitude and performance (notably attendance and hard work).

### Progression: childcare and teaching assistants

Progression was greater in childcare and for teaching assistants.

Childcare has well-established progression routes, including into management. Progression is closely related to qualifications, with on-the-job training standard, as in the case studies. In the childcare case studies, opportunities were greatest in the public sector nursery, where training for qualifications was almost compulsory and employees were expected to progress internally or to move elsewhere for promotion. This employer also provided personal development reviews. The large childcare company provided somewhat less training, but still provided progression opportunities, including into management. It saw progression as a way to retain the skills in which it had invested. Individual support could be given and might lead to success. For example:

*One worker wanted to move up to become a nursery nurse. She felt she lacked the skills, so we worked with her for a month and taught her about managing workers etc. She was interviewed and appointed.*

However, an informal approach is less likely to provide effective progression opportunities to all staff.

Acting up to gain supervisory experience also provided the opportunity to develop skills in this nursery. Nevertheless, in the private sector



case studies progression from unqualified to NVQ Level 2, rather than beyond, was the norm. However, given the career structures in the sector, all childcare workers in the case studies had some opportunity to progress through moving to other employers.

Teaching assistants also face a structured career route: as a specialist (e.g. providing support to children with special needs) and to Higher Level Teaching Assistant (HLTA). Course fees and time were paid. However, one of the case studies reported it could not get any teaching assistants to take up HLTA training. It thought current employees saw HLTA employment as more demanding and so too difficult to juggle with their home demands.

Working as a teaching assistant can provide a springboard to training as a teacher, with various national schemes enabling training whilst working. In one of the case studies, two teaching assistants had progressed to teacher training whilst working and were now qualified teachers in the same school.

### Factors affecting progression

From the above, a number of key progression issues were identified:

- the importance of an organisation's size and the lack of progression within small organisations; this barrier to progression can be overcome where the sector provides a career structure (e.g. childcare and teaching assistants);
- the usefulness of acting up to develop skills;
- the need for training funding; and
- employer commitment to training and progression.

It is important to recognise that lack of progression may be due to the intrinsic structure of an organisation and not amenable to change. However, where this is not the case, employers can facilitate progression through their human resource approaches and the state can contribute through ensuring funding for training.

## Summary

The low paid jobs in cleaning, food processing, packing, waste management and sports and leisure were low skilled and required no qualifications, although some case study employers provided training and encouraged employees to gain job specific qualifications. Progression in most of these case studies was very limited with the case studies being either very small or having flat management structures. However, there were exceptions, although only one case study (in packing) provided much wider training and promotion opportunities.

Skills were higher in childcare and for teaching assistants, with many posts requiring qualifications. All these case studies provided some training support, but the extent varied. The industries provided structured career progression (through moving to other employers), generally requiring further qualifications.

Three main human resource practices affected security of employment in the case study low-paid jobs:

- a core-periphery model of human resourcing (where organisations have a core of permanent workers, with variations in demand addressed by using peripheral, temporary workers);
- a permanent model, with few temporary workers and variations in demand addressed in other ways, for example overtime and multi-skilling;
- 'temp to perm' recruitment, whereby employees are rarely recruited directly to permanent posts, but are employed temporarily and then, depending on demand and their performance, moved to permanent status.

Temporary workers were either employed directly or through an agency.

Although each case study clearly operated either the core-periphery or the permanent model, elements of the other model might be present.

# 4 Factors affecting insecurity and low pay

## Introduction

In describing employment, Chapter 3 identified a number of factors which encouraged insecure, low-paid work in the case studies. Most prominent were fluctuations in demand for the organisation's goods or services. The effect of demand fluctuations on temporary working appeared to be moderated by cost pressures and by skill requirements. Higher cost pressures pushed employers to minimise costs and to match labour input to demand more closely. With fluctuating product demand, this resulted in employing only as many permanent staff as were needed to meet minimum demand levels, leading to the need for temporary staff when product demand was higher. This approach was feasible only because of the low skills required or ready supply of qualified temps, enabling employers to recruit when demand grew and minimising loss of human capital and training expenditure.

In this chapter, the factors affecting insecurity and low pay are examined in more detail. As well as demand fluctuations and cost pressures, labour supply and production factors, employer ethos and legislation are considered.

## Demand fluctuations

Case study employers faced four types of demand fluctuations:

- daily, weekly or seasonal fluctuations in demand, stemming from customer preferences over the timing of services or purchases (e.g. use of sports and leisure facilities in evenings and at weekends; Christmas demand for goods) or production factors (e.g. growing cycles for agricultural products);
- contracts being won and lost;
- short-notice contracts;

- customers' changed demand for other reasons (e.g. supermarket special offers).

### *Daily, weekly or seasonal fluctuations*

The first type of fluctuation was relatively predictable and temporary. This meant that, in some circumstances, employers could reduce insecurity by using flexible working practices which re-allocated work across permanent staff.

The most common practice used by the case studies is overtime (although not always at a premium rate). The degree of flexibility (and avoidance of premium rates) was enhanced in some case studies by employing some part-timers who were willing to work additional hours. Whilst this practice is problematic for employees who want full-time work (particularly for those who need full-time earnings), it suits those who want part-time work, so long as the overtime is voluntary.

Flexible working was also facilitated by flexible tasking and flexible skilling, although some organisations reported that this was sometimes not an option because of employees' unwillingness.

Case study organisations were also found to take action to reduce fluctuations in product demand. This was driven not by labour but by profit considerations. These included differential pricing to smooth demand (e.g. for sports and leisure centres) and product diversification. Finally, labour demand was smoothed by varying stocks. This was found in the food processing industry for highly seasonal goods with long storage lives.

### *Losing and winning contracts*

The second type of demand fluctuation was less predictable and led to longer-term changes in labour demand. Where contracts were lost (unless the jobs were covered by TUPE), jobs would be lost. Some employers responded by using temps so that employees could be laid off without redundancy costs. The temporary

designation of the jobs increased perceived insecurity. However, other, similar employers offered permanent contracts. The choice between permanent or temporary appeared to be influenced by three main considerations:

- short-term cost minimisation;
- skill requirements: the more skills or training required, the higher the cost of hiring and firing; and
- perceived benefits of developing a committed workforce (with commitment seen as being influenced by how well employees were treated).

Nevertheless, ultimately, contracts determined labour needs.

Naturally, organisations sought to keep contracts, which reduced employment insecurity. An important approach to stabilisation was to minimise the percentage share of business with any one customer. Organisations with few customers or where a few customers accounted for a large percentage of sales were vulnerable to changes in buyers' demands. This was an issue for all the private sector organisations where sales were to other organisations. Parallels were found in public sector organisations dependent on centrally set budgets. Dependence on a single customer for a large percentage of business was more often the pattern for the small organisations (e.g. a single contract accounted for 90 per cent of business for a small packing company; almost half the revenue for one small cleaning company, one-third for another and 20 per cent for a small packer) than the larger ones, but it still could be substantial (e.g. the largest customer of a large packers accounted for around 10 per cent of sales). Another approach to stabilisation was to diversify into more stable markets. These approaches were driven by profit, not labour, considerations.

### **Short-notice contracts**

Short-notice contracts were described only by packers. A small packing company received many of its contracts at short notice. These were all from the same customer, but highly unpredictable and had to be delivered quickly. Therefore

temporary workers were required to meet such contracts. Sometimes, this was exacerbated by late delivery of components for packing.

### **Other**

The fourth type of demand fluctuation varied in predictability and permanency. Examples were found in the food processing case studies and in packing, with both relating to changes in supermarket demand.

Food processing case studies reported demand variations due to variations in supermarket customer demand and also from supermarkets' marketing strategies, for example, two-for-one offers. Some food processing case studies had reduced the latter form of fluctuation through refusing to participate in this form of marketing, as they no longer found it profitable. However, not all suppliers felt able to refuse these demands, due to fears of losing their main contracts. In packing, changes in supermarket demands led to reluctance to hold stock, thus increasing labour demand fluctuations. For example, one large packer described how they had previously worked with more stock but had been left with a substantial amount of unsaleable stock when a supermarket changed the colour of its packaging.

### **Cost pressures: customers, power and competitiveness**

The structure of the markets in which the case studies operated affected both product demand and cost pressures. Key issues were the competitiveness of the market, sub-contracting practices and the power of the buyer.

All the private sector case studies were operating in competitive, and some in highly competitive, markets. The way this led to low-paid, insecure work was described by a waste disposal case study which also provided grounds maintenance:

*At the moment we can't get anywhere on the price with grounds maintenance as there are so many smaller companies that will use agency on a full-time basis or pay National Minimum Wage [the company paid above the NMW]. And if 60% of your cost is labour, then with pension, holiday*

*entitlement, it adds about 20 per cent for a business to use their own employees.*

Thus, according to this company, the companies that won contracts were those offering insecure employment or minimum pay, whereas companies like his, which offered better terms and conditions, were unable to compete except by using agency staff. As one food processing company explained: *'We pay what we can afford and that is driven by the money we can get from the supermarkets.'*

The consequence of these pressures was the need for low-cost production, achieved through low wages and lean production techniques, that is, core-periphery models of employment. The implication is that the insecurity of employment contributes to the profits of the purchaser.

In some of the case study sectors the drivers included customer power (discussed below, p. 30), but in others, selling to consumers, willingness or ability to pay was important. This was certainly seen as a problem for private sector nurseries. For one case study, part of a chain of nurseries, this worked to the advantage of employees of nurseries based in affluent areas, where staffing costs could be higher because fees could be higher, but to the disadvantage (through lower pay and greater insecurity) of those in less affluent areas.

Skills impacted on the response to competitive pressures and these differed within sectors as well as between them. For example, in food processing, downward pressure on costs was greater on supermarket own brand goods than on branded goods. Pressure was also stronger the lower the quality of the food product required, since higher product quality required greater product consistency, itself affected by staff quality. Therefore, lower-quality food products were subject to greater downward pressure on wages and pay, conditions, training and staff turnover could be sacrificed for price. Examples included supplying school and hospital meals. As one respondent said, *'you get what you pay for'*.

However, these pressures did not necessarily emanate from competitive markets. Some of the case studies were in markets with powerful buyers (for the food processing case studies). Others, as discussed above (p. 27), had relatively small numbers of customers or a high percentage

of their sales lay with a small number of buyers. The structure of custom impinged on security (and low pay) not only through fluctuations in demand (as discussed above, p. 27) but through downward pressure on prices. This can be seen in the context of the competitiveness of the sector combined with the power of the buyer or contractor: the greater the competitiveness and the power of the buyer, the more likely the organisation is to encounter fluctuations, loss of contracts and downward pressure on prices.

Competitiveness produced downward pressure on costs; the effect on insecure, low-paid employment in the case studies is discussed next. However, specific factors were involved in this downward pressure in respect of sub-contracting and in markets with powerful buyers: these are discussed separately.

### **Sub-contracting**

A number of the case studies were sub-contractors for services to other organisations (the cleaning companies, the waste disposal companies and the sports and leisure providers). Intrinsically, sub-contracting and other forms of selling are equally subject to the potential for business fluctuations: the impact of winning or losing contracts depends on the relative proportion of business in the contract, the ease of gaining other contracts and the notice period. Moreover, employees working for a sub-contractor ought to be more secure as, under the TUPE, should the contract change hands, employees are transferred along with the contract. However, in practice, some aspects of sub-contracting affect security in low-paid jobs. Those identified in the case studies were change of employer and flexibility, the length of contracts and price pressures.

### **Change of employer and flexibility**

Sub-contracting places employees at risk of a change of employer every time the contract is re-tendered. All employers have their own ethos and ways of treating staff, including differences in approach to pay and staffing levels. Although transferred staff have some protection under TUPE (and redundancy and other employment protection legislation), this does not prevent the reorganisation of production after transfer, nor

changes in pay systems and pay increases. The problem is not strictly of constantly eroding terms and conditions, but of uncertainty and lack of choice. Certainly, case study employers described some employee resistance to changing employer due to a change of contractor. The cleaning companies all described trying to redeploy staff when contracts were lost. This was facilitated by multi-skilling in the companies which covered a number of types of businesses.

### Length of contracts

The length of contracts and the tendering process were important. Average contract lengths varied across the sub-contractor case studies. One waste disposal and cleaning company had contracts of, typically, three to five years, whereas another, solely in waste disposal, had contracts of five to seven years. However, contract lengths had been lengthening in the public sector, for example to 14 years (for waste disposal) or even 25 years. According to the Local Authorities interviewed, the lengthening was taking place for certain types of services, depending on their capital life and constancy of demand. Thus, for example, there was a substantial lengthening for waste disposal contracts, but a less marked lengthening for cleaning or sports and leisure.

Some case studies saw the lengthening of contracts as shifting risk to the sub-contractor, but others saw it as beneficial, allowing the sub-contractor to tailor delivery better. One large waste disposal case study had realigned business towards the public sector, seeing advantages in comparison with much shorter private sector contracts. For employees, the lengthening of contracts offers greater security and certainty.

However, this lengthening can have its downside, depending on the contract details. For example, a cleaning company said its contract values were linked to the Retail Price Index (RPI). Labour costs were a substantial element of total costs and wages, in the economy, rise faster than the RPI. Therefore, RPI linking put pressure on labour costs. In this company, the consequence was not only to exert downward pressure on pay but to reduce staffing. The same can apply to other businesses (where the price cannot be raised to cover the increased labour

costs). However, the difference tended to be due to the length of the contract, increasing risk and uncertainty. Entry into contracts of this kind could occur through lack of foresight or experience and also through an inability to secure better terms.

### Price pressures

Price pressures not only exert downward pressure on wages but they also lead to lean production practices, which can increase insecurity, and to concentration on low-skilled work and little training.

The perception was that price was a strong determinant of success in winning contracts. A small cleaning company, supplying services to the private sector, said:

*You have to try and put it as cheap as you can because people want the cheapest contract ... you can say we offer a really good service, which we do, but that doesn't come into it. They look at the price all the time. That's the reason you can't pay as much as you'd like to pay.*

Whether this differed from price pressures on other suppliers was not clear. However, there may be differences between buyers. The case studies which sub-contracted suggested that, for their services, price pressures were particularly great in public sector sub-contracting. For example, a waste disposal company, whose work was mainly for Local Authorities, said:

*It's still CCT [Compulsory Competitive Tendering], bottom price will win it nine times out of ten and I'll challenge anyone to disagree with it. At the end of the day a council worker has to make a recommendation to their councillors. And how do you measure quality? Now we all talk about quality. But how can we measure to someone he doesn't know and say 'oh yeah they'll give us a quality service'. How can you measure quality and put a value on it? So if we come in at £10m and [another company] come in £9.5m, obviously they can say we're going for that because it's half a million pound cheaper which equates to £3.5m over seven years. Wow! Tick the box. So we're playing a game and going on about quality. But it's not, you have to get the price right. So you're constantly driving the price down.*

The requirement, under European Union regulations, for the public sector to re-tender contracts (rather than renew) may increase this emphasis on price, as it reduces the benefit to current contractors of improving service under an existing contract. In the private sector, quality may lead to contracts being renewed rather than competitively tendered.

Contractors themselves can relieve these pressures by focusing on quality or stipulating minimum wages or conditions. For example, the public sector purchasing case study on its cleaning contract required staff to be paid, at minimum, the London Living Wage (LLW). The ways in which this might be implemented and the implications for insecurity are discussed in Chapter 5 under 'Public sector purchasing'.

### Major buyers

Many of the case studies operated in highly competitive markets and many had a single purchaser who accounted for a large percentage of sales. However, the food processing companies and some of the packers operated in markets dominated by a very small number of major buyers: the supermarket chains, in particular, the 'Big Four' supermarkets (Tesco, ASDA, Morrison's, Sainsbury's). In 2007, the Big Four accounted for 65 per cent of national grocery sales (Competition Commission, 2008). The dominance of the market by a few buyers left the food processing companies and some packers in a weak position: they could not afford to lose contracts with these buyers, nor to upset them. They were somewhat vulnerable to their purchasers' decisions and business fluctuations.

The food processing case study reported substantial pressure on prices, including what might be seen as unethical practices, together with the requirement to respond to changes in demand at very short notice (see also Lloyd *et al.*, 2008). Failure to meet demands might result in withdrawal of contracts. As with differences in practices amongst the case study employers, the supermarkets' behaviour was reported to vary, suggesting differences in ethos rather than business requirements.

Some were tougher than others in negotiating contracts. For example, one case study described

how a supermarket had asked them to cut prices for three years running. After cutting for two years the case study said further cuts were impossible. The case study respondent believed that some of the other supermarkets would have believed this and not insisted on the price cut. The contract was re-tendered and the case study lost to a lower bid. The new sub-contractor went bankrupt after a few years. The case study packers also talked about the pressure of competition and the need to keep prices, and hence labour costs, low. For example:

*Supermarkets dictate the price – there's no price increase even where market prices have increased and they don't hesitate to close a factory down [by withdrawing their work]. They are not bothered, even if a company has worked for them for three years. So it has a knock on effect on [our company], even though we don't have a direct relationship with supermarkets, as manufacturers are subject to similar conditions as a part of the retail chain.*

Price pressure can be increased through special promotions (e.g. two-for-one promotions). Supermarket space is auctioned to the food producers, who then carry the cost of the promotion. Due to food producers' profits falling to a very low level, this practice has become less common and tends to be focused on branded goods.

Other practices that could be seen to be unethical were reported:

*I've known competitors that have been hauled in, 'you want to keep the business, I want a cheque for £2m'. Now, when you've got a site that's predominantly producing [the customers'] products, what do you do? And I've had a retailer say to me once, well, you can work out, it's cheaper to give us a cheque than make all your staff redundant. And then I think this is just corrupt.*

A packer described how supermarkets' demands and the need to meet these amplified labour fluctuations:

*the [named large supermarkets] of this world want their product when they want their product,*

*the fact that a component can be late in being delivered from the Far East they don't care about. So if you're short of one component you can't run the line. There are times when they're late and [named large supermarket] want their product at such and such a time, so we have to increase the labour to pack and pack in a shorter period of time than would otherwise want to do. There is not a lot of room for negotiation with big players like the supermarkets. They say to their customers that they think they know when they are going to get the components, so they put together a plan stating what they are going to do and when they are going to do it. But because they are not in control of the delivery, then they are in control of the manufacturers who are producing the 'widgets' in the first place.*

In the case of food processing companies, vulnerability was exacerbated where production was dedicated to a small number of products for a single supermarket's own brand. Changing to other products took time. This left the producer very vulnerable to the fortunes of the supermarket and to its purchasing decisions. Vulnerability was also greater the higher the proportion of sales to major supermarkets and the lower the quality of the product. The latter resulted in greater pressure on price and enabled fiercer producer competition.

The consequence for some of the food processing and packing companies was an extremely strong downward pressure on labour costs, reducing pay and other terms and conditions and training. For example, price pressure meant that a small packer did not pay an overtime premium, despite requiring employees to work substantial overtime at periods due to supplier failures:

*Our clients won't pay for overtime so we can't pass that onto workers. The industry and supermarkets are hard – either do the job or they'll move to another competitor.*

This pressure was also blamed for lack of training:

*The food industry does not allow the luxury of allowing value added services [higher trained staff] as the market is extremely price sensitive and risks cutting into their profit margins.*

Those most able to resist in the case studies were branded producers and those at the higher quality end of the food market.

## Labour supply

The nature of the labour supply affected employers' use of and the constraints on temporary working. It also affected the pay rates.

The low-paid, insecure jobs in the case studies were largely very low skilled. This meant that many case studies could fill vacancies at the NMW and so this is what they paid. When vacancies were difficult to fill, employers raised pay or turned to agencies to increase the supply. Thus, pay levels in these jobs might be seen as a simple function of supply and demand. However, case study employers seemed to differ in how supply and demand was translated into pay rates, particularly in the extent to which costs of labour turnover and the effect of pay on staff quality were taken into account. Other supply factors may affect the pay rates, notably the characteristics of employees. Unionisation might be expected to influence both pay and security, whilst employee turnover and flexibility could also affect security.

## Pay, turnover and quality

Pay was higher in some case studies because it was used to reduce labour costs through minimising recruitment and turnover costs or through improving commitment, skills and staff quality.

Some case study employers believed that paying slightly above the NMW (and hence slightly above some of their labour competitors) could make a substantial difference to recruitment, retention and quality. However, sometimes the amount believed to be effective was very little. For example, a cleaning company felt that paying 10p per hour above the NMW had led to easier recruitment, improved the workplace atmosphere and had kept turnover low: *'[I]f you pay someone buttons, they aren't gonna chant the company's mantra.'*

Another organisation paid temps £8 per hour. This was partly to compensate for shift patterns. It was also partly to recruit higher-quality staff, even though the job was very low skilled and

required minimal training. Nevertheless, staff quality was seen as important by this employer, as it was believed to impact on product quality, which was important to the business. This approach was found only where quality was seen to affect the product and sales.

Additional staff benefits were used in the same way by a food processing company. The employer paid only slightly above the NMW but provided other benefits, including a final salary pension scheme. The company believed that these benefits contributed to its reputation for treating staff well, which resulted in easier recruitment, higher retention and hence better-quality staff and product quality:

*Retention is quite important to us; the industry does suffer quite a lot from high staff turnover and I think, if you can keep your staff, having opened new sites in the past ... and gone through the pain of having inexperienced people, there is a value – fairly difficult to put a monetary value on it, but there is a value – on keeping your staff and having that skill base there, so we'll do lots of things on the periphery to make sure that ... we keep them. But it is not just about retention, it is also about trust.*

In some case studies, training costs drove the desire for higher retention: employers were keen to recoup training costs. However, this did not seem to be a consideration in all the case studies with higher training costs. Notably, teaching assistants and childcare workers were the greatest recipients of training, but retention considerations did not appear to affect pay.

### **Characteristics of employees**

Certain groups of employees tend to have lower wages. This can occur for a range of reasons, including relative skill levels, occupational choice and discrimination, and wages may be affected directly or through an increase in the labour supply.

Most of the jobs examined in the case studies had very low skill requirements. This alone might be seen as an explanation of the low wages: the potential labour supply for unskilled jobs was more than adequate for filling these jobs. However, not all had minimal skill requirements, with quite lengthy training periods required for

teaching assistants and for many of the low-paid childcare jobs. Some of the sports assistants' jobs required either qualifications or skills.

For teaching assistants and childcare jobs, it seems likely that the low pay level was a result of their feminisation: jobs predominantly done by women (or characterised as female tasks, such as caring and working with children) tend to be undervalued (Grimshaw and Rubery, 2007). A chain nursery said:

*The low status and low pay is because of the image the sector has as almost a babysitting job rather than recognising these are properly qualified nursery nurses.*

Two of the sports and leisure case studies were located in university towns, and students were seen as an important and inexhaustible supply of sports assistants. In these cases, it seems likely that the availability of this group facilitated low wages.

We also considered whether case study employers were able to maintain low wages through tapping into other, potentially weaker, groups of workers or those where the supply might be inflated, such as immigrants, ethnic minorities or older workers. There was no evidence that these groups were disproportionately employed in the case studies. However, we were unable to examine whether any of the case studies benefited from local wages being depressed more generally through the supply of labour from vulnerable groups.

### **Unionisation**

In each of the sectors, some, but not all case studies recognised and negotiated with trade unions. In the cleaning and waste management case studies where employees had been transferred under TUPE, unionisation was partial and reflected previous practice for those employees transferred in. In the other case studies, trade union recognition applied to all or none. The public sector case studies all negotiated over pay and conditions.

The research evidence on whether unionisation affects pay is mixed. There was no evidence from the case studies to indicate how unionisation affected pay levels or job security.



### **Employee turnover**

Employee turnover affected the need for temporary employment. Turnover allowed some adjustment to product demand fluctuations without using temporary employment and so reduced the need for temporary workers.

### **Employee flexibility**

Depending on the product and work organisation, employee flexibility could reduce the need for temporary working. Where employees were willing to vary their hours of work, increases in demand could be met through increased hours. Task flexibility assisted deployment and was found in several of the case studies, for example in food processing, sports and leisure facilities and childcare. Sometimes this entailed increased training per individual, for example in food processing, to cover a range of low-skilled tasks, raising the importance of retention and hence raising pay levels. One case study found that employees lacked flexibility, which increased insecurity in the company: a multi-site food processing company, which had a core-periphery model, described employee inflexibility as a contributing factor in their use of temps. The company had some sites closely located (and some co-located). However, they found employees loath to move between sites because of a reluctance to make different things and to leave their colleagues.

## **Production factors**

A number of production factors were identified as affecting the use of low-paid, temporary workers.

### **Size, indivisibilities of labour and flexibility**

Size appeared to influence the ability of some of the case studies to respond to product demand and labour supply changes without recourse to temporary labour. Although case studies of all sizes looked to their permanent employees to provide some flexibility, the smallest appeared to have to turn disproportionately to temporary employees to cover peaks in demand or staff shortages. In part, this may have stemmed from reluctance to employ permanent workers part-time, combined with the desire to labour keep costs down, resulting in particularly lean staffing. This certainly appeared to be the case in the small gym.

One case study showed how an effective increase in size had led to reliance on staffing flexibility rather than agency workers. The public sector nursery had previously been a stand-alone nursery. It had recently merged with a primary school. This had enabled it to cover staff shortages with increased hours from school staff, rather than through agency temps.

### **Size, location, management structure and progression**

Progression was highly limited in many of the case studies. The smallest offered no management positions. Larger ones had quite flat management structures and so few opportunities for progression. This was exacerbated for organisations with a wide geographic spread.

### **Nature of the product, quality and productivity**

An influence on the use of temporary workers and the level of pay was the degree to which a more stable and better workforce added value to production (i.e. raised productivity). This varied with the level of skills required for the product and production techniques. However, slight differences between products could result in the need for a better workforce. This was identified in food processing in particular, where case studies fell into three types: those needing little skill, where worker quality had a minimal effect on product; those producing higher-quality items, where consistency of product resulted in a need for higher-quality staff, which, in the case study example, resulted in slightly higher pay rates and other benefits; and those producing higher-quality branded products, where profit margins had allowed substantial capital investment, resulting in multi-skilling and a consequent emphasis on permanent workers.

The structure of work in these jobs could also mean that increased skills were not rewarded. The lack of pay increases with qualifications, competence and work quality found in a number of case studies (Chapter 3) was explained by the increase in quality not being seen to lead to an increase in organisational income.

### **Other production factors**

Two case studies showed how other production methods could affect work insecurity.

A large packing company had invested in new machinery which not only resulted in faster production but enabled production to be more rapidly switched on and off. This meant that the company was more able to respond to demand changes by changing production and, consequently, the number of employees, rather than through building and running down stock with more constant employment numbers. Thus, it had decreased the percentage of permanent workers and increased its use of temporary working. The change had been driven by the costs of holding stock.

A large food processing company had customer-dedicated production. This made it difficult to switch production and so increased vulnerability to major buyers. At the same time, employees were reported to be reluctant to switch between sites, thus increasing the need for temporary workers to meet peaks in demand.

## Ethos, organisation aims and ownership

Pay did not always appear to be driven by supply and demand or by profit or business considerations.

Some small case studies paid minimum wages and provided minimal training. However, they paid bonuses to employees when the business was doing well, a payment which did not seem necessary from a business point of view, that is, they appeared to wish to pay what they were able. For example, the small gym paid:

*the odd discretionary payment, sometimes three or four times a year, when the business has done well over a given month.*

A small packer paid annual bonuses in the same way. These two examples demonstrate that some employers can exercise discretion over pay and are not, in their day-to-day decisions, driven solely by supply and demand.

Some large case studies which paid above the NMW (with the NMW reportedly the going rate in their area) did not appear to have a business reason for higher pay and benefits. Instead, this appeared to reflect an ethos of being decent. Certainly, one food processing company appeared to have an ethos based on decent treatment

of its workers: the Human Resources director felt this came from their emphasis on product quality and their relationships with customers:

*I suppose what we try and do is behave differently with our customers and by offering what we offer, we've got to offer that to our staff. We talk to our customers about quality, innovation and all those things can only take place with quality staff. What we're trying to do all the time is make quality foods in quality sites with quality people. A lot of other people the strategy would be the cheapest food, cheapest price. It depends what your marketing is trying to aim at ... We're aiming at the top end of the market. You can't really do that and have a different mentality with your staff. [Others may have a different strategy,] but what we would argue is 'who's been more successful?'*

All these case studies were privately owned, with the smaller ones owner-managed. There was some indication that the owner-managers derived some benefit from paying more, whilst for the larger organisations there appeared to be more emphasis on long-term stability than on short-term profitability. However, a quantitative study would be needed to establish whether ownership and different corporate aims lead to slightly higher pay.

## Employment legislation

The employment legislation of particular pertinence to the case studies' low-paid, insecure workers was the NMW. TUPE should also have been an issue for those which provided sub-contracted services (or sub-contracted services themselves), but this did not seem to affect the organisations themselves. Indeed, one sub-contractor, a small cleaning company, seemed unaware of TUPE. However, TUPE did mean that employees' jobs should have been secure, irrespective of the contract holder.

The NMW, however, had had some effect, both on wages and on other aspects of low-paid workers' jobs. Since its introduction, it had not only raised wages of the low-paid workers in the case study organisations but, in some case studies, was reported to have increased skills and led to a cut in employment. The latter was due to the

pressure not to raise costs, which encouraged employers to identify more efficient ways of working. In some cases, this entailed upskilling workers, which could lead to reduced insecurity, as turnover became more costly to the employer.

The NMW had increased competitive pressures for some case studies. Some had previously derived competitive advantage through paying particularly low wages. These organisations had had to raise wages to the level of their competitors (i.e. the NMW). Some found that they were having to compete with organisations which they believed were infringing the law by not paying the NMW. A response to this had been to reduce other costs and improve productivity. A large cleaning company exhibited a range of responses. It had:

- reorganised work (reducing administration and increasing IT), resulting in cleaners having greater responsibilities;
- introduced new equipment;
- reduced hourly rates through shifting cleaning from evenings, nights and weekends (when premium rates were paid) to daytime;
- reduced administrative, training and management costs by shifting from part-time to full-time working; and
- intensified work, for example, eliminating smoking breaks.

The consequence was that some upskilling had occurred. Employment had shifted from part-time women to full-time men. Earnings had increased but hourly rates had reduced.

## Summary

The most important factors conditioning employment practices in the case studies were cost pressures, demand fluctuations and the availability of suitable labour.

Cost pressures resulted in employers seeking to minimise labour costs. These pressures came either from the highly competitive markets in which the private sector case studies operated or, for

the public sector case studies, from budgetary constraints. However, pressures appeared to be greater for those operating in markets where buyers had considerable power and for those sub-contracting services to the public sector.

Demand fluctuations arose from the nature of the product (with daily, weekly and seasonal demand patterns), winning and losing and changes within a contract. Where demand fluctuations were fairly predictable, the effects on security could be reduced by reallocating work across permanent staff (for example, through overtime, the employment of part-timers with flexible hours), flexible tasking and skilling and through varying stocks. In some cases, demand itself could be smoothed through, for example, differential pricing and product diversification. Loss and gain of business could be more difficult to predict. Demand fluctuations appeared to be exacerbated where buyers had considerable power and, for those sub-contracting services to the public sector, where competition rules required periodic retendering.

These pressures led to some case study employers operating a core-periphery model, so that labour costs were minimised through the number of employees closely matching demand. Some also used temps in order to eliminate redundancy costs. The core-periphery approach was feasible only because of the availability of suitable labour. Availability seemed to exist either because skill requirements were minimal or, where skill needs were higher, because the jobs were particularly attractive to women. However, other employers, with similar demands, labour requirements and labour supply, did not use the core-periphery model. These employers placed more emphasis on the importance and benefits of developing a committed workforce. Differences in ethos and organisational aims also appeared to affect whether the employer chose the core-periphery model or not. This suggests that, for some employers, it would be feasible to switch to more secure employment practices without damaging the business.

# 5 Potential for reducing low-paid, insecure jobs

## Introduction

This study aims to identify how the proportion of low-paid, insecure jobs might be reduced and work shifted to better-paid, more secure employment. A key finding from the case studies was that seemingly similar organisations took differing approaches to the use of temporary workers. Indeed, there seemed to be few consistent objective differences between those which used the core-periphery model and those which did not. Those not using the core-periphery model seemed to have a stronger dislike of temporary working, seeing it as inefficient (although the skill requirements did not suggest this should be a distinguishing feature) and, sometimes, seemed to consider temporary working as poor treatment. However, some of the core-periphery employers appeared to take the good treatment of employees very seriously. Quantitative research would be required to identify the factors associated with each model type. Nevertheless, the fact that similar employers use different models suggests that some employers could move away from the core-periphery model without harm to their organisation.

This section begins by examining the potential for employers to move away from the core-periphery model: whether they can reduce fluctuations which lead to insecure work and whether they can offer more security, progression and higher pay. This section also discusses employment agencies' role and practices and whether agencies themselves could provide greater security, progression and pay.

One of the issues raised in the case studies was the role of purchasers in driving insecurity. Therefore, this chapter moves on to consider whether purchasers can reduce pressure for insecure, low-paid employment.

Finally, although the variation in practice among similar employers (and purchasers) suggests that changes are possible, the study is less

optimistic about whether changes would be made without external pressure. The section therefore considers the ways in which change could be encouraged by trade unions and the state.

The issue of labour supply is not discussed. This is not because it lacks importance: a reduced labour supply, increased skills and greater labour power could all contribute to higher wages. However, the processes by which these factors occur and are translated into higher-waged, more secure employment are complex and were not the subject of this study.

The impact of the changes suggested is considered at the level of the individual organisation. Wider effects, such as those through rises in public sector purchasing costs, are not considered. Further research would be useful to consider these.

## Employers with low-paid, insecure jobs

There are two main ways in which employers offering low-paid insecure jobs could change to provide better-quality employment. First, they could operate on labour demand through, for example, changing the pattern of demand (e.g. through smoothing product demand fluctuations), changing production techniques, changing products and changing corporate organisations. These tend to interact. The second route is through changing human resource practices to address labour demand needs. These are discussed below (pp. 39–40).

### *Changes to labour demand*

#### **Smoothing labour demand fluctuations: smoothing product demand**

One way to smooth labour demand is to smooth product demand. Differential pricing across high- and low-demand periods is a common way of doing this, for example, through 'sales', seasonal offers and off-peak pricing.

Another way to smooth product demand, actively pursued by some of the case studies, is to diversify the customer base. Examples were found of:

- diversification of the product base across products with different seasonal patterns and with longer contractual periods;
- other diversification of products (to broaden the customer or contractual base); and
- expansion of the customer base (without a change in products) in order to reduce vulnerability to loss of contracts.

For example, a small packer was trying to move from producing for repeat seasonal business to other customers who offered six-month contracts. This would have led to a much more constant level of product demand over the year. Others were trying to increase their range of customers and the pattern of contracts to reduce dependence on a single customer.

Smoothing product demand was not aimed at smoothing labour demand but was a business strategy to maximise utilisation and profitability and to reduce vulnerability to powerful customers' demands and fortunes and to competition. Nevertheless, some case studies remained highly vulnerable, with individual customers accounting for up to 90 per cent of sales (see Chapter 4 '*Demand fluctuations*', p. 26).

### **Smoothing labour demand fluctuations: holding stocks**

Building up stocks in periods of lower demand and running these down in periods of higher demand enable labour demand to be more consistent. This can be done only where stocks are storable (i.e. it is only applicable to manufacturers of storable goods). It is appropriate where demand is expected to fluctuate (rather than to permanently change) and is most appropriate where fluctuations are fairly predictable, for example, seasonal fluctuations.

The potential for smoothing production was minimal in some of the case study sectors (e.g. childcare and the processing of perishable foods). However, it was feasible for some of the other

manufacturing case studies. This was practised in one of the case study companies for selected products: a producer of food products with long shelf lives would build up stocks for some products with large seasonal fluctuations. In this case, the approach was driven by the desire to minimise capital costs rather than as a labour measure. At the same time, the scope for this approach was restricted by customer preferences for more recently produced food products.

The emphasis on lean production methods ('Just in Time' production), which reduce the capital bound up in stocks and hence reduce production costs, runs counter to the stock-building approach. Indeed, a large packing company had recently invested in machinery to enable a reduction in stock-holding, which further increased labour demand variability. Lean production approaches are encouraged by market competition (requiring lower production costs) and profit maximisation. In the case studies, translation of lean production techniques into insecure work was enabled by low skill requirements (where there is less need to retain skills) and by lack of employees' power. Without other changes, smoothing through stock-building raises production costs; and so encouraging this approach is unlikely to be met with success.

### **Size and organisational structure**

The impact of organisational size and structure on progression and use of temporary working is not particularly open to change for most organisations. However, the experience of some of the public sector case studies suggested that, in the public sector, structural changes which increase security and training would be feasible.

The merger of a nursery with a school had enabled the nursery to use existing staff flexibility rather than have to rely on agency temps. In one area, teaching assistants had been employed permanently when the Local Authority could assign them across schools rather than each school having responsibility for its own teaching assistants. Smaller units increase difficulties of staff coverage for training.

This suggests that the division of public sector organisations into smaller, stand-alone units (e.g. devolving budgetary control from Local Education Authorities to schools) may have reduced job

security and led to difficulties of coverage for training. It also suggests that, in some cases, the public sector could control the size of units. This issue will be returned to in describing the role of the state more generally (see pp. 44–8).

### Upskilling and other productivity increases

Increasing productivity is an important route to higher pay. It can entail increased skills, capital investment, changes in work organisation and changes in products. Skill increases are particularly helpful as they are likely to reduce insecurity, because employers are less keen to lose employees with greater human capital and in whom they may have invested in terms of training.

Upskilling, to improve productivity, can involve higher-level skills or a broader range of skills (multi-skilling). In the case studies, upskilling was also associated with capital and work organisation changes which improve productivity. A cleaning company which made a range of equipment and work organisation changes to increase productivity in response to the NMW has been described above (Chapter 4, 'Employment legislation', p. 34). Some of the waste management companies also saw upskilling and increasing productivity and wages as feasible, although not for all their low-paid jobs. For example, a large waste management company introduced new technology, raising the skills and training of staff. At the same time, employment had been reduced. Another, a medium-sized company, exhibited some resistance to this approach. It had introduced higher mechanisation at one site:

*The head count went down from 90 to 40. Greater use of machines as market becomes difficult – yeah it's always there, though not much savings to be had as a machine costs £12,500 and needs replacing in 2.5 years in comparison to £15,000 salary.*

The company also saw possibilities for increasing the skills of street sweepers, but not necessarily raising their wages:

*It's certainly by mechanising the operations [that skills can be increased]. The reality is that all you can do is to reduce the number of staff, as the contract has a finite value.*

Multi-skilling was the alternative approach. This had been introduced in some of the case studies and was being considered in others. In one, a food manufacturer, multi-tasking had resulted in the creation of a core, secure workforce with higher pay. The problem was that this core was supported by a periphery with lower pay and insecurity. Nevertheless, this approach had shifted some employment out of insecure low-paid work.

A large packer had introduced multi-tasking on some sites. This resulted in higher skills, productivity and pay. The packer was considering extending this approach to another site, but had reservations:

*There are difficulties in introducing it as we've got workers who mightn't be able to do some tasks (such as carrying heavy rolls). We don't want to have two groups of packers: one doing multi-tasking and the others not.*

*Those not able to multi-task are generally older women, who have been with the company for 30 years and approaching 60 – although we thought we might be able to get round this by putting some of them on the slower lines. Overall, it might be a little too much to administer and we might lose good workers who have committed to the company for most of their working lives.*

Another, medium-sized, waste management company was considering introducing multi-tasking, in response to contractors' demands for area-based teams of workers (integrating grounds maintenance and street cleaning). Teams were expected to have higher productivity and pay was expected to rise.

The need for upskilling was sometimes driven by a move into higher-value added work. In the case study sectors, this was related to higher-quality products. This would lead to a higher-paid and skilled workforce. However, this approach was dependent on markets and the organisations' more general business strategies. For example, the small gym recognised that income (and wages) could be substantially raised through staff running training sessions (and that some were or could be qualified to do this), but physical constraints prevented this development.

Another approach to raising productivity did not focus on skills. One cleaning company had started to provide cleaning only as part

of a facilities management service. This was because competitive advantage for stand-alone cleaning tended to rely on labour costs, whereas as part of facilities management, work organisation approaches could be used to gain competitive advantage.

### **Human resource practices**

As well as investigating practices in the case studies, alternative human resource approaches were explored with the case studies. The following section discusses the potential for alternative approaches based on analysis of case studies' practice and their views on the alternatives.

### **The core-periphery model**

Case study organisations had choices over their human resource practices and their use of temporary workers. They could operate on a core-periphery model or use other approaches to addressing demand fluctuations (multi-skilling, overtime and flexible part-time workers). The difference in practices in similar case studies suggested that the choice was governed by corporate ethos (or knowledge) rather than operating requirements. This suggests that there is no reason some employers should not be able to move away from the core-periphery model, but that it is unlikely they would do so of their own volition (unless there was a change in ethos).

### **Temp to perm**

The practice of recruiting in the first instance to temporary posts and then selecting permanent employees from the temporary pool was valued by employers as a way of sifting out less good or less desirable workers. However, case study employers who minimised the use of temporary workers and recruited directly to permanent posts either used a probationary period to test the suitability of workers or normal dismissal procedures, if a recruit proved unsuitable. Given the lack of employment protection for employees with less than one year's service, whether recruits were designated temporary or permanent may seem irrelevant. However, recruitment to a permanent job seemed to be accompanied by the case study employers' commitment to continued employment. Whilst such a commitment might

not be feasible for all recruits currently recruited temporarily, where temp to permanent is common it should be feasible to recruit a percentage to permanent jobs at the outset and so reduce perceived insecurity for these employees.

### **Smoothing earnings: annualised hours**

Annualised hours provide a means for equalising earnings over the year, irrespective of the pattern of work. Contracts stipulate the annual number of hours per year, with the pattern of working determined by demand. Pay is based on average hours per month (over the year) and so does not vary monthly.<sup>4</sup>

From an employers' point of view, annualised hours can decrease labour costs, through avoiding premium rates (e.g. overtime) or reducing the number of hours for which premium rates are paid. From the employees' point of view, annualised hours result in predictable earnings, which can be valuable, particularly for low-paid workers. However, this might be at the cost of lower annual earnings, work intensification and less control over hours and timing of work. Therefore, whilst annualised hours reduce the need for temporary workers, it is unclear whether they are beneficial or detrimental overall to low-paid workers in insecure jobs.

Annualised contracts were not used by any of the case studies, although some had considered their use. One (a small waste disposal company) had not heard of them. None of the case studies was interested in this approach, which not only provided greater certainty of earnings for employees, but could provide cheaper labour costs. The reasons case studies gave for not using annualised contracts were:

- the administrative costs of recording hours;
- the difficulty in assessing the appropriate level for annualised hours, where demand is highly unpredictable and uncertain;
- a fear of setting total hours too high;
- beliefs about employees' preferences:
  - o lack of flexibility over hours (due, for example, to childcare demands)

- o peak production demand coinciding with summer holidays
- o casuals wanting the flexibility of casual contracts;
- lack of interest in formalising the employment of periphery employees.

In addition, one expressed reluctance to introduce change, particularly with a relatively novel approach:

*We've debated annual hours every year. I suppose I have an inbuilt suspicion and require people to justify it. What I've found in the past is that people think that they can achieve this by having annualised hours. Whenever I've looked twelve months later at what you did achieve by it, I find it very difficult to justify what they have achieved. Back in the [name of their previous company] days: 'we can achieve this and it'll be cheaper.' And you go back twelve months later, 'Was it cheaper?' 'No, it was more expensive actually.' Overtime is better understood by the staff. They also tend to panic when you try to introduce something that is revolutionary because they think what your ulterior motive is, you're trying to con them. And I think, if people do more work one week than the other, what's wrong with rewarding them?*

### Increased progression

There was little opportunity in the case study organisations to increase progression within the organisation through changing human resource practices. Barriers included the need for a relatively low supervision ratio (i.e. a flat structure), smallness of the organisation and, for larger organisations, a wide dispersion of sites, making movement across sites difficult.

However, some demonstrated how training and internal recruitment (including internal advertising of vacancies) could be used to enable employees to progress inside the organisations. This was most feasible where semi-skilled jobs were available. Other case studies were content that training enabled progression to other organisations.

### Notice period

Notice periods tend to be short for low-paid,

low-skilled jobs. This means that employees who are dismissed have little time to find a new job before leaving. To reduce the likelihood of unemployment, employers were asked what the impact on them would be if they were to increase the notice period. Employers were happy with longer notice periods where employees chose to leave. However, when the employer wanted an employee to leave, increased notice was seen as increasing costs and reducing flexibility. Moreover, if the dismissal were due to behaviour rather than redundancy, then employers tended to pay off employees rather than let them serve notice. Therefore it appears that employers would be unreceptive to increasing notice periods in a way which helped employees to gain a new job.

### The scope for change from employers

From the above, we would conclude that, whilst some employers could make changes which would improve security and progression without damaging their organisation, there is little reason to believe that they will. Some of the changes which would reduce insecure, low-paid work were already sought by employers for other reasons (e.g. smoothing product demand). There was no reason to suppose that employers would become more successful in making these changes. Other practices were seen by employers (who did not have them) as costly (e.g. increasing stock levels, longer notice periods, a core model) or irrelevant (e.g. upskilling) and so were unlikely to be pursued, unless other conditions changed. Therefore, relying on employers, of their own volition, to reduce the proportion of low-paid, insecure employment and to increase progression, is unlikely to result in much improvement.

### Purchasers

One of the issues raised in the case studies was the role of purchasers in driving low pay and insecurity. Price, contractual arrangements and general practices were discussed with case study employers (both their own experience with purchasers and their reports of others in the industry). Price pressures were strong for all the private sector case studies, particularly in waste management, packing, food processing



and cleaning. This affected both wages and security, through the need to minimise labour costs through core-periphery practices. Changes in purchasers' demand also affected insecurity.

The emphasis on price (the degree to which it was driven down), the ways in which price changed and the degree of pressure for meeting short-term variations in demand (or tight deadlines) reportedly varied amongst similar purchasers. For major retailers (the purchasers for the food processing case studies), the variation appeared to be driven by differences in ethos, not markets. This suggests that different approaches are possible and need not be problematic for business. However, the scope for change by private sector purchasers of their own volition is low. Therefore, this issue is discussed under the government's role (in the following section, p. 44). Here the focus is on purchasing by the public sector and by individuals.

### **Public sector purchasing**

A number of case studies (in waste management, cleaning and facilities management and sports and leisure) provided sub-contracted services to the public sector, largely to Local Authorities. They believed that price was an extremely important factor for winning a contract (see Chapter 4, 'Sub-contracting') and this acted as a barrier to improving pay or reducing insecurity. Local Authorities have budget pressures. However, they operate under 'Best Value' regulations under which they may take into account in their operations, including purchasing, the impact on their local communities. This enables them to operate their sub-contracting in such a way as to reduce low pay and insecure working in their locality (i.e. they are not required to define best value narrowly, as price per direct service, but can take wider social impacts into account).

This study wanted to explore whether changes in public sector purchasing practices could reduce low-paid, insecure work. An ongoing issue is the legality of public sector purchasing placing requirements on the employment terms and conditions of sub-contractors, both under European procurement law and under UK public sector regulations, notably 'Best Value' (which applies to Local Authorities). These

issues were explored with Local Authorities and with another public sector body. The latter was selected because it had required its cleaning contractor to pay the LLW. The following therefore focuses on Local Authority contracting out. However, similar issues apply to the rest of the public sector and also to other purchasing.

The public sector's purchasing could be operated in a number of ways which might improve wages and security:

- higher contract prices to reduce cost pressures on suppliers;
- stipulating acceptable minimum wages and conditions (e.g. the extent of permanent employment); and
- including wage and conditions as part of the selection criteria.

The first might allow organisations to increase wages and to use less lean production approaches, thereby increasing security. The latter two would ensure higher wages but, if higher costs were not covered by the contract, the effect on security is uncertain: organisations might try to improve productivity, for example through leaner production approaches (thus reducing security) or through upskilling (leading to greater security), or they might cover costs in other ways, for example through reduced profits.

### **Higher contract prices**

Case study employers claimed that low contract prices meant they had to minimise labour costs (and so drove down wages, resulting in the use of temporary workers). In this case, if the public sector paid higher prices, wages might rise and insecurity lessen.

Case study employers were asked what they would do if contract prices rose by 5 per cent.<sup>5</sup> The responses were:

- a pay rise, variously:
  - o conditional on this being the best business use
  - o directed at labour shortage areas
  - o for low-paid workers

(the first two would not necessarily benefit low-paid workers);

- a small bonus for low-paid workers;
- capital investment, in some cases resulting in increased training and upskilling;
- financial improvement (reducing overdrafts) and capital investment featured for some.

In a qualitative study, it is not possible to identify the percentage of employers who would increase pay for low-paid workers. However, the responses seemed to indicate that low-paid workers would often not benefit from a contract price rise. The responses to this question could be unreliable and, because the interview focused on low-paid, insecure jobs, respondents could be led to say they would improve pay and conditions of low-paid workers. However, this was the response in only some case studies, which suggests that yet fewer would make such a change. Thus merely raising contract prices appears to be a blunt instrument for improving low-paid insecure employment.

### **Stipulating minimum wages and conditions**

The stipulation by the public sector of minimum wages and conditions for suppliers would go to the heart of the issue. There is extensive discussion around the legality of such an approach. Nevertheless, the Greater London Authority, Transport for London, the London Fire and Emergency Planning Authority, the London Development Agency, the Metropolitan Police Authority, the Metropolitan Police Service and St Bartholomew's and the London Hospital are all reported to have implemented a LLW for at least some of their contracts (London Borough of Lewisham, 2009).

The public sector purchasing case study required its cleaning sub-contractor to pay at least the LLW to all those working on its cleaning contract. The price was raised by approximately half the cost of raising low-paid workers to the LLW. (It had been assumed that the sub-contractor would be able to make savings to cover the remaining increase in wage rates, for example, through lower turnover, easier recruitment and

higher commitment and skills.) Thus the additional wage cost was split between the contractor and the sub-contractor. The split was in recognition of the fact that higher wages should lead to easier recruitment and lower turnover, further reducing recruitment and training costs. This still left the cleaning company with higher net labour costs. They avoided some of these by reorganising work to full-time working in the day, rather than part-time evening and night working. The smaller headcount reduced administration and training costs and the daytime working avoided shift premia (thus reducing the pay benefits to the employees). However, some additional costs remained. These were reduced through additional training to increase productivity. It was not clear whether, overall, the employer had higher net costs (i.e. whether there was an impact on profits). The result of the imposition of the LLW on the sub-contractor was that not only were employees better paid but they received additional training to increase their productivity. This made their retention more important to their employer. It was unclear whether the shift to full-time employment was beneficial to low-wage workers: the company said that many had previously worked several contracts to create full-time employment. However, it will have reduced opportunities for those who want to work part-time.

The above demonstrates some important points about the scope for raising pay and reducing insecurity. Pay was increased more than the contract budget. The pay increase led the employer to look at ways to increase efficiency, which resulted in upskilling. The upskilling was likely to reduce insecurity, as the importance of retention increased. Thus, within a given budget, some employers have scope for increasing pay and reducing security. The problem is to ensure they do this.

One of the objections raised to this approach is that it results in sub-contractors' employees' wages differing across contracts. How problematic this is depends on the complexities of the pay structure and the sophistication of the payment systems. Some case studies would find this difficult. Others, however, reported already making multiple recordings and changes of pay for each employee weekly and so this would be no different from previous practice. The approach brings some inflexibility (or potentially higher costs for other

contracts) as those on the higher-paid contracts may be less willing to be flexible across other contracts unless they are paid at their higher rate.

In respect of legality, there was confusion amongst some of the public sector organisations interviewed as to whether requiring a wage above the NMW is illegal under European Union procurement law and, if so, whether there might be some cases where it would not be illegal. The London Borough of Lewisham (2009) considers that a requirement for a LLW would have to be applied on a case-by-case basis in letting contracts, which suggests some difficulties but not a barrier to implementation in some or all cases. The Local Authorities interviewed referred to two recent judgments (Laval and Ruffert). However, these refer to posted workers, a special case of organisations operating across EU states and unlikely to be relevant in much Local Authority sub-contracting.<sup>6</sup>

In respect of Best Value, Local Authorities' purchasing (as with all aspects of their operation) has to take into account cost and effectiveness of expenditure, but it may also take into account the needs of communities and the authorities' priorities. Thus wage rates might be seen as a legitimate consideration in purchasing, as the wages of their sub-contractors may affect, for example, local poverty and economic development. The Local Authorities saw Best Value as enabling pay to become a legitimate requirement, in general, but the London Local Authorities interviewed saw it as not legitimate for them. Their problem was that, whilst they could see raising the pay of their residents as their legitimate concern, only a small percentage of sub-contractors' employees would be local, with most drawn from other London boroughs.

### **Pay and conditions selection criteria**

The alternative is to include pay and terms and conditions as part of the selection criteria, without necessarily specifying the minimum level of pay. Case studies doing sub-contract work were asked whether employers ever asked them about terms and conditions for employees:

*I'm not aware of any asking about pay. We are asked about training and skills (literacy and*

*numeracy) and while these are important factors the proposal states that HR info such as this makes up only about 10 per cent of the overall score. Councils are more concerned about how many fish are dying in a pond than they are about how much people get paid because the environmental stuff is high profile and streets ahead of the human resources.*

This approach is less likely to be effective, unless the weight given to terms and conditions were high, which is unlikely. Not specifying the minimum acceptable wage leaves bidders guessing how to balance contract price and wages. Given the belief expressed by those contracting to the public sector that contract price was a key determinant, it is unlikely that wages would be raised.

### **Consumers**

Consumer demand was important for childcare, food processing (via retailers) and sports and leisure facilities case studies, whilst demand patterns and price pressures affected security and pay. Little is likely to be done by consumers about their demand patterns. However, there may be some possibility of change in behaviour over price. For food processing, there was a link between price, quality, skills and security. The pattern of consumer demand, as translated by the supermarkets, was to minimise price. Were consumer demand to shift towards the importance of quality, there would be a need for a better-skilled workforce (bringing with it a need for greater retention, higher productivity and pay).

The Fair Trade movement has seen successes not only in individual purchasing but in the provision of Fair Trade products by retailers. It might be possible that a campaign for fair (or decent) jobs would reduce low-paid, insecure employment. Trade unions may be one vehicle for stimulating this change.

### **The scope for change through purchasers**

The study assumed little scope for improvement in pay and security through an alteration on private sector purchasers' behaviour of their own volition. A consumer campaign might be of some use, whilst public sector purchasing could be a powerful tool for improving pay and security.

The most effective route would be through purchasers setting a minimum wage for their sub-contractors which is higher than the NMW (e.g. a living wage) and other terms. The legal aspects, both in respect of European law and UK public sector regulation, seem to need either clarifying or, if clear, publicising, so that, if legal, the public sector could use this approach to combat insecure, low-paid work and poverty. If the approach is deemed not legal, it would be useful to explore whether there were similar, legal approaches or whether changes could be made in the law.

This stipulation of minimum wages (above the NMW) or other terms and conditions in public sector contracts would almost certainly increase costs to public sector purchasing. This should be seen against gains in poverty reduction. They would also be offset, to some extent, by increased tax revenue and reduced tax credits, and, it is to be hoped, by a reduction in costs associated with poverty.

Should legal obstacles remain, the inclusion of pay and conditions as selection criteria could be of use.

## Trade unions and employees

The need for employers to be prompted to move from core-periphery models for low-paid workers raises the role of trade unions and employees. Various strands, all of which trade unions are already involved in, are important: campaigns working with employees and employers, their representational role with employees, campaigns on the living wage and campaigns on legislation.

In this work, trade unions could benefit from the support of government and other public bodies to increase their resources and voice, as in, for example, the TUC/BERR Vulnerable Workers project.<sup>7</sup>

Trade Unions might also contribute through campaigning for ethical consumption to take into account low-paid, insecure employment in the UK (see previous section on consumers, p. 43).

## The state

State action (by national or local governments) to reduce low-paid, insecure employment can take

many forms, as employer, purchaser, legislator and funder. This study raises a wide range of issues on which the government could act to improve pay and security in low-paid jobs: for example, the importance of developing a high-skilled, high-wage economy, and therefore economic, business, education and training policies; the effect of excess labour supply on wages and security. Each of these was raised through the case studies (e.g. the relationship with higher-quality products, skills and security). Addressing the full range of issues is beyond the scope of this study and would require a comprehensive account of government responsibilities. We have focused on issues which are either highly targeted at low-paid insecure work or of particular relevance for low-paid, insecure work. However, wider measures, concerning general education, skills, industry and economic policies are very important. This includes enhancing upskilling and progression through measures to support training.

### **Legislation and regulation: monopsony power**

As discussed in Chapter 4, highly competitive markets put downward pressure on labour costs, but this was exacerbated for the food processing case studies and some of the packers because of the dominance of their market by a small number of supermarket chains (a monopsonistic market).

Recognising the problem of major retailers' monopsony power over suppliers, the Office of Fair Trading introduced a code of conduct for supermarkets, the 'Code of Practice on Supermarkets' Dealings with Suppliers' in 2002. However, the degree of protection offered to suppliers was widely criticised (see e.g. Grant Thornton, 2007). A food producer stated:

*I've seen the Retailer Code of Conduct being flouted with impunity. No one is brave enough to go the OFT to report them – everyone is frightened. If you are known to have rubbished the retailer, you are dead. You have to be very careful what you say.*

A new code of practice is currently being drawn up, the 'Groceries Supply Code of Practice', which is likely to see the establishment of an ombudsman. The extent to which the new

code will address the problems remains to be seen. However, a food producer said:

*It's very complicated and not as simple as the OFT and having a code of conduct and having an ombudsman, although an ombudsman would help as the one thing retailers don't like is [bad] publicity.*

### **Public sector as employer and purchaser**

There seems to be some contradiction between, on the one hand, government policy in respect of reducing childhood poverty, and, on the other hand, actions across the public sector as purchaser or employer which lead to low-paid, insecure employment. In part these actions are driven by budget constraints and some changes would require an increase in public spending.

### **Public sector as purchaser**

This report has discussed at length issues around the public sector as a purchaser, focusing on its sub-contracting activities. To use purchasing as a route to raise pay and reduce insecurity requires greater funds. Clarification, and possibly modification, of UK regulations governing purchasing criteria is needed, so that social considerations more widely may be taken into account. For example, some London Local Authorities believe that they cannot seek higher pay levels from sub-contractors under Best Value, as the sub-contractors' employees will not, on the whole, be local. An alternative approach, considered by one Local Authority, was to establish a consortium across several local authorities to purchase services. This would increase the percentage of a sub-contractor's employees living in the relevant boroughs and so enable their wage to be a permitted social consideration.

It also requires clarification of EU procurement legislation and, if required, changes in the NMW to enable higher wage requirements to comply with EU procurement legislation. (This is discussed further in the next section.)

### **Public sector as employer**

The organisation of the public sector into smaller units may have had the consequence of increasing insecurity. Certainly, the devolvement

of responsibility for teaching assistants to schools (away from the Local Authority) meant that some posts were insecure, tied to the presence of a specific child in a specific school. Other schools were able to increase security through combining across the Local Authority, through changes in employment organisation and through higher budgets, which allowed more flexibility. It would be useful if schools and Local Authorities were assisted to follow these practices.

As has been suggested, low pay in childcare and teaching assistant posts may be a consequence of sexism: these are jobs predominantly done by women and are in stereotypically female roles (Grimshaw and Rubery, 2007). In the public sector, low pay in these jobs could be tackled by ensuring full and continual compliance with the equal pay legislation, particularly the equal value provisions. The need for this has been recognised and is being addressed. However, the scale of the changes required has meant that progress has not been rapid.

### **Employment legislation**

#### **NMW**

Since its introduction in 1999, the National Minimum Wage has raised the wages of low-paid workers. Gains have continued to be made through raising the NMW faster than both the retail price index and average earnings, giving a real rise by October 2008 of 20 per cent, almost twice the rate of the average wage increase (Centre for Economic Performance, 2008). Continued above average rises will help to reduce low-paid work.

However, the case study evidence suggested that the NMW may also reduce insecurity. There were examples of case studies for which the NMW had reduced their ability to compete through low wages. Instead they had raised productivity, through changed work organisation and capital investment, leading to the need for a higher-skilled and more stable workforce. In effect, the NMW is acting as a tool for raising productivity, which should have a knock-on effect on skills, security and wages.

This effectiveness of the minimum wage relies not only on its relative rate but also on compliance.

Some case studies (in waste management) believed they suffered from unfair competition from employers not paying the minimum wage.

A difficulty recognised by some trade unions and poverty campaigners is that the NMW takes inadequate account of costs for what they deem an acceptable minimum standard of living. 'Living wage' campaigns (e.g. the London Living Wage, the Glasgow Living Wage) take the local costs of living into account and are substantially above the NMW in some areas. These campaigns have been influencing some public bodies in their sub-contracting. Whilst some Local Authorities in the study stated they wanted to require contractors to pay the living wage, they questioned the legality of this under EU procurement law. If illegal, introducing regional NMW rates which take into account local living costs would circumvent this problem, as procurement legislation allows for NMW requirements. It would also lead to a general increase in pay in high-cost areas. Other consequences may be a shift in the location of work from high- to low-cost areas.

### Temporary and agency work: the EU Directive on Agency Workers

The EU Directive on Agency Workers seeks to provide parity of conditions between temporary workers and the permanent workers they work alongside.<sup>8</sup> This would apply irrespective of whether the temporary worker were an employee of the agency or self-employed. At the time of writing this report, the government was consulting about how this could be implemented, including having a twelve-week qualifying period for parity. The implications of the EU's Agency Workers Directive were discussed with case study employers.

The Agency Workers Directive was seen as reducing the flexibility of temps. For case study organisations where temps were paid less than permanent employees, it was also seen as raising costs, and, for some, the rise was expected to result in agency temps being more expensive to employ than directly employed workers, because agencies would require their cut. The latter applied where the employer was not benefiting from other services provided by the agency (such as providing transport or uniforms).

For example, a food company commented:

*Having the flexibility is why companies use agency staff, but in the future they may not have that flexibility so we'll have to decide whether we use the agency or not and whether we can manage the peaks and troughs within our business through annualised hours. But in the future, maybe using agency staff will be more expensive than having your own people, as they have to earn the same and the agency is going to want their margin and it may be that you still use agency because can't manage the peaks and troughs without them and therefore pay that premium rather than more full-time people that you may not utilise all the time.*

The agencies interviewed also raised concerns about administrative costs (and legal challenges) in determining the comparator pay and benefits.

The consequences for case studies which used temps appeared to be:

- to continue to use temps, but:
  - to shift from agency temps to directly employed temps
  - to use agencies as a last resort
  - to employ agency temps only up to the time they acquired equal terms with permanent workers,
  - One packer organisation stated: '*Such proposals would increase our labour costs and we'd have to find a way to satisfy the regulations and satisfy the needs of the business. So, if that were to be the case, then we'd probably stop taking an agency person after twelve weeks. We would carry on using agency workers as we don't have the resource to be able to recruit permanently.*'
- to look at ways to reduce reliance on temps.

However, neither of the companies which suggested this felt that they had identified feasible alternatives. The food company quoted above had been investigating how they might respond to the impending Directive. Although they mentioned annualised hours as an alternative, they observed:

*But because of the acute changes in labour demands, despite the planning programme, there may be too much bounce even for annualised hours. For the business, we would have to look at the labour cost per unit as it is key to our survival.*

The other, a waste management company, said:

*Rather than using agencies we'd look at other options such as temporary contracts or overtime to existing staff. Overtime is expensive. So the reality is that people will use them for twelve weeks, terrible as it is but that's the reality.*

However, not all employers of agency temps foresaw change in their practice. For example, a nursery said it would continue to use agencies as it was essential that its temps had had a recent Criminal Records Bureau check, which the agencies provided, and each temp was only with them for a short period. Others believed their agency temps were paid more than their permanent workers already (although it was unclear whether this covered all benefits) and so there was not expected to be any effect.

Thus it appears that implementation of the EU Directive may reduce the extent of agency working. It also seems likely that it will reduce insecure employment, although it may also increase insecurity because directly employed temporary workers may be at greater risk of dismissal than agency workers and because employers only use temps until they acquire equalisation rights. It also seems likely that contracts will be shortened, but that the amount of permanent and directly employed temporary working may increase. This raises the question of whether it would be better to have no qualifying time period (i.e. parity should be offered at day one), as this seems likely to further decrease temporary working.

### **Temporary and agency work: employment rights and permanent contracts**

Valuable as the Directive on Agency Working may be, it does not tackle the issue of security (the core-periphery model and temp to perm), which affects both agency and directly employed workers. The case study and agency experience

suggests, firstly, that employers' use of the core-periphery model and temp to perm could be reduced without financial harm, but that this would not occur without legislation; and, secondly, that security for employees, combined with flexibility for employers, might be better supplied through agencies rather than direct employment.

This could be achieved through a substantial reduction in the qualifying period for full employment protection rights, possibly with a relaxation of the definition of continuous employment to encompass sporadic employment of a minimum level over a given period (e.g. ten weeks over a year). This would increase the cost of temporary work (whether directly employed or not) and so reduce its attraction. Many agency workers would gain employment protection rights with their agencies. In a sense this is shifting flexibility to the organisations that supply workers rather than to the individuals themselves.

Employment protection would not be novel to some agencies. One of the agencies interviewed employed its temps on continuous contracts, irrespective of whether they had continuous assignments. It also guaranteed a minimum level of work per year. This meant that temps built up employment rights and had guaranteed minimum annual earnings. This increased agency costs (e.g. redundancy and failure to place), but the agency saw this as offset by the increased quality of temps. This may be a useful model to follow.

The implications of a reduction of the period required for employees to gain employment protection was discussed with case study employers. Their response seemed to hinge on the extent of their use of temporary workers and the periods for which they were used.<sup>9</sup> Those with few temporary workers or short usage periods were unconcerned about a reduction. However, those with substantial numbers, particularly for long periods, saw a reduction below their normal period of employment for temps as problematic. One packer organisation said:

*If they have more rights then it'll impact on competitiveness ... [it is] not about people exploitation but trying to compete in a difficult industry.*

This company was not highly resistant to the idea, however:

*Full employment rights after three months? Yes, depending on what those rights were.*

Two types of expected response were reported. One (from a waste management company) was to shorten the period each individual worked for them to below the period for employment rights:

*The reality is that, at the moment, if you're smart in the industry that you would use up to the eleven months, and come the eleven months, it's the best thing since sliced bread, if you haven't got a job for them then say bye, go, we don't want you and bring in someone new the next day. And that's what will happen to these employment rights. They'll work for you for twelve weeks then they'll go. It's not the risk transfer you're after.*

Another response, from a packers, was:

*We would have to think long and hard about using agency staff. We'd change them every 13 weeks regardless. It would be better for us, because we're the type of business that if we don't act fast enough we could be in big trouble. If we have a few bad months we could be out of business. We don't treat the agency [staff] worse than our normal people, but they are more flexible than our people I would say. There is a carrot for the agency [staff] as, if there is a vacancy, then they would be considered for it first.*

It is illegal to dismiss someone to prevent their gaining employment rights, but this is standard practice in some organisations. This suggests that better employment rights enforcement might be more necessary if the employment protection qualifying period were reduced; otherwise the benefit to temporary workers would be reduced.

The other response to a reduction in the qualifying period for employment protection rights was to stop using temps. This would bring benefits in terms of employment security.

### **Childcare subsidies**

In the private sector, low pay in childcare may stem not only from gender inequality (leading to women accepting relative low pay for their skills), but also from market pressure on fees. The government currently subsidises childcare (paying childcare costs for 12½ hours per week) for children aged three and four.<sup>10</sup> There are plans to extend assistance to some younger age groups. However, it may be that this subsidy should be extended, as suggested by one of the case studies:

*There needs to be input, like a subsidy from the government as nurseries cannot afford to pay high salaries. Some staff are qualified to Level 4 but the salary does not reflect this. While some nursery staff may be unqualified and on a low wage, that does not equate to their responsibilities and role in implementing the national framework. It shouldn't be a low-paid job and the government need to be aware of all the job entails.*

## **Summary**

Employers, purchasers, trade unions and the state could reduce low-paid, insecure working in a range of ways.

### **Private sector employers**

Private sector employers with, typically, low-paid, insecure jobs could make employment more secure by smoothing labour demand (through smoothing product demand; smoothing production; and moving to higher skilled methods of production) and through changing human resource practices (through using a permanent, rather than a core-periphery, model; replacing temp to perm with direct recruitment to permanent jobs; annualised earnings; and increased progression). However, reliance on employers' own impetus for progress along these routes is likely to be disappointing.

### **Private sector purchasers**

Private sector purchasers may reduce low-paid, insecure work amongst their suppliers by reducing contract demand fluctuations, by decreasing price pressures and by stipulating minimum terms and conditions for suppliers' employees. There is no



reason to suppose that private sector purchasers, of their own volition, would make such changes, although, where problems were exacerbated because of purchasers' monopoly powers it would be appropriate for the state to take action.

### **The state**

Unlike the private sector, the public sector might be expected to consider the social impact of its organisational, employment and purchasing policies and act to reduce insecurity amongst low-paid employees. Some measures are cost free, but others would have budgetary implications. The government needs to make provision for the latter. As part of this funding decision, the government should assess costs and benefits broadly, taking into account the links between higher pay and security, product and service quality, skills development and productivity.

In the public sector, the devolution of budgets and operations to smaller units has reduced the ability to spread uncertainty and demand fluctuations and so increased reliance on temporary workers. The consequence for employment insecurity could be reduced through co-ordinating activities across units.

Public sector purchasing practices could be improved by:

- stipulating minimum terms and conditions for suppliers' employees; the alternatives, of reducing price (and so labour cost) pressures on suppliers and including minimum terms and conditions for suppliers' employees as criteria in tendering, are unlikely to be very effective;
- placing greater emphasis on quality and less on price (which can raise skill demands and increase the importance of retention to employers); and
- changing contracting practices to reduce uncertainty and fluctuations associated with winning and losing contracts.

Best Value regulations already allow public sector organisations to take into account social consideration, but budgetary pressures encourage cost minimisation. Nevertheless, some public

sector bodies require their sub-contractors to pay wages above the NMW. Clarification of EU public sector purchasing regulations would be required to increase this practice.

Other measures that the state could take include the introduction of regional rates for the NMW, taking into account local living costs; speedy implementation of the Temporary and Agency Workers Directive; and the extension of employment protection rights to those with shorter tenure and sporadic employment.

The study raised the issue of the undervaluation of women's work, both in respect of childcare and teaching assistants. The state, as employer, needs to ensure that equal pay legislation is fully complied with. For the private sector to raise the wages of childcare workers in nurseries to those similar to men in other sectors with comparable qualifications would substantially raise costs. For many parents, nursery charges are already problematic, since they are weighed against potential earnings. Given the wide social benefits of nurseries, their high cost to the user, compared with many EU countries, it would seem widely socially beneficial to increase the subsidy, thus enabling pay rates, security and skill levels to rise.

### **Trade unions, employees**

Trade unions have a role to play, both directly through reducing the power imbalance between low-paid, insecure workers and employers and through wider campaigns, as in the London Living Wage, encouraging employers to change and workers to organise. Obviously, the extent of their success will be affected by their power and influence more generally; measures to increase these would be helpful.

### **Consumer power**

Consumers might encourage employers to raise pay and reduce security, firstly, through the fair trade approach and, secondly, through demanding higher product and service quality.

# 6 Conclusions

The aim of the study has been to identify employers' roles in creating low-paid, insecure jobs and thus their contributions to the low-pay/no-pay cycle. The study examines insecurity in low-paid jobs, not insecurity and low pay separately. Because of the nature of the case studies, the focus was, in particular, on the insecurity associated with temporary working. The study is based on the assumption that insecurity and low pay are undesirable and that many temporary workers would prefer permanent employment (Chapter 1).

In the case studies, the study identified how market pressures not only squeezed wage costs but could lead to insecurity, low skills and lack of training. It further identified how employers responded to uncertainty, changes in demand for their products and cost pressures, by using a core-periphery human resource model (i.e. a core of permanent workers meeting low levels of demand, with higher demand met by temps). Low skill levels or agency structures for supplying specialist skills facilitated this model. The use of temp to perm as a standard recruitment method was also observed. These approaches and processes are well-known.

At the same time, the study found that employers in the same markets, operating under the same pressures, used different approaches, combining overtime, task flexibility and work organisation, to enable employees to be employed on permanent contracts.

There seemed little to distinguish between employers operating the core-periphery model and those operating a permanent model, except, perhaps, a difference in ethos in how employees should be treated and a difference in the extent to which employee commitment was believed to be good for business. There may also have been a difference in emphasis on business returns. However, ethos stood out as the greatest distinguishing feature. The implication is that the core-periphery model (and temp to perm) is unlikely to be a necessity in many of the circumstances in which it is used: employers would not go out of business if they

shifted to other models which afforded more employment security for low-paid workers.

However, the study could not identify reasons why core-periphery employers would change their practices. The implication is that core-periphery employers have to be prompted to change. This could be done in many ways, including making certain practices illegal, making temporary working more costly or its use more constrained, reducing the acceptability of such practices and increasing the relative power of employees. The EU Directive on Agency Working will some impetus for change, but other measures (such as a reduction in the period required to gain employment protection rights and counting discontinuous periods of employment towards gaining protection) would help.

At the same time, cost pressures add to the drive towards the core-periphery model, encouraging lean production models, including Just in Time (JIT) and core-periphery approaches. Where these pressures are assisted through market failure (e.g. monopsonistic markets, as in the case of supermarkets), the underlying problem of monopsony should be tackled. In the case of supermarkets, new regulations are being developed, which may assist.<sup>11</sup>

The state can also promote change through its own buying policies. There seems to be a potential conflict between an anti-poverty strategy (albeit for children) and substantial pressure for the public sector to minimise purchase prices and so encourage lean production models. Whilst Best Value allows social factors to be taken into consideration in purchasing decisions, pressure on public sector budgets reduces this and it appeared as though, for the services in the study, social considerations and also quality, may often play a small or negligible role. At the same time, raising contract prices alone may have little effect on low-paid, insecure employment, although it may lead to some improvements through increased investment, upskilling and training. Price relaxation would need to be combined with

requirements on suppliers in respect of pay and conditions. Despite a number of public sector bodies taking this approach, there remains substantial uncertainty over the way in which this can be achieved legally, under EU procurement regulations and UK public sector regulations. This needs to be clarified and publicised. A less strong alternative would be to include pay and conditions as factors to be taken into consideration, without making actual requirements.

The study raised the issue of the undervaluation of women's work, both in respect of childcare and teaching assistants. The state, in its role as employer, needs to ensure that equal pay legislation is fully complied with. If the private sector were to raise the wages of childcare workers in nurseries to those similar to men in other sectors with comparable qualifications, costs would be substantially raised (Rolfe *et al.*, 2003). For many parents, nursery charges are already problematic, as they are weighed against potential earnings. Given the high cost of childcare to the user, compared with costs in many EU countries, it would seem widely socially beneficial to increase the childcare subsidy, thus enabling pay rates, security and skill levels to rise.

The public sector might also examine its own employment practices. The use of temporary workers may have been exacerbated by the devolution of budgets and operations to smaller units, thus reducing the possibility of spreading uncertainty and changes in demand. How this can be reduced will vary, but the examples in this study of teaching assistants showed possible local approaches. Some measures may be cost free, others may not be. This needs to be recognised at the national level.

The linking of quality to skills and security (as well as to pay) was made in the study. Again, government purchasing and employment policies might take this into greater consideration in the social costs of minimising budgets. There may be other routes to this, through consumer campaigns (and legislation strengthening consumer power), raising consumer expectations and demand for quality.

Trade unions, of course, have their role to play, both directly through reducing the power imbalance between low-paid, insecure workers

and employers and through wider campaigns, as in the London Living Wage, encouraging employers to change and workers to organise. Obviously, the extent of their success will be affected by their power and influence more generally. Measures to increase these factors would be helpful.

It might be argued that some of the measures (including legislative changes and public sector procurement stipulation of minimum terms and conditions) would raise employer costs, leading to bankruptcies and hence reduce employment. This ignores the potential for employers to adapt to the changes, through organisational change, reallocation between profits and pay and for productivity gains. The proposal for a National Minimum Wage was subjected to such criticism, but the Low-pay Commission has found:

*little evidence to suggest that the increases in the minimum wage had led to reductions in employment or hours worked. There was also no evidence that the minimum wage had led to changes in productivity, but some evidence suggested that profits had been squeezed. In all, we conclude that the minimum wage continues to exert a benign influence on the economy (Low-pay Commission, 2009).*

The measures suggested in this study may have a similar effect.

This small-scale qualitative study does not claim to provide findings representative of all employers, nor to include examples of all types of employers. Those with particularly poor employment practices are unlikely to have been included. This, in fact, strengthens the study's conclusions, in that, if those with average practices need prompts to change, the need would be all the greater for employers with worse practices. However, the main findings of the study are valid: that a work structure based on insecurity is not always necessary, that some employers have a choice and could survive offering higher-paid, more secure jobs, but that employers are unlikely to change of their own volition and so pressure would be needed to achieve change. Some might see lower profits, but others would compensate for higher costs with higher productivity. However, the interests of the owners are not the only factor

constraining change. Improving low-paid, insecure employment is not part of many employers' remits (the main exceptions being parts of the public sector). Inertia is strong and change is driven by other factors and for other purposes. Therefore, although many employers could change to reduce low-paid, insecure employment, few will, unless they are put under pressure to do so.

The impact of the changes suggested are considered at the level of the individual organisation. Wider effects, such as effects through rises in public sector purchasing costs, are not considered. Further research could usefully consider these factors.

# Notes

- 1 Dismissal on certain grounds (e.g. sex, race and trade union activities) is not permissible from the first day of employment.
- 2 This conclusion was based on employers' statements and their estimates of staff turnover. However, to establish more firmly whether there was a hire-and-fire culture would require information from employees and fuller turnover data.
- 3 Whether the payment per temporary worker was higher or lower than that for permanent workers varied between case studies.
- 4 In addition, contracts may stipulate minimum and maximum hours per day/ week/month and provide for overtime rates for hours above a certain number.
- 5 The study explored with the case studies whether a reduction in price pressures by purchasers (contractors or other buyers) might translate into a rise in wages for the lowest paid and a shift to more secure employment. All purchasers, whether in the public or private sector, could reduce price pressures on their suppliers. However, such an approach is very unlikely in the private sector: hence the findings are presented in this section.
- 6 I am grateful to Simon Deakin (Professor of Law, University of Cambridge) for pointing this out.
- 7 The Vulnerable Workers Project focused on enforcing employment rights, via work with employees and with employers, as well as assisting vulnerable workers to access opportunities to develop new skills (TUC, 2009). Thus, it addressed a very different issue from that addressed in the current study. The Vulnerable Workers Project report describes various ways in which trade unions and others can campaign to reduce low-paid, insecure work.
- 8 Parity is limited. It includes, for example, pay, holidays, overtime, working time, breaks, training, access to communal facilities and information on permanent jobs. It excludes, for example, sick pay, pensions and financial participation schemes. See <http://www.nhsemployers.org/EmploymentPolicyAndPractice/European-and-International-Employment/Pages/Working-Time-And-Temporary-Workers.aspx>
- 9 We had expected employers to be concerned also about their ability to dismiss permanent workers during the first year. However, none raised this point. The reason may be that, for these jobs, poor performance becomes apparent in a relatively short period.
- 10 The childcare must be approved for early learning. Hours will rise to 15 per week from 2010. There are plans to extend the age groups covered. Other, means-tested assistance is available for those on low incomes.
- 11 The recommendations of the Competition Commission were for the establishment of a Groceries Supply Code of Practice and of an ombudsman to monitor and enforce compliance (Competition Commission, 2008).

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