

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

Findings  
Informing change

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How employers organise jobs affects pay, career progression, job security and, for typically low-paid jobs, the low-pay/no-pay cycle. Through qualitative case studies, this research explores employers' scope to offer greater security and progression in a range of low-paid jobs and how this might be achieved.

## Key points

- Competitive pressures, demand fluctuations, low skill requirements and a ready labour supply encourage employers to employ temporary rather than permanent workers in an attempt to minimise labour costs.
- However, economic pressures do not wholly determine employment organisation: employers' response to market and cost pressures differ, with some relying on temporary workers and others offering permanent jobs.
- In the public sector, restructuring to smaller budgetary units may have reduced job security, with smaller units experiencing greater demand fluctuations.
- Public-sector purchasing practices which strongly emphasise cost have contributed to suppliers' use of temporary/insecure employment, with a seeming conflict between public-sector purchasing policy and anti-poverty policy.
- The power of dominant purchasers may exacerbate fluctuations and cost pressures on suppliers and so increase their use of insecure employment.
- 'Fair wage' policies, where purchasers require suppliers to pay a minimum wage higher than the National Minimum Wage, are beneficial. They can result in changes in production techniques, leading to more secure employment as well as higher wages.
- The authors conclude that:
  - some employers could offer greater job security without jeopardising their business;
  - however, with little reason to expect employers relying on temporary workers to offer permanent jobs of their own volition, the state, trade unions and consumers would need to take action to prompt change;
  - public-sector job insecurity could be tackled by national and local policy, with good practice examples demonstrating how reliance on temporary jobs can be reduced;
  - fair competition policy could help address the power of dominant purchasers;
  - the legality of the 'fair wage' approach for all public-sector purchasing needs clarification.

## The research

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## 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 explored the scope for changing work organisation and human resource practices in order to reduce insecure, low-paid employment. It also examined factors that might promote change. The research case studies focused on selected jobs: teaching assistants; childcare workers; sports and leisure assistants; cleaners; and people working in waste management, food processing and packing.

### Employment structures and practices

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

- a 'core-periphery' model of staffing (a core of permanent workers, supplemented by using peripheral, temporary workers);
- a permanent model, with few temporary workers and variations in demand addressed in other ways, such as overtime and multi-skilling;
- 'temp-to-perm' recruitment, where employees were rarely recruited directly to permanent posts, but were employed temporarily and then, depending on demand and their performance, moved to permanent status.

Employers in the same sectors, who seemed otherwise similar, differed in the human resource models used.

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

## Factors affecting insecurity and low pay

The most important factors affecting employment practices in the case studies were cost pressures, fluctuations in demand 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 employers operated or from budgetary constraints for the public-sector case studies. Cost 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 business, and changes within a contract. Where demand fluctuations were fairly predictable, the effects on job security could be reduced by reallocating work across permanent staff (for example, through overtime or employing part-timers with flexible hours), flexible tasking and skilling and, in some cases, through varying stocks. In some cases, demand itself could be smoothed through differential pricing and product diversification, for example. Loss and gain of business could be more difficult to predict. Again, 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 employers also used temps in order to eliminate redundancy costs. The core-periphery approach was only feasible 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, whose labour market choices and power are more constrained.

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. There also appeared to be differences in ethos and organisational aims which affected whether or not the employer chose the core-periphery model.

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

The study explored how employers' practices might change to reduce low-paid, insecure working and what might bring about this change.

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

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 in the public sector, reducing the possibility of spreading uncertainty and changes in demand. How this could be reduced will vary and some approaches might entail additional costs. Case studies of teaching assistants illustrated a cost-free approach through collaboration between schools.

### ***Purchasing 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 in this study 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 also to reduce insecurity: to compensate for higher costs, they had invested in capital and training and so staff retention became more important. At the same time, the purchaser had raised the contract price.

Few private-sector purchasers would be expected to take these 'fair wage' approaches, particularly as they would be unlikely to be cost-free. However, for the public sector, there seems to be some conflict between anti-poverty strategy 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.

As well as stipulating minimum terms and conditions, the public sector might review tendering practices that lead to insecurity. 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 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. The extent of their success will be affected by their power and influence more generally.

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

This study raised the issue of the undervaluation of women's work, particularly in the areas of childcare and teaching assistants. Where the state is the employer, it needs to ensure full compliance with equal pay legislation. For the private sector to raise the wages of childcare workers in nurseries to those of men in other sectors with comparable qualifications would substantially raise costs. However, for many parents, nursery charges are already problematic, as they are weighed against potential earnings.

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

The study found a link between product and service quality, and skills and security (as well as pay). Government purchasing and employment policies might take this into greater consideration, particularly the impact of cost minimisation. Alternatively, there may be other routes, through consumer campaigns (and legislation strengthening consumer power), raising consumer expectations and demand for quality.

## Conclusion

As a small-scale qualitative study, these findings are not representative of all employers. However, the main messages are valid. A work structure based on insecurity is not always necessary. Some employers have a choice and could switch to offering higher paid, more secure jobs without damaging their business. But employers are unlikely to change of their own volition, and pressure is needed elsewhere to achieve change.

In the public sector, easing price pressures on purchasing, whilst requiring minimum terms and conditions from suppliers (as some have done), could lead to better-paid, more secure employment and might improve the skills structure. For this approach to be promoted effectively, European law would need to be clarified, so that public-sector purchasers would be clear about the scope for action. For public-sector employment, the impact of organisational change on insecurity should be recognised and reduced.

Measures to increase the power and influence of trade unions to encourage employers to change, and to alter the power imbalance between insecure workers and employers, could also be helpful.

In terms of childcare workers, given the wide social benefits of nurseries, the high cost to the user compared with many EU countries and the gender pay equality implications, it would seem socially beneficial to increase childcare subsidies. This would enable pay rates, security and skill levels for childcare workers to rise.

The impact of these suggested changes was considered at the level of the individual organisation. Further research would be useful to consider the wider effects, such as the impact of rises in public-sector purchasing costs.

## About the project

The research was based on qualitative case studies of 26 employers with low-paid employees. It focused on teaching assistants, childcare workers, sports and leisure assistants, cleaners and operatives in waste management, food processing and packing. These were selected to include typically male, typically female and typically mixed jobs. The case studies ranged from small to large organisations 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 four trade unions. Fieldwork took place in 2008 and 2009.

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## For further information

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The full report, **Employers' role in the low-pay/no-pay cycle** by Hilary Metcalf and Amar Dhudwar, is published by the Joseph Rowntree Foundation. It is available as a free download from [www.jrf.org.uk](http://www.jrf.org.uk)

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