

**INFORMAL EMPLOYMENT, SMALL FIRMS  
AND THE NATIONAL MINIMUM WAGE**

**A report prepared for the Low Pay Commission**

**Monder Ram\*, Paul Edwards\*\* and Trevor Jones\***

**September 2004**

**\*Small Business and Enterprise Research Group, Leicester Business School, de  
Montfort University**

**\*\*Industrial Relations Research Unit, Warwick Business School University of  
Warwick**

## CONTENTS

EXECUTIVE SUMMARY .....	112
1 INTRODUCTION .....	6
2 THE 'INFORMAL ECONOMY' AND THE NMW .....	7
3 RESEARCHING INFORMAL WORK .....	15
4 MARKET POSITION .....	17
5 WORKER RECRUITMENT AND RETENTION.....	23
6 PAY AND THE NMW .....	27
7 APPROACHES TO COMPLIANCE AND NON-COMPLIANCE.....	36
8 COMPLIANT FIRMS .....	38
9 CONCLUSIONS AND IMPLICATIONS.....	47
REFERENCES .....	50

Box 1: Restaurant employers responses to NMW..... 11

Box 2: A sewing machinist's work..... 13

Table 1: Market position and response of clothing firms..... 18

Table 2 : Market position and response of restaurants.....19

Table 3: Pay and conditions in clothing firms.....28

Table 4: Pay and conditions in restaurants.....28

## **EXECUTIVE SUMMARY**

### **Aims and objectives**

This study investigates the concrete ways in which small firms in the ‘informal economy’ operate, particularly in respect of non-compliance with the NMW and other employment legislation. There are four main objectives: to assess the actual experiences of small firms in the clothing and catering sectors; to examine the relationship between the level of the minimum wage and informal/illegal working; to consider both employer and worker experiences in the context of broader work relationships and conditions; to investigate differences between firms that are compliant with the NMW and those which are not.

### **Defining the ‘informal economy’**

The ‘informal economy’ is an imprecise term with a variety of meanings. The approach adopted here is to view the informal economy as the paid production and sale of goods and services that are unregistered by, or hidden from, the state for tax and welfare purposes, but which are legal in all other respects. This definition distinguishes the informal economy from, on the one hand, the formal sector and, on the other, unpaid work and monetary transactions involving illicit goods and service.

### **Informal work and the NMW**

Comparatively little is known of the extent to which the NMW affects firms operating in the informal economy. Research to date shows that informal work has neither been brought fully within the scope of the NMW nor remained entirely immune to the arrival of the NMW. Firms have responded to this and other employment legislation in the light of their market conditions, their perceptions of legal intervention in general, and their own particular approaches to wage determination and employees.

### **Researching informal work**

A total of 17 firms from two sectors where ‘informality’ is common, clothing and catering, were studied. There were a number of elements to the investigation. First, evidence from employees as well as employers was also collected. A feature was the inclusion of four firms that complied with the NMW, to act as comparisons with the majority that did not comply. Third, five firms were investigated in earlier studies conducted by the researchers; hence their progress since the arrival of the NMW can be charted in relation to their changing economic circumstances.

## **Market position**

Many of the firms in the present study were located in highly disadvantageous market positions. However, market conditions were different in the two sectors, with intense competition between a large number of firms characterising restaurants and overseas competition being key in clothing. Restaurateurs made repeated reference to the clustering of rival firms, commenting on the ‘cut-throat’ nature of competition and ‘trying to outdo one another’. For virtually all clothing employers, survival rested upon price-cutting, sourcing cheap imports, and a retreat from manufacturing. The effects for both restaurateurs and clothiers were similar in that many firms were led to continue with ‘informal’ employment practices that sustained pay levels below the NMW.

## **Worker recruitment and retention**

Firms’ relationship to the labour market reflected their product market. Word-of-mouth recruitment continues to characterise firms operating in these segments of the clothing and restaurant sectors. It creates difficulties in recruiting appropriate kinds of labour, particularly amongst restaurateurs. Many owners complained of a lack of skilled labour, and often found recruitment of chefs difficult. The severe contraction of the clothing sector meant that recruitment was less of an issue; but the skills required to operate in particular niches were sometimes scarce.

## **Pay and the National Minimum Wage**

All the non-compliant firms were, by definition, paying at least some workers below the minimum; but in several of them average wages, and in some cases even the highest wages, were below the NMW level. Employers evaded the NMW by under-declaring the number of hours worked by employees. Workers were usually complicit in this activity. Most owners felt that the NMW, including the progressive upratings, had little influence over levels pay. As one employer asserted, the NMW had ‘no influence at all. It’s just another level of bureaucracy we have to deal with’. Market pressures are a key influence on managerial approaches to pay; but there is still an element of flexibility and negotiation between employers and workers. This negotiation was one reason for workers’ staying in these firms, though perhaps more important were their limited labour market opportunities and their narrow range of comparisons with other jobs.

## **Approaches to compliance and non-compliance**

Despite widespread non-compliance with the NMW, many employers were nonetheless fearful of detection by the authorities. However, alleged inability to pay and the perceived remote likelihood of detection were important factors in explaining non-compliance. In only one case did officials from the Inland Revenue visit the firms to monitor compliance with the NMW. Even in this case, the breaches in regulations remained undetected.

## **Lessons from compliant firms**

Four firms that complied with the NMW were investigated; this permitted comparisons with the majority that did not comply. These employers were largely sceptical of the introduction of the NMW, and believed that it would have a negative impact on their businesses. However, their initial fears were unfounded; and some employers even felt the NMW stimulated the modernisation of some employment practices. The *market context* of each of the case firms was a key factor in accounting for these employers' decision to comply with the NMW. Most employers were intent on growing their businesses and often supplied larger firms (these customers sometimes exercised influence over the internal operations of the case study companies). *Managerial choice* was also a factor in explaining compliance. For most of these employers non-compliance was incompatible with their desire to grow the business, encourage commitment and innovation amongst staff, and secure high value customers. A further significant feature of these firms was their involvement in a variety of *business networks*.

## **Conclusion and implications**

The first aim of this study was to assess experience in small firms in the 'informal' economy in the light of the existence of the NMW for five years. It is clear that little has changed. Low pay remains common, and pay setting is informal, with rises being decided according to managers' views as to what they could afford. Evidence from firms visited in the past did not suggest that there was any clear process of firms moving towards compliance with the NMW as a result of experience.

The second goal was to examine the relationship between the level of the NMW and informal working. Market conditions and 'ability to pay' were key factors. Changes to the NMW did not directly affect firms' pay practices. Indeed, pay practices were substantially detached from the NMW, which acted more as a broad benchmark than as a direct influence on pay. Operating outside the NMW tended to have consequences for firms' tax and other practices, and this connected set of practices may have tightened their position outside the formal sector of the economy.

Third, employer and employee responses were addressed in the context of wider working relationships. Such relationships reflect a particular economic structure in these particular segments of the market. Evidence on the ability to recruit and retain staff suggested that alternative labour market opportunities for some employees heightened firms' recruitment problems, notably in the restaurant trade, but at the same time new groups of workers, notably recent immigrants, filled the gap. Changes in labour market opportunity, rather than the NMW specifically, affected recruitment and retention. Further, the apparent 'flexibility' of working relationships was one aspect of an effort bargain that helped to make low pay tolerated by workers.

Fourth, differences between compliant and non-compliant firms were addressed. As shown in the previous chapter, there were various specific reasons leading compliant firms to pay at NMW levels or higher, but underpinning these were market conditions that allowed them to do so, possibly encouraged by their linkage within local business

networks. There was some evidence of consequential benefits to firms, for example the ability to attract more skilled and committed workers.

Policy options fall into three categories. First, a regime of stricter enforcement could be pursued. Second, at the opposite extreme is a policy of benign neglect, policing the NMW relatively passively and leaving firms to pursue a legitimate path when they see the benefits. This could be pursued in the restaurant sector by strengthening business associations; but it would be unlikely to work in clothing, where international rather than local competition is the source of cost pressures. Third, a mixed policy of regulation plus self regulation may warrant further consideration.

## 1 INTRODUCTION

This study investigates the concrete ways in which small firms in the ‘informal economy’ operate, particularly in respect of non-compliance with the NMW and other employment legislation. There are four main objectives.

- First, to assess the actual experiences of small firms in two economic sectors noted for low pay and ‘informal working’: clothing and catering.
- Second, to examine the relationship between the level of the minimum wage and informal/illegal working.
- Third, to consider both employer and worker experiences in the context of broader work relationships and conditions.
- Fourth, to investigate differences between firms that are compliant with the NMW and those which are not.

Chapter 2 puts the study in the context of debates on the informal economy. It also uses prior research to identify a set of factors that will shape the extent to which, and the means through which, the NMW may or may not impinge on concrete employment practice.

The method adopted is that of case studies. The reasons for this approach are given in Chapter 3, which also explains the choice of sectors and firms. A total of 17 firms from two sectors where ‘informality’ is common, clothing and catering, was studied. A feature of the study was the collection of evidence from employees as well as employers. A second key element was the inclusion of four firms that complied with the NMW, to act as comparisons with the majority that did not comply. Third, five firms were studied previously, and their progress since the arrival of the NMW can be charted in relation to their changing economic circumstances.

Chapters 4 and 5 lay out the business context of the firms, addressing respectively their product market position and their relationship to the labour market in terms of recruitment and selection practices. The following three chapters address the effects of the NMW on this context, looking in turn at: pay practices; attitudes towards the adoption of the NMW; and the lessons of the compliant firms. The final chapter offers conclusions and suggests implications.

## 2 THE 'INFORMAL ECONOMY' AND THE NMW

This chapter has two purposes. First, the concept of the informal economy is discussed. Second, existing research is used to address the impact of the NMW; particular attention is directed to the ways in which this external influence on firms is filtered by the economic and other conditions within the informal sector.

### **Defining the Informal Economy**

Defining the 'informal economy' is a necessary starting point. Despite widespread usage, the term 'informal economy' is characterised by considerable ambiguity. There is disagreement over the size of the 'informal sector' and its variability between national and even regional settings (see Leonard, 1998; Williams and Windebank, 1998 for a review of these issues). The slippery nature of this subject matter is exacerbated by the apparent ease with which terminology changes. For example, similar terrain appears to be covered by terms such as the 'cash-in-hand' economy, the grey economy, informal or undeclared work, and the underground sector. However, the social science literature seems to largely agree that the informal economy involves the paid production and sale of goods and services that are unregistered by, or hidden from, the state for tax and welfare purposes, but which are legal in all other respects (Williams, 2004; see also Grabiner, 2000; Leonard, 1998; Portes and Haller, 2002). This definition distinguishes the informal economy from, on the one hand, the formal sector and, on the other, unpaid work and monetary transactions involving illicit goods and service (Williams, 2004). In its full formulation, informal employment may be described as:

the paid production and sale of goods and services that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes, but which are legal in all other respects. As such, informal employment is composed of three different activities: evasion of both direct (i.e. income tax) and indirect (e.g. VAT, excise duties) taxes; social security fraud where the officially unemployed are working whilst claiming benefit; and avoidance of labour legislation, such as employers' insurance contributions, minimum wage agreements or certain safety and other standards in the workplace, such as through hiring labour off-the-books or sub-contracting work to small firms and the self-employed asked to work for below-minimum wages (Williams and Windebank, 1998:4).

A recent European Commission (2004) study attempted to measure the extent of what it termed undeclared work, which was defined much as 'informal work' is defined above. It estimated that the UK comes towards the lowest end of the range of countries, with about 2 per cent of GDP being undeclared; in some other countries, estimates are as high as 20 per cent.

There are three key aspects to this understanding of the informal economy. First, the informal economy is inextricably linked to the formal economy (Leonard, 1998; Castells and Portes, 1989). Contrary to conventional assumptions, it is not some

aberrant form of pre-modern survival at odds with the 21<sup>st</sup> century economy, but a standard practice integral to advanced capitalism. Hence notions of a discrete ‘informal economy’ or ‘informal sector’ are inappropriate because ‘it is an exercise in residualising all work that is not formal employment’. (Williams and Windebank, 1998:4). Informal economic activity is linked in a dynamic way to development and change in the formal economy. Opportunities for informal activity arise from employers’ unrelenting pursuit of cheaper and more flexible production options outside the regulative reach of the formal economy (Leonard, 1998:24). An effective decentralisation of production allows large firms to respond more flexibly to changing consumer tastes. Smaller units, often engaging in unregulated activities, are the source of this flexibility; equally, they are most vulnerable to instability and uncertainty inherent in such market niches. In effect, they act as a vital buffer for corporate capital. By definition, of course, buffers tend to get buffeted and much of our later discussion of low pay is a narrative of marginal employers in desperately precarious markets passing on their own vulnerability to their workers.

The clothing sector, examined in the present study, is a case in point. Global trends towards the decentralisation of clothing production have increased pressure upon the high street retailers who have dominated the British clothing industry. In turn, these retailers have imposed even more exacting terms and conditions on the (usually) larger clothing manufacturers who have traditionally been their main suppliers. Greater outsourcing, intense price competition from newly industrialising countries and fast-changing customer preferences have threatened the viability of many traditional garment manufacturers. Further down the production chain, clothing firms in areas like the Midlands, the East End of London and Manchester have felt the chill wind of rapid market changes and the ensuing fickleness of customer allegiances. The sector survives because the unpredictability of the market still provides sufficient opportunities that can be exploited by manufacturers, who, in turn, draw upon a vulnerable co-ethnic workforce (Ram et al., 2002a).

Second, informal work is not always a set of survival activities performed by destitute people on the margins of society (Castells and Portes, 1989). The ‘marginality thesis’ which is sometimes associated with the notions of the ‘informal economy’ has continually been found wanting. For example, in a review of the relevant literature, Williams (2004) found that cash-in-hand work usually operated to the benefit of those already in employment; was more evident in affluent rather than deprived areas; and worked in favour of men rather than women. However, although informality is not an inherent characteristic of particular workers or groups, informal economic activity often intensifies the segmentation of the labour market along age, gender, class and ethnic lines (Leonard, 1998: 58). As Sassen (1991) has shown, there is a close association between the proliferation of small-scale enterprises in areas where there is concentration of ethnic minorities. Access to low wage immigrant workers enables firms in the formal economy to compete with low wage workers in other countries. This is particularly important for the apparel industry. Sub-contracting is an essential part of this process as work becomes more decentralised to sweatshops and immigrants’ homes where labour violations are common and where intensification of labour can be enhanced at low costs. This fulfils the need for small-scale local firms to compete with cheap imports (Leonard, 1998: 81).

Finally, it is important to recognise the role of the state in shaping the nature of informal economic activity. Seen in the most basic terms, the more the state regulates, the more regulations there are to evade and each new regulation inevitably criminalises those who simply carry on as before. In this sense, the modern state is the creator of the informal sector through constant redefinition of what is or is not permissible in the market place. As Castells and Portes, (1989: 27) observe,

[a]s states have adopted regulative systems ... they have encouraged the development of irregular employment strategies. Avoiding over-burdensome state regulation provides an incentive for tax evasion, welfare benefit abuse and a multitude of other activities aimed at earning invisible income.

Significantly, however, there is often a gap between the *enactment* of regulations and their practical *enforcement*. We cannot take for granted either the state's ability or even its will to crack down on rule violators. Not only can enforcement be difficult, with government agencies constantly struggling to plug loopholes, the actual will to enforce may itself be weak or non-existent. This could be due to passive by-standing, or tacit encouragement (since informal economic activity can be viewed as a means of generating employment and self-employment among otherwise socially excluded sections of the population, often in decaying urban areas).

### **Informal Employment and the NMW**

Comparatively little is known of the extent to which the NMW affects firms operating informally in the manner described above. The vast and eclectic literature on informal employment has shed light on a variety of issues, including measurement of the phenomenon; cross-national comparisons; the role of the state; spatial dynamics; alternative economic spaces (for example, local exchange trading schemes); differential impact on men and women; and evaluations of policy initiatives. For present purposes, this literature has a number of pertinent gaps. First, the particular ways in which informal firms approach employment regulations is not readily understood. Yet this lack of information has done little to constrain the emergence of a robust policy-oriented discourse suggesting that the 'burden of regulations' is prompting some firms to evade regulatory requirements. Second, the precise ways in which employers operating 'informally' determine pay and working hours have rarely been marked out for particular attention. Some studies of 'informal' employers (Kloosterman et al., 1999; Bailey, 1987) identify practices such as the prevalence of long hours and low pay; workers tolerate these conditions because of an absence of labour market choice and a sense of obligation often rooted in paternalist management arrangements. Reinforcing this paternalistic binding of workers to bosses are various compensatory non-monetary rewards, including relatively lax work discipline, individual negotiating leverage and free food and transport (Ram et al., 2001a).

Third, outside of the USA, the participation of ethnic minorities in informal employment has rarely been documented. Indeed the European literature on informal employment has been described as 'racially blind' (Williams and Windebank, 1998: 6). Finally, extant studies 'do not pay enough attention to comparisons between those who decide to engage in informal economic activity and those who do not, despite seemingly similar circumstances' (Leonard, 1998: 149).

Some light has been shed on these issues by a series of recent studies that have examined the question of employment regulations and small firms (Arrowsmith et al., 2003; Edwards et al., 2004; Ram et al., 2001a,b; Ram et al., 2002a). The extent to which the experiences of 'informal' firms were assessed varied in each of the studies. For example, all 20 of the firms investigated by Ram et al. (2002a) were 'informal' employers, since the focus of the study was the employment of illegal immigrants. Approximately one third of the 37 restaurants studied by Ram et al. (2001a) paid workers at rates below the NMW. A small minority of the 87 clothing, catering and printing firms observed by Arrowsmith et al. (2003) flouted the NMW. Heyes and Gray (2001: 868) studied homeworkers in the clothing industry, a group highly likely to be part of the informal economy. They estimated that at least 43 per cent of a (non-random) sample were paid below the NMW. Edwards et al.'s (2004) case studies of catering, care homes and consultancy firms focused on firms that complied with regulations. Despite the different emphases of these studies, a common theme was that employers' handling of the NMW rested upon three sets of factors: market context, managerial perceptions, and adjustment processes within firms. Each will be considered in turn.

### *Market context*

The market context will affect firms' ease of response. The greater the financial and competitive pressure that firms face, the more difficult it will be for them to absorb any costs of regulation. By contrast, firms in stronger positions may not only be able to absorb costs but may also find that the law acts as a stimulus to modernisation. A number of recent studies examining SME responses to the NMW have demonstrated how 'external' factors, notably product and labour markets, affect the handling of regulation by employers (Arrowsmith et al., 2003; Edwards et al., 2004; Grimshaw and Carroll, 2002; Ram et al., 2001). To this end, a recent investigation for the Low Pay Commission noted that responses to the NMW need to be understood 'in the context of the longstanding employment approach of the firm, as well as other conditions such as business performance, product market strategy and whether or not it is a low paying or high paying firm' (Grimshaw and Carroll, 2002:17).

The Asian-owned clothing firms examined by Arrowsmith et al (2003) were clearly hemmed in by market pressures, which included: a reduction in domestic sourcing and a corresponding fall in production levels; the imminent removal of the protectionist Multi-Fibre Arrangement which restricted textile and apparel exports from developing countries to the advanced economies; a relocation of production to central Europe; and a collapse of overseas markets (TCSG, 2000). For many firms, this precarious situation was exacerbated by the introduction of the NMW in 1999. When these firms were revisited by the research team a year after the introduction of the NMW, it was clear that their market position had deteriorated. Two of the 18 firms investigated had closed down completely, and employment levels were reduced to some extent in almost all the rest. This was blamed primarily on deteriorating market conditions, though the new regulations were sometimes reported to have significantly increased costs. However, even in this comparatively narrow group of firms, it was still possible to identify at least four main patterns of response to the twin pressures of market and regulatory change: firms that pushed into the grey economy; manufacturers that had *retrenched* or scaled back their operations; work intensification; or companies that had attempted a *niche shift*.

## *Managerial Perceptions*

If managerial perceptions define the law as an intrusion, efforts may be made to minimise its impact. Alternatively, laws may be felt to have benefits, for example through the creation of a ‘level playing field’. Studies of ‘informal’ firms clearly indicate that regulations add to an already highly pressurised trading environment (Ram et al., 2002a). An illustration of this is provided by restaurateurs who were employing at least one illegal worker, when asked how they had responded to the NMW, as shown in Box 1.

### **Box 1: Restaurant employers’ responses to the NMW**

- E1. It has only been a slight problem; we are only a small business so it hasn’t affected us that much.
- E2. The National Minimum Wage has not had any affect because officially I show that everyone is working 8 hours a day and no more. There is no difference on the hours worked, 70 hours is normal here.
- E3. The minimum wage hasn’t affected us that much. We show that we’re complying with the rules but on the books we have 5 staff working at the restaurant when really, there’s 12 of us.
- E4. We are not affected by it. Our accountant keeps us informed but it would be impossible for us to comply in this trade. We couldn’t pay workers on hourly rate, it would just be impossible. We let our accountant deal with the paperwork.
- E5. It has not affected us; we discuss new laws with our accountant and decide on how best to deal with it. Some people we say are working less than they actually are. We reduce the hours worked so that it works out appropriately.
- E6. We can’t abide by these new laws, they’re just unsuitable for our line of business. We have to tidy up, clean up and get ready for business the next day so the wages we pay are lower than the minimum wage. Our accountant works it out so that we have less hours on the books.
- E7. We are not affected. It doesn’t affect this trade at all and I don’t think many restaurants are aware or even concerned about it.
- E8. It has not affected our business. We are running the way we have always done, we’ve just changed the paperwork to comply with the law.
- E9. There’s been no effect whatsoever, it wouldn’t be possible to show wages according to the hours we actually work. We say that we are working to the minimum wage but cut down the hours.
- E10. There has been no effect; things are the way they always have been.

Source: (Ram et al., 2002a:19)

For many of these employers, the nature of the product and labour market context made it difficult to accommodate the NMW. Price rises to cover the cost of the NMW were difficult to enforce, given the intense competition arising from a surfeit of restaurant outlets and the tendency of customers to shop around. Since for very many customers Asian restaurant cuisine is a readily substitutable lifestyle accessory, demand for it is far too price elastic to grant owners any real degree of price latitude. However, it should also be noted pay had to seen in the context of other factors that comprised the overall reward package. These included the limited labour market opportunities of these workers; the ‘give and take’ approach to working hours; and the provision of ‘extras’ including free food and drink, tips, and transport home.

### *Adjustment Processes*

Distinctive adjustment processes within small firms may act as a third filter. For example, ‘informality’ – in the sense of management-worker relations based informally on unwritten arrangements and tacit understandings (Edwards et al. 2003:20) - can mean that issues relating to pay and working are handled without resort to formal administrative procedures. In such a context, firms can be expected to behave in two main ways: to avoid formal procedures in such areas as discipline and dismissal, and more generally to rely on face-to-face understandings with employees. Crucially, such understandings eliminate any explicit statements of rights and duties, with the further implication that legal obligations will be ignored if they do not relate to the established set of informal norms.

There were many instances of these informal norms in Ram et al.’s (2001a) study of restaurants, with the complex case history of one worker in particular, Baldev, incorporating almost every facet of the paternalistic informal working relationship. Having relinquished self-employment through ill-health, he found himself with *nothing to do* and so took up a waiter’s job with a restaurateur acquaintance.<sup>1</sup> Typical of many curry house workers, he is prepared to rationalise paltry earnings - £3 per hour with no account taken of volatile working hours depending on *how busy it is* -in terms of the quid pro quo intangible benefits. Particularly valued is the absence of rigid work discipline, so that *if I arrive late, the boss doesn’t say anything*. He also enjoys the sociability of the working environment and clearly feels that the boss has done him a favour by liberating him from enforced idleness. Part of this quid pro quo is that he would not consider asserting his legal rights and, though aware of the NMW, commented, *I do not get that ... I work here because I like it ... If I stayed at home, I would not know what to do*.

Baldev’s case also makes the point that the condition of low-paid ethnic minority employees has to be seen, not simply as an isolated workplace phenomenon, but also in an entire context of informal social networks. Such networks are crucial in facilitating access to work and providing a linguistically and culturally familiar environment in the work place itself. The type of management approach experienced by Baldev was suggestive of the paternalist arrangements widely noted in small businesses in general (Newby 1977; Ram 1994; Scase and Goffee 1982; Wray 1996), and specifically in ethnic minority firms (Bailey 1987; Herman 1979). The flexibility and apparent mutuality implied by such work arrangements is suggestive of a certain ‘ethnic solidarity’ (Zhou 1999). However, the material substance of informal and personalised work relations should also be noted. For instance, close relationships between owners and workers tend to foster collusion and feelings of mutual interdependence between the two parties. When under these circumstances workers themselves are voluntarily relinquishing their own legal entitlements, it is easier to get away with breaches in tax and pay legislation (Bailey 1987; Herman 1979).

It is equally important to note that, though informal networks may facilitate employment opportunities, allowing people to draw on and exploit personal relationships and networks of existing informal workers, they can also limit the

---

<sup>1</sup> Throughout this report, direct quotes from respondents in the main text are given in italics. Where they are marked off by being indented, they are not also italicised.

choices available (Leonard: 1998:139-40). Work in such circumstances can be riddled with internal inequalities and abuses. This in turn often curbs the capacity of informal workers to experience these sources of employment as liberating as they not only are indebted to their employer but also to the friendship and other networks which facilitated their employment (Leonard, 1998:139). The full force of this sense of entrapment was evident from the experiences of a homemaker, interviewed in a recent study of the NMW and small firms. It is worth quoting her experiences at some length (see Box 2).

### **Box 2: A sewing machinist's work**

#### ***Background ...***

Badie is a 'homeworker' sewing machinist with some ten year's experience. She has been working for SweatCo for around two years; she has three young children. Although she works exclusively for SweatCo, she is not recognised as an employee, 'I'm just working for him ... I've got no cards, no pension, no holidays ... I've got nothing like that'.

#### ***A Typical Working Day ...***

'I get up at 7am and get the kids ready, make sure they're washed and ready; then I make their breakfast. I then make my husband's breakfast and make his sandwiches for work. Then I have my own breakfast. I get to sit at the machine at 10am, and I sew 'till 12pm. I make my youngest girl lunch, feed her, and then take her to the nursery for 12.40pm. I get back at 1.10pm and sew till 3.15pm. I then make the children's tea. I have my own lunch at that time with them; I don't bother having it earlier, because it takes up too much of my time. I am back at the machine at 4.30pm, and I sew 'till 7.30pm non stop. After 7.30pm, I have to feed the kids and put them to bed; and then I have to prepare food for the evening. After I put the kids to bed, I prepare my husband's dinner for when he gets back home after the pub, which is usually 10.30pm. On Saturdays and Sundays, I do two or three hours if the factory needs the work'.

However these hours of work were not constant. Typical of the clothing industry the flow of work is seasonal and erratic, 'When he [owner] needs the work, I sew 'til much later, up to 10pm or 11pm. On three times last year, I sewed right through the night. If I didn't do it, he'd give the work to someone else'

#### ***Pay ...***

For the style of garment that she is currently sewing, Badie receives £2.25 per item. She regards this as a 'good' rate, and compares favourably with the factory owner whom she previously sewed for 'He [current owner] pays me well ... The one before paid me 32 pence for a garment that took me half an hour to make ... It was really hard work'

Badie was aware of the NMW, although she was not sure of the rate. However, she claimed 'I have to take whatever he gives me'.

'I sew because of the kids. I don't like sewing, it's horrible. You have to work too hard. the work is constantly on your mind. Even when you're not sewing, you're thinking "I should be sewing"; you're worrying if you've made enough money. For some [other machinists] it's OK. I don't claim income support, others do. My cousin [who works for the same firm] claims incapacity benefit, but she still sews and makes £30-35 per day. It's OK for people like that because they got money coming in from the side'

Source: Unpublished extract from Edwards et al, 2002

### **Conclusions**

The 'informal' sector does not stand in sharp contrast to the formal economy. The two are intertwined, with informal employment filling gaps left by the formal sector and with the distinction between the two often being very blurred. The NMW can be seen as part of an effort to regularize informal employment by establishing a floor to wages. Research to date shows that informal work has neither been brought fully

within the scope of the NMW nor remained entirely immune to the arrival of the NMW. Firms have responded to this and other employment legislation in the light of their market conditions, their perceptions of legal intervention in general, and their own particular systems of wage determination and employees relations. We can now proceed to build on this evidence through new empirical research.

### 3 RESEARCHING INFORMAL WORK

Gaining access into small firms for the purpose of conducting case studies is often difficult for reasons that are well-rehearsed. Important calculative reasons militate against the kind of research reported on here. Small business owners are extremely time-constrained, work long hours and are noted for having a ‘fortress enterprise’ mentality (Curran et al., 1995). Moreover, academic research on small firms has attracted criticism for its lack of relevance to the concerns of practitioners (Gibb, 1996). The task of overcoming these challenges is magnified when the key issue under investigation – non-compliance with the NMW – involves a breach of the law. Where does one go to find firms whose *raison d’être* is to defy detection? How can firms operating informally be identified? Having located a business that might be operating in such a fashion, how can the owner be persuaded to provide answers to sensitive and potentially incriminating information? And will employers be willing to allow workers to provide an account of their situation in the firm? These questions required the research team to draw on cases based on prior knowledge and a network of contacts with close links with two sectors: clothing and catering. Two considerations were borne in mind. First, comparison was undertaken within fairly tightly defined sectors. For example, hotel and catering is a notoriously heterogeneous sector; our focus was on ethnic minority owned and run restaurants (with the exception of one firm involved in food manufacture). Contrasts between sectors can shed light on the effects of different external conditions, while contrasts within a particular sector can show how common conditions are mediated differently within the firm (Edwards et al., 2004). Second, cases were chosen in an incremental fashion to illustrate, as far as possible, varying market conditions.

#### **Selection of sectors**

Both the clothing and catering sectors are dominated by small firms, have a concentration of low pay, and attract significant numbers of ethnic minorities as workers and employees. In the case of catering, despite the popularity of South Asian (‘Indian’) cuisine, this buoyant demand does not guarantee rich pickings for more than a select few well capitalised and strategically located outlets. Ethnic restaurants have been increasingly vulnerable to competition from other forms of eating out. Rapidly diversifying fast-food outlets, and pubs and chain restaurants are able to compete on price with many ethnic eat-in restaurants. Competition from such outlets increased by 27 per cent between 1993 and 1997 (Mintel, 1998). Drastic price-cutting is often noted means of survival (Ram et al., 2001b). Low pay and poor working conditions aggravate this competitive context, and leads to further difficulties in recruitment and retention.

Another niche for South-Asian-origin entrepreneurs, clothing manufacture replicates many of the features described above for restaurateurs and their employees, notably in respect of its reliance on co-ethnic labour recruited on an informal basis. At the same time, it differs from the catering trade in that it is a “sunset” industry, one suffering from long-term decline due to intensifying competition in home and world markets from emergent industrial nations. As long ago as the mid-1980s, the sector’s survival

in Britain rested largely on the presence of immigrant entrepreneurs competing on the basis of cheap and flexible labour from within their own communities. Since then global competitive pressures have if anything become even more stringent (Ram et al., 2003b), necessitating further cost-cutting among clothing Asian firms.

### **Selection of firms**

A total of 17 case studies were undertaken, nine from the clothing sector and eight catering businesses. As noted earlier, research of this kind is clearly highly sensitive. The firms in question are hard to investigate at the best of times. To address this problem, the research team enlisted the services of two intermediaries who had the trust of research participants. Both intermediaries were insiders in the sense that they were of Bangladeshi and Indian origin and were fluent in their mother tongue (all clothing sector participants were Indian, whilst restaurant interviewees were Bangladeshi). Moreover, they had long experience of the respective sectors as both workers and business owners. Intermediaries were fully apprised of the aims of the research, the types of employers and workers required, and the critical importance of confidentiality. Members of the research team also conducted six of the case studies, drawing on extensive personal networks and a number of contacts generated from previous research.

Within the sample, attempts were made to investigate particular kinds of firms. First, given the basic aim of the study, most employers were operating informally in respect of underpayment of the NMW. These firms were located through the combined networks of the researchers. In our previous research on employment regulations and SMEs (Edwards et al., 2002; Ram et al., 2001), we had discovered a number of firms that were not complying with the NMW. Concerted efforts were made to trace these firms. Many had closed down; some were uncontactable. In the event, five firms that members of the research team had first visited in 1999 were re-investigated. Hence, the current study incorporates a longitudinal dimension that is comparatively rare in existing studies of employment regulations and SMEs.

Second, as noted earlier, despite the focus upon reasonably discrete sectors, we attempted to secure firms in a wide range of market situations. Hence, catering firms included restaurants in rural and inner-city locations, 'up-market' restaurants, and take-aways. The clothing firms ranged from cut-price manufacturers of clothing to market traders, to suppliers of major High Street chain stores.

Finally, a further objective of the study is to examine the experiences of 'compliant' employers. In this respect, a key task is to understand why such employers adhere to the NMW, despite operating in settings ostensibly similar to those 'informal' firms. A total of four of the 17 firms investigated complied with the NMW (two from each sector)

The intermediaries administered a detailed interview schedule that was designed by the research team. It was common practice for each intermediary to discuss interviews with a member of the research team whilst the research was in progress. Most of the interviews with restaurant employers and employees were conducted in Bengali; many clothing employers spoke English, but some interviews with workers were conducted in Punjabi.

## 4 MARKET POSITION

Many of the firms in the present study were located in highly disadvantageous market positions. Several factors need to be taken into account here. First there has been a historical tendency for the number of Asian firms in Britain to exceed what market demand will bear. This excess of firms can be initially traced to rising unemployment in the 1970s/80s, when unduly large numbers of newly redundant Asian workers turned to self-employment as a means of economic survival (Ram, 1994). Second, the bulk of these new business entrants found themselves confined to a narrow range of labour-intensive economic sectors – corner shop retailing, clothing manufacture, catering – where margins are relatively low and competition so intense that truly desperate cost-cutting measures are sometimes the only means of staying alive (Jones et al., 2000). For employees with few labour market options, this presents a stark choice between poorly paid work or no work at all. Competition takes three main forms.

The first is *intra-Asian*, where a surfeit of Asian firms leads to market saturation, with suppliers crowding one another out. From very early times this became evident in retailing, where even in the very early stages Asian shopkeepers were already complaining that there were ‘too many of us’ (Aldrich et al., 1981). As we shall see below, this excess of supply over demand has also arisen in the restaurant trade, where despite a dramatic rise in customers eating out in ethnic restaurants, the number of outlets has grown even faster.

Second are relations with *large firms*, where sectors of the economy formerly dominated by small independents have now been colonised by giant corporations. Here the most obvious example is food retailing, where the inexorable rise of the supermarket has brought about a dramatic reduction in the number of small shops, many of which were Asian-owned (Jones and Ram 2003). Similar though less extreme trends are afoot in the restaurant trade, where external competition from chain restaurants and from supermarket ready-made meals adds to the pressures of local competition.

Finally *foreign competition* is particularly evident in clothing manufacture. Cheap imports from Eastern Europe have been joined by a rapidly growing threat from Chinese imports.

Tables 1 and 2 summarise the market positions and responses of the case study firms. Those visited on previous occasions and the compliant cases are also indicated.

**Table 1: Market position and response of clothing firms**

<b>Company</b>	<b>Mkt Position</b>	<b>Response</b>	<b>Characteristics of response</b>
C1 (Re-visit)	Manf/Import	Retreat from manf; focus on cheap imports	Declining manufacturer; now looking to cheap imports for survival. Relies on core of family and co-ethnic workers to cut costs and provide flexibility.
C2 (Re-visit)	Niche manf	Gradual retreat from manf	Specialist manufacturer that has reduced staff steadily since 1999. Staff are regularly laid off. Holding on to niche and importing more is seen as necessary to survive.
C3 (Re-visit)	Niche manf	Gradual retreat from manf	Managed to retain staff, despite increasing foreign competition. Has started importing, and will move further in this direction.
C4	Niche manf	Move from general manf. to precarious niche	From the production of general clothing, firm now produces a single product to a single High St. chain customer. Sharp reduction in staff numbers and greater reliance on family members are key to survival.
C5	Retailer	Steady growth	Steady growth in specialised niche of retail clothing market. Total reliance on extended family labour; this is key to NMW evasion.
C6	Wholesaler	Closure of retail outlets; dwindling customer base	Rapidly declining wholesale operation which has closed down two retail outlets, and relies upon shrinking numbers of 'cash sales' market traders. Recent diversification into property. Two loyal workers remain.
C7 (Compliant)	Retailer	Niche-related diversification	Retail operation in the midst of rapid expansion into home-order shopping. Emphasises importance of training and developing staff. Asked Inland Revenue to assist with implementation of NMW, and related procedures.
C8 (Compliant)	Importer	Focus on niche, and diversification into property	Growing international competition prompted closure of substantial manf. operation. Now concentrates upon wholesale and distribution, employing mainly semi-and unskilled workers. Strategic move into property investment, which is now important source of financial stability.

**Table 2: Market position and response of restaurants**

Company	Mkt Position	Response	Characteristics of response
F1 (Re-visit)	Up-market restaurant	Focus on quality; rapid expansion	Restaurant has relocated and bought-out by manager. Fast-expanding, and in the process of acquiring new outlet. Retains a loyal core of staff; 'give and take' approach to work relations.
F2 (Re-visit)	Mature mid-market restaurant	Stable position in competitive mkt . Quality conscious	Attempting to differentiate business from growing competition by emphasising quality. Owner spends more time in the business as a means of coping with these pressures. Recruitment difficulties.
F3	Takeway	Price competition	Reliant on self-exploitation and intensive working of firm's only employee. Casual provide labour when needed. Would like to move up-market, but constrained by competition and lack of investment.
F4	'Balti' restaurant	Price competition	Restaurant is one of many located in a few narrow streets in the city. Engaged in 'price-war'. Survival rests upon long hours (over 50 hours) working by staff, and additional support by family. Recruitment difficulties.
F5	Restaurant and take-away	Price competition	Suffering from intense competition. Reliant upon intensive working of employees and family labour. Aspirations to move 'up-market', but lacks resources. Recruitment difficulties.
F6	Established restaurant	Trying to differentiate through quality	Dominant position in market town location threatened by newcomers. 'Staying in the market' is key objective. Reduced staff in previous year; but now experiencing recruitment difficulties.
F7	Mid-market restaurant	Quality focus. New location sought	Intense local competition. Experimenting with new menus, and searching for new premises. Family labour assists at short notice. Staff shortages.
F8 (Compliant)	Ethnic food manufacturer	Fast-growing. Focus on quality and innovation	Fast-growth food manufacture with ambitious plans for further growth. Ten per cent of turnover devoted to innovation. Staff training considered very important.
F9 (Compliant)	Mid-market restaurant	Focus on retaining core customers	Has attempted to comply since Jan 2004, although finding it a struggle. Risk of detection prompted compliance. Competition from informal firms.

## Restaurants

Confirmation of the market trends alluded to above is provided from the testimony of respondents in the restaurant and clothing trades. Throughout the interviews with restaurateurs, the problem of too many fellow Asian businesses is a recurring theme, well summed up by respondent F2: *competition is cut-throat, with too many restaurants pushing into the market*. For some respondents, pressures are now so acute that their very survival is under threat, as exemplified by F4, whose owner's basic aim is *just keeping the business going*. Located in the midst of a cluster of similar businesses, this firm exists cheek-by-jowl with a growing host of competitors; he laments, *there are just too many restaurants in the same area, under-cutting each other, trying to outdo one another and the end result will be business closures*. This owner also makes the link between market potential, revenue and wage rates, *We can only afford to pay in relation to the amount of trade*. Similar complaints are voiced by F7, who notes *too many restaurants in the locality*.

Significantly, these responses also draw attention to the importance of geographical location as an influence on market potential. Location in a restaurant cluster like the one noted in the case of F4 can have the advantage that much passing trade is drawn in by the reputation and 'brand name' of the district itself. But beyond a certain point the growing number of supply outlets will out-run this market potential and diminishing returns will set in. Conscious of this, many restaurateurs have located or relocated in areas previously unoccupied by curry houses where, like F9 who opened in a small market town in 1993, the business owner can enjoy a market niche protected by distance from the competition. However, this advantage tends only to be temporary, since eventually others will be drawn to this perceived source of rich pickings. Such indeed has been the fate of F9, who now bemoans *too much choice, more restaurants sprouting up in places you would never imagine*. Much the same has occurred but with more drastic results for F6, another pioneer in a small town where in 1986 *there was just us*. Now he has fallen victim to the familiar market saturation, with the newcomers *giving freebies to attract custom and they are also trying to undercut our prices*. Once again the negative consequences are evident, since this firm has already been obliged to cut its staff from seven to five, with a further job under threat.

Locational adaptation is only one of several possible strategies to cope with such extreme competition. Despite severe market pressures, many respondents have demonstrated commendable adaptability and, in some cases, a willingness to innovate. Most have eschewed the obvious but ultimately self-destructive strategy of price cutting, preferring instead to distance themselves from the competition by playing on distinctiveness, quality and variety. Here F7 is fairly representative, reacting to his acute customer crisis with plans to introduce *themed nights* and a buffet service. Similar plans are afoot with F5 who, unable to cut prices further, is mounting a quality upgrade, *to offer more than the competition*. As well as improving food quality and service, *we are looking to renovate, add new décor to change the atmosphere and make the restaurant more modern*. Such adaptations are not always a reaction to crisis, and there is at least one case (F9) of a highly successful firm introducing innovations simply to stay ahead of the competition. Though this restaurant rests on a loyal stable core of regular clients, the owner is not prepared to

take this for granted and is in the process of widening his menu and introducing extras like home delivery.

Showing that such strategies can indeed pay off is the case of F1, who has successfully bucked the market trend through an emphasis on *food, service and ambience ... customers are more discerning now*. As a result, turnover has increased 30 per cent in five years, full time workers employed have doubled to 10, and part time workers have increased from three to six. Given the very severe market pressures threatening these respondents, this is a notable achievement. Nevertheless it must be noted that such strategies, particularly attempts to go up-market, can require heavy investment beyond the means of most capital-starved Asian entrepreneurs (Ram et al 2001).

Undoubtedly the outstanding case of successful market re-positioning is F8, which has moved completely out of the over-crowded catering niche into the much more profitable field of manufacturing Asian cuisine. The firm employs 30 workers, with further expansion mooted, *We are aiming for massive growth*. Already turnover has increased by 50 per cent to £1.8 millions over the year 2003-4 and *this year we are looking at 100 per cent growth*. Truly up-market in its orientation, the firm supplies Harrods, Fortnum's, Selfridges and various West End hotels. The owner explains that compliance with the NMW *is bloody expensive for us* but it has acted as a positive stimulus for higher productivity, innovation and organisational streamlining. Integral to this firm's high performance is heavy investment in product development *to keep one step ahead of the market*.

### **Clothing**

Severe competition is also the dominant motif amongst clothing sector respondents, though in this sector it is most likely to stem from abroad. Almost every respondent complains of contraction in their former customer base, as markets are eaten into by overseas suppliers offering goods more cheaply than they themselves can hope to do. A key factor in the rise and fall of many small ethnic minority owned clothing manufacturing firms in Britain was the mid-1990s deregulation of global trade, which weakened protection and exposed these producers to competitors in countries where extremely low unregulated wages are the norm (Ram et al., 2001). According to respondent C1, the most serious competition in the 1990s came from post-Soviet Eastern European countries, with their twin advantages of very low labour costs and relative geographical proximity. Now, however, the direction has shifted towards China, whose growth economy is driven by still cheaper labour. Ultimately of course the specific geographical source of competition is less important to our respondents than its severity, which has forced radical restructuring on many of them.

In several cases this has taken the form of a complete shift out of manufacturing garments, usually accompanied by quite drastic cuts in their workforces. Throughout most of the interviews, there is a palpable sense of firms under siege, fighting for their very survival. In the case of C2, a firm which previously enjoyed a relatively unproblematic career manufacturing trousers for almost thirty years, *the only way I can survive is to get more into importing, manufacture less*. Staying in business is utterly dependent on this switch - effectively from manufacture to wholesale - and the workforce slim-down it permits. Also moving to importing is C3, who once again stresses declining markets but has managed to hold his full time labour force steady at

five employees over the past five years. Specifically alluding to the link between performance and wage levels, this owner claims that he would pay above the NMW *if the selling price rose*.

One especially drastic case of contraction under pressure from unfeasibly low selling prices is C4, a long established concern making women's wear since 1986 and peaking in the mid 1990s with 30 on-site machinists and 15 home-workers. Formerly selling to a range of market traders the firm has now switched to a single product-single outlet niche, selling almost exclusively to a renowned High Street chain. Even so, trading performance has declined to such an extent there are now only eight on-site employees, and no home-workers at all. Moreover, the surviving employees are obliged to exist on lean pickings, since this owner argues that he cannot afford to comply with the NMW *until I get a better price*. Despite his low wage costs, the owner still complains that *we have to pay more than we should*.

Another telling account of rise and decline typical of clothing firms in this sector is offered by C8, a business which grew consistently from its foundation in 1979 right through to 1994 (which was watershed period for the Asian rag trade as a whole). At its peak, this firm operated a clothing factory manufacturing for large chain stores and ran two retail outlets of its own. With no fewer than 90 employees at its peak, this was an enviably large and thriving concern by the standards of this segment of the sector. No sooner did the effects of trade regulation begin to bite, however, the firm found itself abandoned by its large firm buyers along with most other domestic suppliers. Like many other clothing manufacturers, this prompted a move to importing and wholesaling operations and a complete shut-down of the factory. Even so, competition with large domestic corporations has arisen as a major threat to survival, as Matalan and similar cut-price retailers move to eliminate wholesaling intermediaries. The most graphic expression of the firm's reduced status and precarious market position is the reduced size of its workforce, a shadow of its former self at a mere five warehouse workers.

Undoubtedly the major exception to this pessimistic picture of down-sizing and beleaguered survival is C7, a dynamic growth business with a highly confident owner whose case history illustrates the vital importance of market position. Significantly this firm has made a complete break with manufacturing and wholesaling and all their associated structural problems and has diversified into a specialised branch of retailing in a well-chosen geographical niche. Since 1998, the firm has been retailing babywear in a small market town, where it is the sole operator in this line. Its workforce has expanded from three to nine workers, and it plans to open new premises in the city centre. Additionally the firm has developed a mail order line using a call centre with six workers and the respondent is confident he can compete against the likes of Mothercare.

## **Conclusions**

Market conditions were different in the two sectors, with intense competition between a large number of firms characterising restaurants and overseas competition being key in clothing. The effects were, however, similar in that many firms were led to continue with 'informal' employment practices that sustained pay levels below the NMW.

## 5 WORKER RECRUITMENT AND RETENTION

Informal recruitment through word-of-mouth is a widespread characteristic of small firm behaviour. According to Jones et al. (1994), this is true of small businesses of all ethnicities including white, with the friends and family grapevine perceived as essentially trustworthy and a means of avoiding the costs of advertising. Yet there are also costs, including being locked into recruiting from a very narrow range of the labour market. One important possibility is that the NMW will ease such problems by standardising wages at the bottom of the labour market. Yet our evidence suggests that this has generally not occurred and that the face-to-face method of hiring is still common though it is also failing to deliver the requisite quantity and quality of workers.

### Restaurants

For restaurateurs, there is a recurrent complaint about the 'quality' of available workers. In the case of F4, local informal recruitment within the ethnic community is turning up people with a *lack of experience. There is a limited pool of skilled labour.* Similar problems are voiced by F5, who despite having recently obtained two new workers through informal means, complains once more of lack of experience and of high staff turnover, *Some have moved to larger restaurants after learning the job, one has opened his own business.* Quality and retention are also problems for F7, for whom the informal trawl tends to bring in *poorly educated low skilled people and as soon as anyone gets a bit of experience he moves on; if he has saved enough he opens his own business.*

For some firms, there is an absolute shortage of new recruits. Notable here is F8, who finds it difficult to obtain sufficient workers despite his compliance with the NMW; he does, however, have few problems with retention and believes that his staff development approach (see Chapter 8) contributes significantly to a stable committed labour force. Also struggling to hire sufficient staff is F9, who cites competition from nearby firms as the prime cause.

This appears to reflect a general and growing labour crisis for the Asian restaurant trade. Essentially this results from an easing of the labour market as a whole, with a growth in alternative employment opportunities coupled with an increasing unwillingness on the part of young British-born Asians to tolerate the pay, hours and conditions of the curry house regime (Ram et al., 2001). Confirmation of this comes from F4, who explains that *young people tend to study nowadays, they simply do not want to do this job.* For F5, this new assertiveness on the part of co-ethnic workers has stretched his resources to the limit, *Three kitchen staff left recently because they wanted a higher salary which we could not afford.* Left seriously understaffed, he has been rescued by help from the family, *I am able to rely on my brother and brother-in-law.* On this question of high turnover, F6 offers three reasons for the rapid staff exodus: wages are poor in comparison with other industries; poor conditions of employment; and *a lack of opportunity for career development.* In a similar spirit of

openness, F7 confesses, *If I am frankly honest, I don't see why anyone should want to enter this trade ...if I had the opportunity, I'd get out myself.*

Not unexpectedly, employees loudly echo many of these sentiments. While F7's employee praises the firm's *friendly atmosphere and good colleagues*, he also claims that low pay diminishes any incentive and *people just do the bare minimum to get by*. In this firm, there is also resentment of the perceived favourable treatment enjoyed by family members, who *in most cases get paid more*. He confesses to feeling *demoralised and trapped ... I would love to leave but I have no other qualification and I am too afraid to take a risk now*. A worker from F5 offers an even more comprehensive explanation of the staff turnover problem,

There is no incentive whatsoever; it's just a grind. Wages have not kept pace with the cost of living ... if there was collective bargaining in this trade, it would kill the owners".

When asked why he did not assert his rights under the NMW provisions, he replied *Rights? What rights?*

As is evident from the previous chapter, small entrepreneurs are highly adaptable in responding to the pressures of changing circumstances. One recent and increasingly popular response to the inadequacies of the local labour market is to recruit directly from the sub-continent, taking advantage of work permits. There are many cases of this among our respondents. One such is F1 who, in line with his emphasis on quality authentic cuisine, has used a work permit scheme to bring in five experienced chefs and kitchen workers from India. He compares them favourably with local workers, *These chaps from India are highly trained and disciplined. Here, people are not dedicated to work*. A similar strategy is employed by F6, who has also fallen foul of the inadequacies of the traditional informal hiring methods, *very difficult to get staff locally ... we are looking like so many others in this trade to hire from abroad*. For this, he must advertise in the national ethnic press. Understandably he welcomes the possibility of work permits, which allow the entrepreneur to make use of desperately needed immigrant chefs without resorting like so many to undocumented workers.

Finally we note that, while traditional modes of labour force construction may certainly be endangered, the contribution of family members continues to be highly influential in certain circumstances. Typical here is F4, who uses three relatives as *casuals when necessary, in times of crisis and emergencies*. Not only are family members more dedicated, as they see the business as their own but also they can be depended upon to act as a stopgap, a buffer against sudden unexpected staff shortages. This is echoed by F5, whose three brothers *come and help when we need them. Without them I would struggle*. As F7 explains, *when there are a lot of sudden bookings, it is difficult to get staff at short notice, so relatives come and help out*. Inevitably there are also certain disadvantages here/ and F6 finds that his relatives' own outside activities often make them unavailable when most needed. Moreover the presence of family members can be divisive, with other staff members liable to be suspicious that family insiders are *being given preferential treatment*. In general, however, the family still offers an important source in labour flexibility, geared to the rapid fluctuations in customer demand typical of this most volatile of trades.

## Clothing

One might expect worker recruitment to be much less of a problem in the clothing sector. As small manufacturers have increasingly fallen prey to the effects of globalisation, so the widespread trend since the mid-1990s has been one of downsizing, with many firms shedding rather than recruiting workers. There should now be a buyer's market, with employers able to pick and choose from a large pool of available labour. This is indeed the case for one of our respondents, C6, who avers,

There are loads of workers. I can get machinists right, left and centre, I have ten calls a day asking for work. West Indians, Bosnians, asylum seekers, there's a shelter round the corner, as many Iraqis and Kurds as you want.

For this employer, this prodigious surplus of obviously desperate job-seekers removes any pressure to pay decent wages and his attitude towards the NMW and other regulations is dismissive,

We can employ who we want, when we want and for however long ... when we've got a container, in they come. They get £10 for a day's work, 9am to 6 pm; they come and go on a daily basis, mainly illegal immigrants.

For the other respondents, the situation is more complicated, with many owners juggling with the logistics of maintaining their labour forces at the requisite levels of quantity and quality. Even in the most drastic cases of shrinkage, high turnover rates make regular recruitment necessary simply to maintain the labour force at its reduced level. This is evident in C2, which has been running down production and regularly laying off staff since 1999. This is accomplished via natural wastage, *people retiring or moving away from the area*. While the owner claims generally to have no problems obtaining workers through informal word-of-mouth hiring, he also admits that the NMW has made him less attractive to job-seekers, who can now *go to McDonalds or Woolworths, just stand around and get the same money*.

Another employer facing competition for available workers is C4, who used to be able to recruit locally *but now it's from faraway villages. It's a lot harder now, I think because others pay more*. His situation is aggravated by his need for highly skilled machinists suitable for his specialist market, but his rate of £3.25 per hour is hardly designed to attract workers with the requisite skills. He claims that workers are interested less in the NMW than in what is the *going rate*, the local industry norm. Despite this, he has managed to keep his work force stable over the last year, with four leavers balanced by four new recruits. Also contracting is C3, who has recently lost four workers but *we're not recruiting because work is reducing*. Though this owner claims to be paying better rates than his competitors – *it's good because more people want to work for us* – he sees no benefit in the NMW because paying it would mean *prices go up and orders fall*.

At the other end of the spectrum is the steadily expanding baby-wear retailer, C7, whose strong market position enables far more room for manoeuvre than for many others in the clothing sector. This is evident in the owner's progressive attitudes towards staff development and pay rates, where he is one of the few respondents to demonstrate complete NMW compliance. He records no recruitment difficulties and indeed he has recently taken on four workers laid off from another baby-wear firm.

He is convinced that the NMW has had the effect of raising worker quality, *we expect a certain calibre of skills and commitment and we are getting better people applying*. Similarly content is F8, whose labour requirements have in any case eased as part of his substantial slimming down operation and his diversification from manufacturing into importing and property management. Even so, his remaining workforce is comfortably stable, with just two out and two in over the past year. They are also claimed to be loyal and committed. Moreover, this firm is clearly much more formal in its methods than most operations in this field, with annual pay reviews and cost-of-living increases; and recruitment through the job centre and local newspaper adverts.

### **Conclusions**

Firms' relationship to the labour market, discussed in this chapter, reflected their product market positions discussed in the previous chapter. Word-of-mouth recruitment continues to characterise the 'informal' sector. Though it creates difficulties in recruiting appropriate kinds of labour, it is a long-established practice from which firms find it hard to escape.

## 6 PAY AND THE NMW

Pay rates in the case study firms are detailed in Tables 3 and 4. The extent of underpayment of the NMW is clear in both sectors. All the non-compliant firms were, by definition, paying at least some workers below the minimum, but in several of them average wages, and in some cases (notably C2, C6 and F3) even the highest wages, were below the NMW level. However, in assessing these figures, it is important to bear in mind that many employers struggled to identify precise hourly rates. This was due to the fact that in the clothing sector, most workers (that is, sewing machinists) were paid according to the number of garments that they produced rather than hours worked. Overtime was rarely if ever paid to machinists or other workers who were called upon to perform extra work. Working additional hours was seen an accepted and inevitable part of working life in these firms. For example, the cutter employed by F4 stated that the *gaffer buys me a drink* for overtime.

Working hours in restaurants were similarly imprecise. For example, workers in F1 worked a six-day working week comprising a day shift from 11am to 2.30pm, and an evening shift that notionally extended from 6.30pm to 11.30pm. However, this could be much longer if there were customers to serve; there were no overtime payments. It was, therefore, very difficult to specify an hourly rate. The owner of F4 was particularly forthcoming on the subject.

The real hours of work for all full-time staff are about 50 hours. All that stuff about maximum number of hours anyone can work is not really applied in this trade. People have to work as long as the business is open. No-one can treat it like an office job - clock in at nine and finish at five - it does not work like this. There is no fixed timetable; the opening hours do not mean a thing for the staff.

### Pay rates

In the clothing firms, there tended to be three categories of worker: packers, sewing machinists, and cutters. Packers and general warehouse workers were the lowest paid. There was plentiful supply of this type of labour, which meant that *you can get packers ten to a penny. All Asians, Bosnians and asylum seekers can do that* (C1). In C2, wages for this type of employee ranged from £140 up to £170 for a 45 hour week. The owner conceded that *It's not enough. It's terrible, when you see how much they work for it.*

Sewing machinists comprised the majority of the workforce in most of the clothing firms. They were paid on the basis of piece-rate. In C4, machinists averaged £150 for a 45-hour week; some were able to earn £200 per week. The highest wages were recorded in C3, where a few workers were able to earn £225 for 40 hours. A figure of around £150 for a 45-hour week was the norm in the firms.

**Table 3: Pay and condition in clothing firms**

Company	Pay Rates (£ per hour)			Working hours	Annual leave	Breaches of regulations
	Lowest	Average	Highest			
C1 (Re-visit)	2.30	4.00	6.00	60	10 days, plus bank holidays	NMW;VAT;WTR
C2 (Re-visit)	3.10	3.30	3.80	45	10 days, plus bank holidays	NMW
C3 (Re-visit)	2.00	3.30	5.00	45	10 days, plus bank holidays	NMW
C4	2.70	3.20	4.40	45	10 days, plus bank holidays	NMW;VAT
C5	2.50	2.75	3.00	48	10 days (no bank holidays)	NMW;WTR
C6	3.70	3.70	3.70	45	10 days, plus bank holidays	NMW;VAT
C7 (Compliant)	4.60	4.80	5.00	40	10 days, plus bank holidays	None. Some infringements when NMW introduced
C8 (Compliant)	5.30	5.50	9.60	40	10 days, plus bank holidays	None

**Table 4: Pay and conditions in restaurants**

Company	Pay Rates (£ per hour)			Working hours	Annual leave	Breaches of regulations
	Lowest	Average	Highest			
F1 (Re-visit)	2.85	3.00	5.00	55	10 days plus bank holidays	NMW;WTR
F2 (Re-visit)	3.15	3.75	5.85	45+	21 days (not incl. bank holidays)	NMW; WTR
F3	2.80	3.00	3.30	55	10 days plus bank holidays	NMW;WTR
F4	2.20	3.50	4.25	55	10 days plus bank holidays	NMW;WTR
F5	3.40	4.00	4.80	50	7 days plus bank holidays	NMW;WTR
F6	2.50	3.00	5.00	55	10 days plus bank holidays	NMW;WTR
F7	3.30	3.50	5.40	50	10 days plus bank holidays	NMW;WTR
F8 (Compliant)	4.65	5.00	7.00	40	10 days plus bank holidays	None
F9 (Compliant)	4.50	4.50	5.00	45	10 days plus bank holidays	None (since 2004)

Cutters were usually the highest paid employees. They are responsible for cutting fabric into the constituent elements of the garment, which machinists then assemble to produce the final product. The 'going rate' for a cutter was around £200 per week. But it should be noted that the contraction of the sector has been such that cutters, who were once comparatively well paid by this sector's standards (Ram, 1994), are not necessarily as scarce as they once were. In C4 for example, cutters received £150 for a 45-hour week.

Employers evaded the NMW by under-declaring the number of hours worked by employees. Workers were complicit in this activity, as the owner of C1 explains:

Some employees under-declare their hours to get a better family credit rating. They suggested this themselves. They get £150 from me, show £85 and get another £200 from the government.

Similarly, in C2,

Machinists show that they worked less hours anyway so that they could get family credit ... Pressers get £120, but they only show £80 to the local council ... so that they get a better amount from the social benefit.

This practice of under-declaration of earnings was also widespread amongst restaurants. Virtually all the non-compliant firms admitted to this practice. The owner of F2 suggested that it was widespread in the sector.

We pay people a weekly wage, but we do not declare the whole amount as it is not beneficial for me or the staff as they will not be able to get maximum working tax credit. The lower the wages declared the lower the turnover can be declared by the owners. Accountants who work for restaurant owners know how the system operates and they are basically our point of contact and how to manage the NMW. Everyone in this trade will, if they are honest, give you similar answers, some may be afraid of the consequences.

Most restaurants had three categories of workers: porters, who tended to be used as general assistants; waiting staff; and chefs. F6 described the pay rates for each category of worker.

Most staff are paid less than the NMW. The kitchen porter receives £150 for working a 50-60 hr week. The waiters get paid £170-£190 for the same number of hours ... Our chef is highest paid worker, earning £300 per week. Employees are paid cash-in-hand; there are no payslips. Virtually all staff claim the working tax credit. Officially employees' wages are £90-£100; this is the amount that is declared on the books.

### **Pay determination**

The determination of pay rates in the clothing firms was very much at the discretion of the owners. As the owner of C1 commented,

packers get less than cutters. Warehouse workers get the same as packers. I've had 40 years experience. I know what jobs require skill; I know that I am paying at the right amount.

Most clothing employers mentioned that they talked to their counterparts in other firms, and that these interactions were a factor in setting pay rates. Owners made reference to the importance of *market value* (C6), *supply and demand* (C8), and *the going rate* (C4) in determining the level of pay in their firms.

We pay very similar otherwise they [workers] would move around. Staff would let me know. I know this because of word of mouth; we do talk within the business. Sewers can't get work at the moment, therefore, they accept; they have to [accept the situation] (C1).

The employees know what the going rate is and I have to pay that. The women come to me and tell me what others are getting ... Sometimes I say go and work there then because we can't afford it but I will give up to £3.25 an hour (C4).

As suggested by these quotations, pay determination operated against a context of rash of business closures in the sector that showed little sign of abating. Illustrating this point, C6 remarked *I've got my own workforce and other warehouses are closing down so I can pay what I want.*

Employers in the restaurant sector also tended to dictate levels of pay in their firms. Factors that were taken into account in the determination of pay included 'ability', 'experience', and 'business turnover'. Most employers claimed to know what their competitors were paying, as this owner explains,

We do not go out to pay more than competitors. The Bangladeshi catering industry is very close to each other, we talk each other, at meetings we exchange our ideas and concerns, there is a general awareness of what is being paid (C2).

Pay rises were again largely at the discretion of the owner. There were no automatic increases, or link with inflation.

We don't go by rate of inflation we just go by the quality of staff, it all depends (F2).

Pay increases are really dependent on how well the business is doing. It is all very ad hoc; it is not guaranteed that pay will be increased (F7).

Pay increases are determined by the actual profit margin of the business, not rate of inflation. If the business is generating good turnover then staff will be rewarded accordingly (F3).

## **Influence of NMW**

Many clothing manufacturers felt that the NMW, including the progressive upratings, had little influence over the level of pay in their firms. For instance, C1 asserted that the NMW had *no influence at all. It's just another level of bureaucracy we have to deal with*. Pay rates in the firms were set at current levels because *that's all the market requires us to pay*. In this narrow market niche, cutters could command higher wage rates; but again this was more a reflection of the dynamics of the particular niche than a response to the NMW, *if I need a cutter, I'll pay to get him. It's a case of supply and demand*.

In a similar vein, C6 maintained that the NMW had no influence on the setting of pay rates. He did not see any disadvantages of paying below the NMW; but he did concede that he was finding it difficult to recruit skilled sales people, despite being prepared to pay more. He said that he was employing *monkeys* now, so that there was no real need to increase wages.

Employers felt that they were best placed to establish the worth of workers, and that they would not be constrained by the NMW. Justifying this point, C3 believed that *The NMW doesn't account for crap workers ... I would just fire the person if I had to pay NMW*. C4 elaborated upon this rationale for underpayment of the NMW,

We can only pay so much and I know exactly how much each job deserves and the government don't know ... Some women want the NMW but we can only afford so much.

Restaurant owners were also largely unaffected by the NMW on matters relating to pay. On this point, F2 commented, *I don't think the NMW influences our pay rate whatsoever we just pay what we can afford*. Echoing this point,

the NMW does not really influence how wage rates are determined. NMW has not had any impact as it is not applied in this trade; employees are just paid a weekly sum, hourly calculations don't really come into the equation (F7).

This owner (F7) did not consider the underpayment of NMW to be an 'informal practice' since it is considered *standard* across the whole industry.

Some employers did acknowledge that there were disadvantages to the practice of not complying with the NMW. For example,

Disadvantages of paying wages below the NMW are that you are not going to get stability. People will not want to stay with you long term. They will just keep moving on after a short period if pay is not at a certain level. It does have a negative impact (F3).

F4 agreed that higher wages could serve as a means of encouraging more and better quality staff, but *trading conditions won't allow this ... we just basically can't afford it* (F4). F6 owner agreed that in general staff would work harder and more productively if wages were increased. However, *it is a difficult balancing act as you*

*do not want the majority of your weekly turnover going to salaries which in reality could be the case.*

### **Breaches of regulations**

Since non-compliance with the NMW was a criterion in the selection of ‘informal’ firms, the majority of businesses (15 out of 19) were in breach of at least one regulation. Further, as Tables 3 and 4, many of the firms did not comply with other employment regulations, notably, the WTR. However, the widespread practice among the case firms of paying workers partly in cash that does not go through the pay-roll records means a number of other regulations are breached. As Grabiner (2000:3) notes,

- The employer avoids paying secondary Class 1 NICs on the unrecorded pay;
- By avoiding NICs and income tax due under PAYE, it is cheaper for the employer to offer an employee a given amount of take-home pay;
- Employees can claim more means-tested benefits than they are entitled to, by concealing the unrecorded cash element of their earnings;
- The employer typically presents a false picture of the business’s taxable income, since the cash part of employees’ pay usually come from cash sales that have not gone through the books; and
- The employer evades VAT at 17.5 % on the undeclared sales

Hence, committing one type of fraud usually involves committing another.

Employers who collude with an employee in a false claim for Working Families Tax Credit<sup>2</sup> or means-tested benefit will normally suppress the level of employee’s wages. To make their accounts appear consistent, they will have to conceal some of the taxable sales and profits of the business. Potentially there is a fraud against three Departments at once (Grabiner, 2000: 3).

### **The workers’ experience**

Though it is often argued that employer-worker relationships in small ethnic minority firms are comparatively harmonious, with the mutual ties of common heritage acting together with paternalism to smooth over class antagonisms, this is not the picture painted by the employees interviewed here. Co-ethnic solidarity appears to be decidedly frayed, while the availability of a reward package boosted by various perks and non-material benefits are insufficient to compensate for sub-subsistence wages. Many workers felt aggrieved, as with Inza (F2), a waiter, who described his pay as *a pittance ... In other industries there would be an outcry and the unions would not accept it.*

Understandably discontented though he may be with a wage of a little under £4 an hour, Inza (F2) is actually “better off” than others interviewed. Only Koh (F6), a restaurant manager, can match Inza’s hourly rate and others are distinctly worse off. One of the most poorly paid is Ria, head waiter at F1, whose 70 hour week for £200

---

<sup>2</sup> From 2003, this was renamed ‘Working Tax Credit’

represents less than £3 per hour. Explicitly underlining that these levels of remuneration are insufficient to support independent living is the case of Javed, a 24 year old tandoori chef, who earns £2.54 an hour and survives only because he continues to live with his family. In some restaurants, discontent with pay is pervasive throughout the staff, as noted by Khan (F4), a young waiter: *we do discuss pay and generally have a moan and a groan. We could do with more money, we don't want to just scrape by.*

Khan himself works 50 hours a week at around £3 per hour, a rate which clearly is some way below the NMW but fairly normal for the curry house trade. For example, Mirza (F7) gives his actual (as opposed to officially declared) earnings as £3 per hour, while Mo (F5) gets by on £3.40, £170 for a 50 hour week. Mirza (F7) reveals that his current wage is only £10 per week above his 1994 rate and observes, *in reality, pay has decreased ... I feel really demoralised that pay has not kept up with the cost of living.* Moreover, Mirza points out that real wages in restaurants can be further depressed by the unpredictability of the hours worked:

Opening hours are a joke, as all staff easily end up working more hours due to cleaning, preparation, busy periods ... you just have to keep quiet and put up with it.

Not unexpectedly, clothing workers fare no better, with Jit (C4) an experienced cutter in his 40s pocketing £4 an hour and Askar (C1), a packer and studder, taking home £150 “cash in hand” for a 60 hour week. Echoing the restaurant workers, these respondents also complain about the absence of formal arrangements for pay increases and overtime payments. Thus Jit has had no pay rise in line with cost of living for the last three years and receives no higher overtime rate. Also falling behind inflation is Ria (F1), another who enjoys no automatic pay rise or overtime rates. Knowledge of the NMW was tempered with cynicism, *As we all know, in this trade, it never happens.*

Despite all this, labour relations in these firms are complex and cannot be entirely reduced to the ‘cash nexus’. Though the influence of cultural exceptionalism has probably waned significantly through the long settlement of Asian communities in Britain, there still remain contradictory pulls between sentimental and material motivations. Thus Jit (C4), who is emphatically discontented with his poor wages and lack of paid holidays, nevertheless stays on *only because I am a friend of the boss. I'm not that happy in reality. How long will I go on working here? Until I can't.* Another who sees particular advantages in working for a fellow Asian is Javed (F3), a devout Muslim, whose co-religionist boss acknowledges his need for prayer breaks. For Ria (F1), low pay is compensated to some extent by *good atmosphere and working relationship.*

Even more illustrative of the pull of traditional ties is the case of Askar (C1), who provides the clearest example of the paternalist arrangements evident in many of these firms. He lodges in a flat owned by his boss and is ferried to and from work every day by the firm's transport. Exceptionally among the interviewees, he sees his low wage as *fair* and any increase would be unrealistic because

the boss can only give me what he can afford. We are very close. Money is not that important, I'm happy here and enjoy working with my colleagues.

However, Askar's comments also need to be seen against his vulnerability arising from his status as an undocumented migrant, *my status here is precarious ... the boss helps me with my asylum claim.*

As a comparatively recent immigrant, Askar had little experiences of work with which he could assess his situation. By contrast, British born and raised workers are more knowledgeable about labour market options and evaluate their position in those terms. Typical here is Jit (C4), who observes

You get a proper wage at white firms with proper holidays. I would like to get a factory job where they earn £300 or £400 a week for the same work.

Also taking his cue from the mainstream labour market, Inza (F2) talks of the need to pay *correct money for the designated hours*. Support for this is voiced by Javed (F3), who claims, *I could definitely earn much more elsewhere.*

In similar vein, some respondents also cite the absence of any kind of career structure as a major drawback, another implicit comparison with the mainstream labour market. According to Mo (F5), *there are no prospects for promotion. You are stuck in the same job.* In a variation on this theme, others bemoan the lack of incentives to reward skill, productivity and commitment, with Koh (F6) arguing that *the system does not reward those who push themselves and work hard or show extra commitment beyond the necessary.*

A further source of resentment is favouritism, the perceived privileges enjoyed by members of the owner's family at the expense of the rest of the workforce. For Mirza (F7), *some people get more than they deserve, if people have family links, they get looked on favourably and in some cases are paid more.* This is echoed by Inza (F2), who claims, *It is common knowledge that if an employee is related to the owner his wages are better and his increases are better.*

Occasionally, poor pay and perceived unfairness are tolerated for short-term instrumentalist reasons as with Khan (F4), a waiter, who is using his evening job to fund him through an HND. Indeed, he is not alone in his desire to quit the trade for something better, as evinced by Inza, (F2) who declares

I could do with some guidance to get out of this trade and most of my colleagues are in the same boat ... it's just one of those jobs that people do temporarily and move on.

However, labour market options are very limited, confirming that Asian workers in these two sectors are effectively constrained sometimes by poor qualifications and lack of self-confidence, occasionally by language barriers and now also by the benefits trap. Moreover, self-imposed psychological barriers often reinforce entrapment, as explained by Khan (F4), *Some are used to this job, environment and culture, it's all they know.* Mirza confirms this, *I stick to what I know ... I am too afraid to take the risk.* Whatever its origins, the presence of this captive labour force

is one of the major factors holding down wages and conditions in these restaurants and clothing firms.

Seemingly, then, there is a growing awareness of rights and grievances, operating in a context of poor labour market prospects. For workers such as Inza (F2), there is no sentiment, loyalty or solidarity, just naked exploitation, *They just think people are expendable, if one person goes, he can easily be replaced*. Significantly for the purposes of the present study, employer-worker relations remain collusive over measures taken to manipulate NMW regulations and working tax credit. Described by the Inza (F2) as *a cosy arrangement between owners and staff*, it seems to be common practice to under-declare hours worked so as to disguise under-payment of the NMW; this way, everyone can claim maximum working tax credits (Inza).

Unsurprisingly, then, virtually every employee interviewed here gets less than the NMW. Illustrative of the tactics resorted to in the catering trade, Khan works 50 hours a week but only 20 is declared, thus concealing a wage of £3 per hour. Often what makes this endurable is the top-up from working tax credits, a benefits trap that can act as an actual disincentive to seeking better-waged work. Mirza (F7) voices such a dilemma, *the extra I earn, I may lose in benefits*. The system is also tolerated because, in the case of the restaurant employees, there is a pervasive mood of resignation, a feeling of inevitability that this is simply the way things work in this industry. As Mo (F5) puts it,

The NMW does not really matter in this trade as your wages are not calculated on hourly rates ... everyone just seems to accept things the way they are.

*In this trade*, says Koh (F6), *it is taken for granted*. In similar vein, Ria (F1) contends that *most restaurants are not paying it, so you can't pinpoint this employer*.

## **Conclusions**

This chapter has underlined the extent to which very low levels of wages continue to exist among informal firms. It has also addressed the processes sustaining this fact. These processes are embedded in the market conditions of firms, but they also involve pay determination arrangements that are idiosyncratic and that allow a degree of tacit negotiation between employers and workers. This negotiation was one reason for workers' staying in these firms, though perhaps more important were their limited labour market opportunities and their narrow range of comparisons with other jobs.

## 7 APPROACHES TO COMPLIANCE AND NON-COMPLIANCE

The previous chapter highlighted widespread non-compliance with the NMW, pithily observed by F9: *I never imagined the Indian food sector would comply as they have never complied with anything else.* This can be explained as a combination of two factors: 1) inability to pay – owners of marginal businesses struggling to survive see the NMW as a final straw; and 2) difficulty of enforcement – wage determination in small informal workplaces is highly non-transparent, especially in respect of hourly rates. Where piecework is standard practice as in clothing manufacture, this is difficult to translate into rates per hour, while in restaurants the day-to-day variability in working hours has similar effects. In both sectors, it is easy for employers to disguise the actual hours worked and in many cases these evasions are given a professional gloss through the use of accountants. As F7 remarks, *everyone thinks they can get away without observing the rules.*

On the matter of affordability, it is instructive that the four compliant businesses appear to be the most successful in terms of growth. Vividly illustrative of this is C8, who observes that when the NMW was introduced, *the margins were there, so it didn't hurt.* This owner also cites the positive benefits of paying good wages to attract a superior quality of recruit. Even more enlightening is F8, whose rapidly growing revenues enabled him to comply without financial strain but who was also powerfully deterred by the possible costs of non-observance, *we were constantly audited by Environmental Health, coming in and taking lists of staff names ... non-compliance would close us.* Here the nature of his business as a food manufacturer renders his wage practices rather more transparent than is the case in restaurants. Deterrence has also been effective for F9, who admits to fearing *the consequences of not adhering to the law.*

Broadly similar considerations apply to C7, whose commercial success ensures that NMW compliance is not unduly problematic, but who is also motivated by the *fear that you would be arrested if you did something wrong.* Significantly, this firm is also decidedly more 'formal' than most in outlook and behaviour, having forged close links with external support agencies and thus opening itself up to official scrutiny. *I work closely with the council and Business Link, so for me to act in an inappropriate manner would not be right.*

Turning now to the non-compliers, a complex mix of attitudes and responses are evident. Some respondents demonstrate a contradictory stance, whereby they support the NMW in principle but fail to observe it in practice. Others are dismissive, as in the case of C1, who claims that the introduction of the NMW has had no impact on him and is *just another level of bureaucracy we have to deal with.* Even more emphatically, C3 dislikes the NMW on principle because *it has put more pressure on managers and more red tape and they don't give us a chance to make money.*

Others are more concerned to justify their non-compliance, sometimes arguing that, providing they conform to the commonly accepted norms in their trade, the NMW is somehow irrelevant. For example F1 is more concerned that his wages are in line

with other Asian restaurants and, in the clothing trade, C1 notes that *We pay very similar, otherwise workers would move around.*

More often, however, respondents acknowledge a belief in the NMW in principle, while rationalising their refusal to observe it in practice. As noted above, the typical justification is an inability to afford higher pay, as with F4, who simultaneously urges *severer penalties and enforcement* but claims *we just can't afford [it] ... the rate is set too high for small traders like me.* Similarly caught in this dilemma of compliance versus survival is F7, who suggests that *a few high profile prosecutions would set a precedent*, and then argues that *if we were to abide by all the regulations we would not survive.* F2 concurs, *I believe that firms should operate within the law ... the NMW doesn't influence our pay rate whatsoever, we just pay what we can afford.* F6 is equally adamant that *it is the law, so we must all try to abide*, even though his wage payments have remained unaffected by NMW and are disguised via manipulation of declared working hours. Another claiming to be unable to afford the NMW is F5 but he still thinks that *if a lot more restaurants were penalised, it would make everybody else take note.*

In only one case did officials from the Inland Revenue visit the firms to monitor compliance with the NMW. This involved C1; despite non-compliance with NMW and other regulations, the inspector did not detect any malpractice,

An [inspector] came three weeks ago to look around. He sent a letter to all our employees saying if you are being paid NMW don't reply. Obviously, they're all in cahoots with their family credit. I'm not doing anything wrong ... He found no problem. He was supposed to come in for the day- he spent an hour going through the books and two hours talking about [local football team]. This was the Inland Revenue check.

## 8 COMPLIANT FIRMS

This chapter considers the experiences of four firms that comply with the NMW, and focuses on a number of key issues. First, the economic context of each business is examined, particularly in respect of its relationship with the NMW. Second, the actual introduction of the NMW is assessed, examining employers' views before and after implementation. Employers' motivation for compliance is a key point of interest, particularly in light of apparently significant non-compliance by competitor firms. Finally, the influence of the NMW, and subsequent upratings, on employment practice is investigated. A key task is to understand why these firms comply despite: being in close geographical proximity to the other firms in the study; competing in the same sector, often seeing 'informal' as rivals; and seemingly drawing workers from the same labour market.

Although the four firms currently adhere to the NMW, the point at which they began to comply differed. C7 operated 'informally' for a short period of time before taking the decision to call in the Inland Revenue for assistance with the procedures for compliance. F9 was operating informally as recently as January 2004. Both C8 and F8 claimed to have implemented the NMW immediately; but this caused difficulties for F8, whereas C8 did not appear to experience any real difficulties. The experiences of each of the cases are now presented individually.

### **C7: The NMW as an incentive to modernise**

#### *Background and context*

Case seven commenced trading as a retail store specialising in babywear and accessories in 1998. At that time, it was the only babywear specialist in the small market town in which the business is located. The company had three part-time employees at that time. Currently, it has ambitious plans for expansion. It will be opening new premises in late 2004, and, in preparation, has just recruited six employees; it has developed a mail order service; and it is looking to produce children's books. A feature of the firm is the sub-contracting of some its key functions. For example, to support the mail order activity, the business uses the services of a dedicated call centre employing six people. It has both local and national competitors.

#### *Pre-NMW*

Prior to the introduction of the NMW, staff over 22 were paid £3.50, cash in hand. Workers under the age of 21 were paid £2.50. These wage rates were consistent with *what everyone else was paying* at the time. To retain workers, *I have tried to recognise training needs of the workers and put them on courses so they could stick with us in the business.*

The owner was initially *shocked* by the additional cost and extra administrative pressures that could be generated by the NMW.

All of a sudden the wages were increasing quickly, ... Also at the time, we were not keeping up to date with the paperwork That, for me, was more of a headache than paying the extra wages. In the end the money we were paying out was nominal compared to the extent of paperwork I had to get through ... It was worrying having to deal with the Inland Revenue; that's scary for a small business and I didn't understand it. There was that fear that you would be investigated and arrested if you did something wrong.

However, this fear never materialised. At the time the NMW was introduced, the owner contacted the Inland Revenue to visit him *and tell us what we had to do in terms of national insurance and back taxes*. According to the owner,

They were fantastic. They came down with the paperwork, they looked at our record books with all the hours in, and they worked all the sums out for us ... Obviously we did have to pay the backdated national insurance payments; but that was a great weight off my mind.

The owner believed that he *could have got away with paying less than NMW*. However, he had ambitions to grow his business and seek assistance from external agencies (for example, Business Link). Operating in a formal manner was seen as an essential prerequisite.

I'm involved with other things as well. I work closely with the council and with the business link. For me to act in an inappropriate manner would not be right. I think regardless of that, we wanted to progress our business and that can only be done in a formal manner.

The main difficulty in making the change was actually the *perception* of difficulties entailed by adopting the NMW.

It was actually calling the Inland Revenue, because I thought that they would lumber me with a load of paperwork, I thought the costs would escalate. But they did it all for me.

The owner maintained that there were productivity benefits from operating more formally. These ensued from having a more committed workforce.

From the staff's point of view, it was good because they were getting more money; but I would say it has increased productivity because they feel more a part of the business. They were getting paid more and may have thought before whether I would try and employ cheaper labour or if I would stick with them. Now they have got more involved in terms of paperwork and I ... spend less time there; so it was a win-win position.

Workers became more *efficient* because they were given more responsibility at work and opportunity for training. The NMW was regarded as the *catalyst* for these developments,

Yes, it was the catalyst for us to formalise things. We felt that paying them more would mean they gave us more, which they did. They took to it and became more part of the firm.

#### *Post NMW*

Workers are currently paid over £5 an hour. The lowest paid worker receives £4.60. Workers in the new retail store will receive £5 plus commission.

Given that the core workforce had been with the firm over six years, the owner was well aware of their *market value*.

We are quite happy to pay them more as we can get more out of them. We've trained them for over six years and we don't want to lose them now. They like the ethos of the company, so it's not just the money.

The owner felt that pay rates compared favourably with his competitors; he derived this information from staff who had worked at other firms. Workers receive an annual pay increase.

The NMW upratings had *directly influenced* the firm by increasing wage levels. Costs also rose indirectly, since the owner was being charged more by the call centre that it used for its mail order operation.

The owner has recently recruited four people who were recently made redundant from a baby wear firm. There are no real recruitment difficulties. Since the advent of the NMW, *we expect a certain calibre of skills and commitment so it has had an impact. We are getting better people applying.*

In summary, the owner stated that *the NMW hasn't had the effect that I'd thought it would. It didn't close us down or make us bankrupt but has made it better for us.*

### **C8: Market shifts and the NMW**

#### *Background and context*

A family-run company comprising four brothers, case eight started off in 1979 as manufacturer for major chainstores like Boots and Asda. The firm grew steadily, employing some 90 workers at its peak in 1994, and acquiring two retail outlets to supplement its manufacturing operation. However, the late 1990s witnessed a severe contraction, as major customers looked overseas for cheaper suppliers.

Since the world markets opened up and globalisation hit, the stores started to go abroad and quotas were being abolished so we couldn't keep up. The first set of redundancies was in manufacturing and we slowly reduced the numbers working there. First we had about 90, to 40, to 20 and eventually we closed it down because the demand wasn't there and we moved the resources to other divisions. About 10 years ago we were supplying about 95% to the British market. Now we import 99% from abroad. So we have moved from a very manufacturing orientated business to an almost exclusively distribution one.

The company now is a distribution and wholesale business selling clothing manufactured from abroad to independent retailers. The company has survived by drastically reducing by being a lean business, *there is not a lot of wastage here*; and by diversifying into property.

#### *Pre NMW*

Prior to the introduction of the NMW, the firm paid its machinists the *industry norm* of £3 per hour. The setting of the initial rate at £3.60 was accommodated without difficulty, largely because of the market in which the firm were operating in at the time.

There wasn't that big a problem as long as we were supplying to the store business. The margins were there so it didn't hurt as we needed to pay that to get the better workers. What hurt was the opening up of eastern markets.

The firm were able to recruit *good workers* because competitor firms were not always willing to pay the NMW. Some potential recruits wanted to be paid cash in hand; but the company had *no option* other than to follow the law.

#### *Post NMW*

The warehouse workers receive £5.50 per hour. Warehouse managers receive £11,000 per annum, and the senior manager is on £20,000 a year. The hours are Monday to Friday, 9-5.30; everyone is on a 40 hour week.

Pay rates are determined on the basis of *supply and demand*. There are no recruitment difficulties. Wage rates are assessed annually, and a cost of living rise is usually given to each worker.

The NMW, and its subsequent ratings *didn't hurt*. The switch from labour intensive manufacturing to the current situation where only five warehouse staff are employed was a major factor in this relaxed approach to the NMW.

### **F8: Innovation and the NMW**

#### *Background and context*

F8 is a food manufacturer specialising in the production of ethnic food. The company started trading in 1996 whilst the founder was working full-time in paid employment. The success of the business was such that he joined on a full-time basis in 2000. The company has recently moved into premises that are 17 times bigger than the old factory, and has ambitions to grow the firm 100 per cent year on year. The founder sees himself as an *innovator*, and devotes ten per cent of his £1,500,000 per annum turnover to new product development,

#### *Pre NMW*

Prior to the introduction of the NMW, workers were paid £3.25-£3.50 per hour because *we couldn't afford a great deal more and that is what everyone was paying so that is what we paid*. At that time, *there were people desperately looking for work*. Many local clothing firms had closed down, which had a particularly adverse impact on ethnic minority unskilled and semi-skilled labour.

The NMW was seen in very negative terms.

I saw it as something that was hugely detrimental to my business. We were struggling to make ends meet, we were paying £3.50 an hour, and here I was having to pay more than that for no extra manufacturing or for no extra units produced or anything else. So it was something that was going to cause me lots of issues, lots of problems.

The firm employed three people when the NMW was introduced. The owner was *constantly asked to pay people off books*, but declined to do so. The firm's customer base and the fear of being audited were key factors in explaining compliance.

[We complied] because of the type of customers we were supplying and because of the fact that we were constantly audited by XXX City Council Environmental Health and things like that. The first thing they were doing was coming in and taking a list of your staff names. It was something that if it ever came back to us it would close us and we certainly couldn't afford to dig ourselves out of it, so we opted to pay everyone on the books.

The growth ambitions of the founder were a further factor. Compliance was seen as a prerequisite of growth and attracting high value customers.

Initially, there were difficulties because

I was paying a pound an hour extra and I wasn't getting any extra production out of it ... I couldn't pass that cost on to my customers so I was making less money and I wasn't making a great deal of money in the first place.

They managed by reducing their own cost base. For example,

Little things like the quality of ingredients we were buying possible came down marginally. The volume of certain ingredients we were putting into the product themselves came down marginally, a whole series of things. Some of the costs we were paying for stationery and stuff like that started to come down slightly and [eventually] we raised our prices up by 5 per cent or so to try to recoup some of our money from that point of view.

#### *Post NMW*

The NMW appeared to influence the type of labour being recruited. The owner claimed that the NMW worked both for and against the company.

It worked against us from the point of view that if we were paying on the books and you were getting £4.50 an hour that's good, but for the amount of

hours they were working for us it didn't cover the loss of benefits that they had as well ... I think from a credibility point of view it raised our credibility out there because we had done the right thing. At the end of the day they can either earn £4.50 from me and have that registered with PAYE, or they can earn £3.50 with the rag trade and yes they are earning a pound less but they still have got their benefits.

The owner was also of the view that implementing the NMW allowed him to secure *a better standard of staff*. Interestingly, he commented that the NMW had *raised the bar*.

I would say yes the NMW caused us a few issues but nothing that closed us and we carried on growing from there so the platform has now been raised to £4.50 rather than £3.50, the company has taken action to survive at £4.50. ... We looked at innovative ways of selling, we looked at innovative products, innovative methods and things like that.

Currently, wages for production workers range from £4.65 to £7.00 per hour. The firm also makes use of agency workers, whom they pay £6.00 per hour.

Pay rates were based on the owner's judgement, and were largely determined by workers' *commitment to the company*. This is demonstrated by the *hard work* and the number of hours *they have put in*. Despite many employees working long hours on a regular basis, no overtime is paid, *That's been the norm and we have never moved away from that and we can't afford to pay over time rates*.

The owner claimed that the social satisfaction that employees derived from working in the company was very important, and largely explained why they accepted such pay structures.

Pay rates were comparable to competitors. But this was difficult to gauge because the owner believed that many rival businesses paid their workers off the books. He derived this information from his staff.

Pay rises are not automatic and are dependent on the level of commitment that workers' demonstrate.

Pay rates were influenced by the NMW, *I am not sure we would be paying the current rate if it were not for the minimum wage*. The owner maintained that the up-ratings had a knock-on effect, *As the bottom rung comes up it has a knock on effect throughout, so the supervisor who is on £7 an hour will now start to earn £7.15 or £7.25 or whatever it is increased by*.

The upratings added to the cost pressures that the firm was facing.

It's bloody expensive for us because again the wage goes up and we get no more productivity out of it. So you have got that and you have got constantly heavy bills for your product development and innovation, and then you have got the international scene, the Far East, coming in pushing prices down all the time so it impacts on the business straight away.

## **F9: The fear of detection**

### *Background and context*

F9, employing six full-time staff, and three part-time workers, has been established in a market town area since the early 1990s. Like many others in the sector, F9 was experiencing considerable competition from nearby towns. He remarked,

There's too much choice, more restaurants sprouting up in areas you would never imagine. Sometimes these out of town places do very well as they offer convenience in terms of parking and less congestion.

Despite this competition, F9 had a relatively loyal and stable customer base. Retaining them was of key importance,

We have not done anything too drastic as we have a regular customer base that is keeping us going ... The main issue for us is to keep our regular customers happy and also promote ourselves more.

Prior to the decision to pay the NMW, workers were paid around three pounds an hour; the chef was the highest paid employee at £3.50 per hour. Continued payment at these rates, even after the introduction of the NMW, was justified on the basis that, *It was just the way it is was ... I never imagined the Indian food sector would comply as they have never complied with anything else.*

In January 2004, the firm decided to comply with the NMW. Greater awareness of the NMW was a factor in encouraging compliance.

More awareness really [was important in the decision to pay the NMW]. Initially I was not really well informed but I spoke to our Accountant and also other people involved in this sector. I think it was the right thing to do.

However, *the consequence of not adhering to the laws was* the main incentive to comply. The owner was fearful of the risk of being investigated and the potential of closure of the business. The fear of being detected also prompted adherence to other regulations,

We didn't really check the legal status of some people such as whether they were entitled to work in the UK, I think this is still common but I will not take anyone in this situation on, it has become too risky and we could face big fines.

Compliance with the NMW is also seen as a possible means of address the recruitment difficulties experienced by the firm,

It is becoming increasingly difficult to recruit if we don't pay at least NMW. Also I think we need more credibility. I think by adhering we have shown that we can follow guidelines/regulations if necessary ... This will create a climate where staff would want to remain long term, as we will be able to offer similar pay and conditions to other small organisations in the local area.

The view was that the NMW could be helpful in modernising the business,

It will help to raise the profile of our business, a more professional outlook to potential staff and long term business goals. Making sure the business operates within a structured process, not just do things on an ad hoc basis.

Currently F8 pays the NMW rates for each category of worker, *I can't really afford to pay any more*. The owner could not assess the impact of the upratings since he had only recently started to pay the NMW. However, he suggested that staff were *happier* since the NMW had been introduced, and that they were *more committed and productive*. Moreover, *the staff feel that their employment is more secure*.

### **Discussion and conclusion**

Employer *perceptions* of NMW were largely negative. In the one case where it was viewed in a neutral fashion (C8), the key factor was the employer's confidence that price margins were sufficiently generous to accommodate the NMW. However, as we have demonstrated elsewhere (Edwards et al., 2004), complaints about regulation often turn on the possible effects rather than what happens in practice. In the case of C7, the owner was very fearful about the introduction of the NMW; and was concerned by the perceived increase in administrative requirements as much as any increase in costs. The guidance and the facilitative approach adopted by the Inland Revenue appeared to address these fears to the extent that the NMW is now seen as a catalyst for the modernisation of other aspects of the business. F8, although more equivocal, nonetheless suggested the minimum standard provided by the NMW served as a further incentive to innovate, or in the owner's words, *raise the bar*. And F9, although very sceptical about the viability of the NMW in the context of the restaurant trade, considers that workers are more productive following implementation.

The *market context* of each of the case firms was clearly a key factor in accounting these employers' decision to comply with the NMW. C7, C8 and F8 were intent on growing their businesses; their customer and supplier base comprised larger firms that often exercised some influence of the internal operations of the case study companies; and the formal and contractual basis of customer relations meant that there was limited scope for non-compliance. These factors, in addition to the fear of detection, served to encourage compliance.

Despite the importance that the market played in encouraging accommodation of the NMW, compliance was also a product of *managerial choice*. For C7 and F8 in particular, non-compliance was incompatible with their desire to grow the business, encourage commitment and innovation amongst staff, and secure high value customers. There was considerable emphasis upon training in both of these businesses, and an opportunity to progress in the company. C8 made a strategic choice to close its manufacturing operation in favour of the significantly less labour intensive activity of importing. This decision, together with development of an interest in property, meant that the firm was able to avoid the challenges of coping with the NMW in the harshly competitive and rapidly contracting manufacturing segment of the clothing sector.

A noticeable feature of the three of the four firms (C7, C8, F8) was their active involvement in a variety of *business networks*. C7 and F8 had both made extensive use of their local business link. F8 spoke very approvingly of ACAS, whilst C7 had

secured a number of business-related grants from the local council. All three business owners were members of local employer associations.

## 9 CONCLUSIONS AND IMPLICATIONS

The first aim of this study was to assess experience in small firms in the 'informal' sector in the light of the existence of the NMW for five years. The overwhelming conclusion is that pay levels and processes of pay determination have not changed noticeably from the previous situation: low pay remains common, and pay setting is informal, with rises being decided according to managers' views as to what they could afford and with working hours varying with the needs of the business. Rates of pay per hour thus varied according to the number of hours required. Evidence from firms visited in the past did not suggest that there was any clear process of firms moving towards compliance with the NMW as a result of experience: over the period since 1999, firms have not progressively left the informal sector as a result of the arrival and then up-rating of the NMW.

The second goal was to examine the relationship between the level of the NMW and informal working. The key point here is that changes to the NMW did not themselves directly affect firms' pay practices: it was not the case that firms up-rated their pay in line with the NMW. Far more important were market conditions and 'ability to pay'. Pay practices were substantially detached from the NMW, which acted more as a broad benchmark than as a direct influence on pay. The links between the NMW and breaches of other regulations, identified in Chapter 6, are also important. Operating outside the NMW tended to have consequences for firms' tax and other practices, and this connected set of practices may have tightened their position outside the formal sector of the economy.

Third, employer and employee responses were addressed in the context of wider working relationships. Developing the first two points, we can say that these relationships reflected a particular economic structure. As a restaurant respondent quoted in Chapter 6 put it, paying below the NMW was not an 'informal' practice because it was standard in the trade, a view endorsed by several workers. Evidence on the ability to recruit and retain staff suggested that alternative labour market opportunities for some employees heightened firms' recruitment problems, notably in the restaurant trade, but at the same time new groups of workers, notably recent immigrants, filled the gap. It appeared to be the general swings of labour market opportunity, rather than the NMW specifically, that affected recruitment and retention. Finally here, the continuation of a degree of give-and-take, for example laxity over start and finish times, was one aspect of an effort bargain that helped to make low pay tolerated by workers.

Fourth, differences between compliant and non-compliant firms were addressed. As shown in the previous chapter, there were various specific reasons leading compliant firms to pay at NMW levels or higher, but underpinning these were market conditions that allowed them to do so, possibly encouraged by their linkage within local business networks. There was some evidence of consequential benefits to firms, for example the ability to attract more skilled and committed workers.

These results are consistent with our previous research and also with other studies that stress the NMW's small effects on aggregate employment, pay differentials, and the gender pay gap (Dickens and Manning, 2003). The reasons are not hard to find. Firms

using 'informal' employment practices existed long before the arrival of the NMW, and it alone is unlikely to have changed deeply embedded practices. It is true that some research points to a clear impact of the NMW. Heyes and Gray (2001: 871) concluded from their study of homeworkers that the NMW had increased wages and that employers had not been led to push homeworkers deeper into the informal economy by re-defining them as self-employed. Edwards et al. (2004) also report one firm that brought its homeworkers into formal employment status as a result of the NMW. The most likely explanation is that firms operating close to the margins of formality may adhere to the NMW, and indeed the evidence of wage rises for workers paid below the NMW level and of the development of a 'pay spike' at the NMW level is clear. Homeworkers are not of course necessarily part of the informal economy. Yet firms more fully within that economy have tended to remain there, and pay levels and pay setting processes have continued much as in the past.

Two actions might have had a different result. First, a NMW at a much higher level than that in fact set would have sharpened the divide between the informal and the formal sector. This in turn might have driven parts of the former further underground, for the difference between legal and illegal pay would have been very clear. It might also have shocked some other parts into legal work, for the policy of carrying on as before would have been harder to continue. Second, a stronger enforcement regime might have forced at least some firms into compliance, albeit at the possible cost of their going out of business, together with the demonstration effect on other firms, that might have given up rather than continue.

Policy options fall into three categories. First, a regime of stricter enforcement could be pursued. From this and other research, it is reasonably evident where non-payment of the NMW is likely and also how it is practised (notably, through elastic recording of hours worked). This policy is easy in principle, though it has the direct costs of enforcement together with the indirect ones of the loss of some jobs. There is also the possibility that informal firms will go further underground. To the extent that the relevant economic niches exist and there are workers willing to work for low pay, such firms will continue to exist, and pressing them further away from paying the NMW may also push them away from legal employment practices in other respects such as health and safety.

Second, at the opposite extreme is a policy of benign neglect, policing the NMW relatively passively and leaving firms to pursue a legitimate path when they see the benefits. Such a policy might be accompanied by exhortation and stressing the benefits of compliance such as those indicated above. This policy has the benefit of recognising economic realities but at the cost of accepting that the NMW will not change the nature of informal work.

Third, a mixed policy of regulation plus self-regulation might be tried. We have seen that in the restaurant trade a key issue is the ease of entry, with consequent undercutting of legitimate businesses. One way of tackling this would be a stronger business association, membership of which guaranteed not just the pay and working conditions of staff but also adherence to food and hygiene and other regulations. Consumers might well be encouraged to patronise legitimate establishments, with membership of a strong association being a clear competitive advantage for firms. Public policy might promote such an association, possibly starting with a local scheme in a particular region. Policing would act as a control where self-regulation failed.

It has to be recognised, however, that such a policy would be unlikely to work in clothing, where international rather than local competition is the source of cost pressures. Even firms complying with the NMW, such as C8, have experienced sharp contractions in numbers employed. Some parts of the sector, such as retailing and distribution, may escape some of the worst of these pressures, and there are examples of some manufacturing firms establishing themselves in niche markets. Solutions here may turn on finding ways of supporting firms that can operate formally and allowing the forces of competition to shape those that cannot. The purpose of minimum wage laws going back to the original Trade Boards of 1909 is, after all, to eliminate 'sweating', and if competitive survival is possible only with sub-minimum wages then the conclusion is that the relevant firms have to be pressed out of business.

The overall implication, therefore, is that broad policy on the NMW may need to be complemented with more sectorally focused initiatives. This report has studied two different sectors. There are specific lessons, but the examples may have implications for many other sectors where informal work continues to flourish.

## REFERENCES

Aldrich, H., J. Cater, T. Jones and D. McEvoy (1981) 'Business development and self-segregation: Asian enterprise in three British cities', in C. Peach, V. Robinson and S. Smith (Eds) *Ethnic Segregation in Cities*, London: Croom Helm, 170-90

Arrowsmith, J., Gilman, M. W., Edwards, P. and Ram, M. (2003) 'The Impact of the National Minimum Wage in Small Firms', *British Journal of Industrial Relations*, 41, 3, 435-56.

Bailey, T. (1987) *Immigrant and Native Workers*, Boulder: Westview Press.

Castells, M and Portes, A. (1989) 'Introduction', in M. Portes, M. Castells and L. Benton, eds, *The Informal Economy*, Baltimore: John Hopkins University.

Curran, J., Blackburn, R. A., and Kitching, J (1995) 'Small Businesses, Networking and Networks: A Literature Review, Policy Survey and Research Agenda', Small Business Research Centre, Kingston University.

Dickens, R. and Manning, A. (2003) 'Minimum Wage, Minimum Impact', in R. Dickens, P. Gregg and J. Wadsworth, eds, *The labour Market under New Labour*, Basingstoke: Palgrave.

Edwards, P., Ram, M., and Black, J. (2003), *Employment Regulations and SMEs*, DTI Employment Relations Research Report.

Edwards, P., Ram, M. and Black, J. (2004) 'Why Does Employment Legislation not Damage Small Firms?' *Journal of Law and Society*, 31, 2, 245-65.

Edwards, P., Gilman, M., Ram, M. and Arrowsmith, J. (2002) 'Public Policy, the Performance of Firms and the "Missing Middle": The Case of Employment Regulations, and a Role for Local Business Networks', *Policy Studies*, 23, 1, 5-20.

European Commission (2004) 'Undeclared Work in the Enlarged Union', Directorate General for Employment and Social Affairs. Available at [Europa.eu/int/comm/employment\\_social/employment\\_analysis/undecl\\_work\\_final\\_en.pdf](http://Europa.eu/int/comm/employment_social/employment_analysis/undecl_work_final_en.pdf).

Gibb, A. (1996) 'Entrepreneurship and Small Business Management: Can We Afford to Neglect Them in the Twenty-First Century Business School?', *British Journal of Management*, 7, 4, 309-22.

Grabiner (2000) *The Informal Economy*, Report prepared for HM Treasury

Grimshaw, D. and Carroll, M. (2002) 'Qualitative Research on Adjustments to the Minimum Wage'. A report prepared for the Low Pay Commission. European Work and Employment Research Centre, Manchester School of Management, UMIST.

Harding, P. and R. Jenkins (1989) *The Myth of the Hidden Economy*, Milton Keynes: Open University Press.

Herman, H. (1979) 'Dishwashers and Proprietors: Macedonians in Toronto's Restaurant Trade', in S. Wallman, ed., *Ethnicity at Work*, London: Macmillan.

Heyes, J. and Gray, A. (2001) 'Homeworkers and the National Minimum Wage', *Work, Employment and Society*, 15, 4, 863-73.

Jones, T and Ram, M. 2003 'South Asian Businesses in Retreat? The Case of the United Kingdom', Forthcoming, *Journal of Ethnic and Migration Studies*, 29, 3:485-500.

Kloosterman, R., van der Leun, J. and Rath, J. (1999). 'Mixed embeddedness: (in)formal economic activities and immigrant businesses in the Netherlands'. *International Journal of Urban and Regional Research*, 23, 252-66.

Leonard, M. (1998) *Invisible Work, Invisible Workers*, Basingstoke: Macmillan.

MINTEL (1998) *Ethnic Restaurants, Leisure Intelligence*, London: Mintel International Group.

Newby, H (1977) *The Deferential Worker: A Study of Farm Workers in East Anglia*, Harmondsworth: Penguin.

Portes, A. and Haller, W. (2002) 'The informal economy', working paper, Centre for Migration and Development, Princeton University

Ram, M. (1994) *Managing to Survive*, Oxford: Blackwell.

Ram M, Edwards P, Gilman, M. and Arrowsmith J. (2001a) 'The Dynamics of Informality: Employment Relations in Small Firms and the Effects of Regulatory Change', *Work Employment and Society*, 15: 845-61.

Ram, M., Abbas, T., Sanghera, B., Barlow, G. and Jones, T. (2001b) "'Apprentice Entrepreneurs"? Ethnic Minority Workers in the Independent Restaurant Sector', *Work, Employment and Society*, 15, 2: 353-272.

Ram, M., Edwards, P., and Jones, T. (2002a) *The Employment of Illegal Immigrants in SMEs*, DTI Central Unit Research Report.

Ram, M., Husband, J. Jerrard., B. (2002b) 'Still Managing to Survive: Asians in the West Midlands Clothing Industry'. In J. Rath (ed), *Unravelling the Rag Trade: Immigrant Entrepreneurship in Seven World Cities*, Oxford: Berg Publishers.

Sassen, S. (1991) 'The Informal Economy'. In Mollenkopf, J.H. and Castells, M. (eds) *Dual City: Restructuring New York*, New York: Sage.

Scase, R. and Goffee, R. (1982) *The Real World of the Small Business Owner*, London: Routledge.

TCSG (Textile and Clothing Strategy Group) (2000) *A National Strategy for the UK Textile and Clothing Industry*, London: Department of Trade and Industry.

Williams, C.C. (2004a) *Cash-in-Hand Work: the underground sector and the hidden economy of favours*, Palgrave Macmillan, Basingstoke.

Williams, C.C. and Windebank, J. (1998) *Informal Employment in the Advanced Economies*, London: Routledge.

Wray, D. (1996) 'Paternalism and its Discontents: a case study', *Work, Employment and Society*, 10, 701-715.

Zhou, M (1992) *Chinatown - the socioeconomic potential of an urban enclave*, Philadelphia: Temple University Press.