

**Reproducing but Potentially Challenging the Low-skills Equilibrium:
A Study of Small Food Manufacturing Firms in the UK**

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Full paper for ILPC 2008, Dublin

Abstract

Low-wage work is of growing significance in the UK. This paper tests the model of the low-skills equilibrium (LSE) through a study of 27 small firms in a sector, food manufacturing, widely identified as being in an LSE. Three hypotheses are tested. (1) *There will be a single, fixed equilibrium.* We find more variety, reflecting the specific circumstances of firms. (2) *An equilibrium is sustained by weak support institutions and a product market dominated by low value-added goods.* The expectation about institutions is supported, but the product market permitted some, albeit weak, opportunities to escape the LSE. (3) *Skills will be low, and workplace regimes will be characterised by work intensification.* Some firms were developing employee skills. Work intensification was rare, reflecting the absence of Taylorisation and the importance of face-to-face relationships. Overall, some firms had the will to escape the LSE, but weak institutional support and a ready supply of labour substantially reduced the incentives to do so.

The expansion of low-wage work in advanced economies is widely noted (Appelbaum et al., 2003). This paper addresses such work through the analytical frame of the low-skills equilibrium (LSE). Since its popularisation by Finegold and Soskice (1988), this concept has played a key role in UK policy debates, with a particular focus on national institutions such as the training system and their role in keeping the whole economy on a low-skills trajectory (Finegold, 1999; Glynn and Gospel, 1993; Keep and Mayhew, 1999). A much smaller strand of work starts from the premise that the LSE is ‘arguably best understood at the level of the individual organisation’ (Wilson and Hogarth, 2003: vii). We follow this strand rather than national policy debates.¹

The paper does two things. First, it tests the LSE as an analytical tool as opposed to a device to address public policy. It identifies processes at the level of the firm that sustain an equilibrium but also shows two other things: patterns are more variable and dynamic than the idea of an equilibrium can grasp, and outcomes for workers are not what the LSE model would expect. Second, the paper connects with growing interest in HRM in small firms (Harney and Dundon, 2006). Specifically, it contributes to research that addresses the firm in its sectoral context (e.g. Grimshaw and Carroll, 2006; Marchington et al., 2003), and within that it examines small and marginal firms which would be most likely to be characterised by harsh regimes of management control. It shows that control was less harsh than might be expected and thus complements other work on the nature of control and commitment under low-wage and highly competitive conditions (Edwards and Ram, 2006; Ram et al., 2007).

The paper first identifies three sets of hypotheses from the LSE and small firms literatures. The contribution of the paper is indicated before methods and data are

¹ An earlier version of this paper relates its findings to these debates (Edwards et al., 2007).

introduced. After an introduction to the sector (food manufacturing) and the firms studied, the hypotheses are then addressed. Finally, analytical implications are considered.

THE LOW-SKILLS EQUILIBRIUM AND SECONDARY

LABOUR MARKETS

A low-skills equilibrium connotes ‘a self-reinforcing network of societal and state institutions which interact to stifle the demand for improvement in skill levels’ (Finegold and Soskice, 1988: 22). Yet it is increasingly argued that we need to examine skills at the level of the firm (Lloyd and Payne, 2004). In doing so, the LSE thesis naturally overlaps with a second literature, on the secondary labour market (Doeringer and Piore, 1971). The familiar argument here is that product and labour markets are segmented between primary and secondary firms, with the latter being found in competitive industries and employing low-skill and low-wage labour. Labour control in ‘markets with few barriers to entry’ takes the ‘simple’ form of direct surveillance by the manager, which is often characterized by harsh and arbitrary discipline (R. Edwards, 1979: 12, 73). Thirdly, from the small-firm debate, Rainnie (1989) similarly argued that product market competition leads to intense discipline within the workplace – a view that continues to be expressed (e.g. Blyton and Turnbull, 2004: 288).

Empirical research in all three traditions has refined the analysis. Discussing the LSE, Wilson and Hogarth (2003: 5-9) argue that the idea of an equilibrium is too static and that it is preferable to think in terms of paths or trajectories chosen by firms that reflect the interplay between the position of a firm in its product market and the types of skills and work organisation in place. Dench et al. (2000: 51) note that the skills needs of high performing firms in low-value-added sectors are not in fact different

from those of the lower performing. It is not the case that strong product market performance necessarily leads to a high-skill work organisation.

These arguments echo earlier contributions in relation to secondary labour markets (notably Craig et al., 1982). These showed that it is not possible to separate jobs into primary and secondary groups with, respectively, high and low levels of skill and responsibility. Many 'secondary' jobs in fact entail dexterity and responsibility. The fact that they are labelled as secondary reflects an absence of bargaining power and often labour market discrimination on lines of gender and ethnicity. In the five manufacturing sectors studied by Craig et al. (1982: 82), when compared to primary sector workers, secondary workers 'performed a wider range of tasks', 'required more specialist knowledge and experience', and 'needed more concentration and dexterity to work hand-fed machines'. Secondary sector jobs 'result more from the low product market valuation of the goods and services produced and from the low market status of the workers employed' than from objective features of job content.

As for small firms, they are the least likely to have the internal resources to pursue a skills-based approach (Storey and Westhead, 1997; Ashton et al., 2005). Levels of formal training in small firms are also low (Hoque and Bacon, 2006). We take such agreed facts as indicating that small firms will provide a good place to test LSE ideas.

More in dispute are two related ideas. The first is that all small firms are in markets that are more competitive than those faced by large firms. Forth et al. (2006) show that small firms do not on average experience tighter product market conditions than large ones. The second is that market conditions have determinate effects within the labour process. Studies of firms that undoubtedly *were* subject to intense competition have found, not simple autocracy, but 'negotiated paternalism' and informal

bargaining (Ram, 1994) or a need to seek employee consent (Marchington et al., 2003).

There are several reasons for this result. The first turns on the degree to which employers depend on employee skills. In the road haulage firms studied by Marchington et al., the skills of lorry drivers were critical, and motivating and retaining these workers was the central HR issue; but even where formally recognised and marketable skills are less important, as in the clothing firms studied by Ram, some workers have specific abilities on which employers rely and even the least skilled workers can disrupt production. This leads to the second point which echoes Craig and colleagues: low-skill workers deploy their discretion and, because their work is not rationalised, they in fact have more space for judgement than those in Taylorised workplaces. Third, face-to-face relationships, in which managers and workers work alongside each other and share the demands of long hours for limited rewards, promote a degree of give-and-take (Ram et al., 2007).

We can thus identify a set of hypotheses from the LSE perspective, taking this to be a shorthand embracing the views of conventional dual labour market models and the small-firm-as-autocracy position. Against these expectations are those deriving from what we will label a contextualised analysis, on the lines just indicated.

There is one key issue of focus. The LSE approach addresses skills, but the contextualised tradition shows that the definition of skill is a contested and socially constructed process (Cockburn, 1983). What would constitute low-skill work is far from clear. We start, instead, by identifying *low-wage* work and then examining its character, causes, and concomitants.

Nature of equilibrium (H1). The LSE model expects low-wage firms to be in a fixed and shared position reflecting their secondary product and labour market characteristics. The contextualised view stresses a degree of variation and movement, reflecting specific product market situations and shifts in those positions; it also gives some weight to the conscious choice of firms rather than seeing them as creatures of their environment. *The LSE Hypothesis 1 is thus that there will be a single equilibrium. The alternative prediction is that varying market conditions and firm strategies will permit firms to identify variants.*

Determinants of a low-skill syndrome (H2). Two main factors stand out in the literature as leading to low-skill trajectories. They are product market conditions and a set of institutions that sustain the trajectories.

On product markets, the LSE debate sees customer demand for low quality products as a mechanism allowing LSE firms to survive (Keep and Mayhew, 1999). Firms in low value-added markets find it hard to escape a low-skills route (Wilson and Hogarth, 2003). Thus *being in a low value-added sector sustains LSE conditions (H2A)*. The contextual view accepts the broad importance of product markets (Edwards and Ram, 2006), but, as with H1, stresses variability: such ‘constraints vary by sector’ (Grimshaw and Carroll, 2006: 44). In line with the comments of Dench et al. (2000) it also stresses an asymmetry: moving towards a higher value added market segment does not necessarily lead to a higher skills strategy.

As for institutions, the LSE view identifies many national structures, such as the financial and educational systems, that underpin a low-skills path. The present research was not designed to study their effects; such a study would need a comparative approach, examining the effects of, say, educational qualifications in low-wage firms in Britain and, for example, Sweden. The one key institution in the

present context is the system of business support. The LSE argument is that the UK is weak in the relevant agencies. In the words of Crouch and Trigilia (2001: 219), central government ‘has tried to fill the gap with agencies that can relate to local firms, but these have lacked local embeddedness and expertise’ while another potential source of network, formal business associations, ‘have never been strong’. Comparing the clothing industry in the UK and Germany, Lane and Probert (2004: 264) conclude that a low level of regulation in the UK has ‘favoured the preservation of an informal low-wage sector, perpetuating the low-pay / low-skill equilibrium’. Looking at HRM practices in the UK, a clear proxy for an escape from a low-skill path, Bacon and Hoque (2005) show that being networked with other organisations is a factor in the adoption of such practices. We thus need to assess how far such institutions have been able to move firms out of their low-skills position. *The LSE hypothesis (H2B) is that they generally fail to do so.* The contextualised view would agree on this point.

The dependent variable in the LSE approach is the pattern of skills together with the degree of training to support those skills. *The LSE expectation here is clearly that skills will be limited, and training provision weak (H3A).* The contextualised view is that jobs are certainly regarded as poor but that the discretion and responsibility of workers are far from zero. It would also argue that training is not wholly absent. In the small-firms context, it is widely argued that informal training can substitute for formal accreditation (Ashton et al., 2005). The issue thus becomes what is deemed to be training and how far it has any effects, as opposed to writing off any efforts by firms in this regard.

A broader LSE expectation is that *low-skill work is also subject to intense managerial control and work intensification (H3B).* The contextualised view says that any such

result is contingent on the character of product markets and the nature of the regime within the labour process.

RESEARCH STRATEGY

We make three empirical contributions. First, Craig et al. (1982) argued that there is no reason to expect low-wage sectors to disappear. They said this in the context of the abolition of wage protection institutions, the Wages Councils, and the election of a government committed to labour market deregulation. The present study took place almost 30 years later, under a government that reversed some of the free market animus, notably through the introduction of the National Minimum Wage. Do low-wage sectors nonetheless continue to survive, and if so how and why?

Second, existing studies, notably of *Low-wage America* (Appelbaum et al., 2003) together with its extension to five European countries (SKOPE, 2007), have focused on large firms. We address small firms, and also look at workers themselves, a group not studied directly by, for example, Craig et al. (1982) or Wilson and Hogarth (2003).

Third, we look at small firms of a particular kind. Marchington et al. (2003) studied a relatively high-skill sector, while much of the evidence on the informal negotiation of consent comes from very marginal and low-wage cases (Edwards and Ram, 2006). What happens between these situations, that is where there is little incentive to employers to motivate and train workers and yet where a strategy of mere economic survival will not be enough?

The paper looks at food manufacturing in the UK, a sector which has been explicitly characterised as being in an LSE (Wilson and Hogarth, 2003: 54-6). One key reason for this position is that products are of a 'low margin' type (Dench et al., 2000: 19), so

that there is little market pressure towards a more high-skill approach. The dependence of manufacturing firms on large supermarkets has also become a standard theme of debate, inspiring investigations by the Competition Commission (GfK, 2007). Eighteen percent of employees have no educational qualifications, compared to a national average of 11 percent (Skills Dialogue, 2001: ix).

As for wages, the sector as a whole is not particularly badly paid. Mean hourly earnings (excluding overtime) of all employees in food, drink and tobacco manufacture in 2005 were £11.09, against an average in manufacturing as a whole of £12.40. Our interest, however, is in the low-wage segment. The tenth decile of hourly earnings in the sector was £5.40, and as we will see most of our firms paid below this level and were thus clearly low payers.²

METHODS AND DATA

Gaining research access to low-wage firms is notoriously hard. James and Lloyd (forthcoming) report that they had to approach 53 large firms in the UK food industry to generate a sample of five. Access to small firms is an even greater issue (Marlow, 2005). The approach adopted was two-fold: using existing contacts in the food industry and approaching firms identified from searches of web sites and other sources of information such as the FAME data base. Attention was restricted to the East and West Midlands regions of England for two reasons: to control for labour market and institutional context; and to look at regions that are more or less average in terms of the overall pattern of wages. Persistent calling of approximately 120 firms eventually generated a set of 22 which were visited. In addition, a questionnaire was

² These data come from the Annual Survey of Hours and Earnings (ASHE), Table 4.6a; data reported below are from Table 14.6a.

distributed to a further 90; six firms completed it, one of which was also visited, producing a total of 27.

Not all food firms, of course, are small or follow a low-skills path. Our approach was to take size as the sample criterion and then to seek out firms willing to be studied. It is thus an empirical question as to how far they display LSE characteristics. We covered a range of firms in terms of size (range of number of employees 2-140, mean 33) and age (range 4-60 years; mean, 19).

The data are of two kinds. First, information was obtained from managers (usually the managing director) on the firm's strategy and HR policies. In some cases, more detailed interviews were possible with production or occasionally HR managers. In the 22 firms visited, there was a total of 35 interviewees; in some cases, repeat visits were made so that 43 interviews were carried out. In particular, in five firms contact was maintained over a period of a year, and in one of these there had been prior research contact giving a view over a three-year period. Interviews took place during 2005 and 2006.

Second, in eight of the firms data were gathered from a total of 98 employees. The main instrument was a self-completion questionnaire that drew from several well-established employee surveys questions on job autonomy, skills and views of managers (Gallie et al., 2004; Kersley et al., 2006); specific questions were also designed on some aspects of training and skill formation. The questionnaire was successfully piloted in a food firm. In five firms, it was distributed to random groups of staff. In the other three, workers were interviewed, and none of those approached declined; 48 interviews were conducted. The overall response rate was 66 per cent, compared to the 48 per cent in WERS 2004 for 'small' firms (Forth et al., 2006: 108). Where workers were interviewed, we asked follow-up questions to elaborate on

replies, and interviews lasted between 20 and 30 minutes. The food industry has many ethnic minority firms, and workers often lack English language fluency. A particular feature in two companies was interviewing by one of the researchers in one of two Indian languages. Apart from the questionnaire-based interviews, we also spoke more informally to workers in three of the companies where detailed work was feasible. All the firms with worker interviews also included some observation of the work process; this permitted us to gain a sense of the work tasks carried out, the skills involved, and the nature of managerial control practices.

As for key features of market context and approach to employee management, we have data on the 22 firms that were visited. We also asked about sales growth, managers' views of their strength in the market, and details of relations with customers and degree of price competition. We found a range of positions, which suggests that we can address patterns of *variation*, though we cannot generalise as to how *common* any given situation is. However, three firms had Investor in People status, and three had specialist personnel managers; two had both. These numbers are what would be expected among firms of this size generally (Forth et al., 2006).

In addition to these firm level data, we also obtained some information on the sector through interviews with three state agencies and one voluntary sector-based network. Some of our management respondents were also active in industry networks, and we obtained further information on these networks from them.

THE FIRMS

Our firms were clearly candidates for the LSE. Most workers carried out semi-skilled tasks; these included a particular part of the preparation of the product (such as combining ingredients) and packing the product. Of the 27 firms on which we have

wage data, 13 paid such workers at or very close to the National Minimum Wage (NMW) which at the time was £4.85 per hour, and 12 paid within £2 per hour of the NMW rate. These rates were notably lower than those reported by James and Lloyd (forthcoming) for rather larger firms. There were, moreover, virtually no profit-related or other forms of bonus, or other fringe benefits such as occupational pensions. Unions were also completely absent; pay was set by managers with the main external reference point being the NMW.

Yet the firms had few labour shortages, and several reported a constant stream of applicants at the gate. Labour came from three main sources. First, there were local people who needed a job; firms in Leicester for example reported plenty of ‘local ladies’ needing work, not least when the hosiery industry suffered one of its periodic slow-downs. Second, there were migrants from traditional sources of supply such as India and Pakistan. Third, there were workers from eastern Europe. Several firms had recruited Poles, and it is notable how rapidly such workers have entered what might be previously seen as closed Asian niches.

NATURE OF EQUILIBRIUM AND ROLE OF MARKETS (H1 AND H2A)

The evidence showed that a low-skills situation is more varied than an LSE model would predict. Markets were differentiated, and firms could practise a degree of segmentation to occupy distinct niches.

The firms occupied reasonably defensible niches and had sustainable business models. Of the 22 that were visited, nine had been in operation over 20 years, and a further nine for between 10 and 19 years. Most reported rapid or acceptable sales growth: 15 of the 22 said that sales growth in the past three years had been rapid or at least sustained. We asked managers about the distinctiveness of their product and

market threats. There was a surprising amount of confidence, which turned mainly on the quality of the product. We classified 13 as feeling that they had strong niche positions, 7 as being reasonably well-placed, and only two feeling vulnerable or weak. A very small ice cream manufacturer stressed its unique and secret recipe and its ability to supply a quality product. The ethnic-minority owned firms, of which there were 16, mentioned in particular their focus on 'authentic' materials and recipes that large firms found hard to copy.

This situation reflects rather low barriers to entry for small firms: capital requirements were small and distinct niches existed. The MD of one firm had had no food industry background. He had recognised a potential market when friends and colleagues began to ask him to supply food for parties, and had then established the firm, initially as a side-line. The firm now had 45 staff and it supplied supermarkets and other high-end customers.

Two factors help us to understand this pattern. First, as Forth et al. (2006: 14) show, it is not the case that small firms as a group face particularly severe market pressures. Collier et al. (2007) also demonstrate that small *workplaces* are no more likely than large ones to suffer closure. Second, the sample embraces firms above the bottom of the labour market. One indicator is accreditation from the British Retail Consortium (BRC), which is a key quality standard in the sector requiring clearly documented procedures and policed with annual audits. Nine firms had attained BRC accreditation. Firms had a degree of influence within admittedly difficult product markets: these markets did not drain them of all choice.

Perhaps the most surprising feature of the market was the nature of price competition and the extent of cost pressures. There are two main drivers of competition: from the top there are the familiar demands from supermarkets for price reductions, while at

the bottom of the market there is the threat of undercutting from marginal firms. These pressures were certainly evident. For example, in one relatively large firm ('Veg Products'), the operations manager complained of investing a considerable sum in developing a product for a supermarket which was then dropped; in his view, supermarkets exerted direct cost pressures but also less obvious ones such as stretched credit terms and formal or informal bans on supplying their competitors.

There are, however, two qualifications to this picture. First, the pressures were not universal. Some of our smaller firms reported rather few cost pressures, and one had even been able to develop a long-term relationship with a supermarket in which it not only had considerable control over its own products but had also been invited to act as an agent for unrelated 'ethnic' goods. This limitation of pressures seems to have reflected, first, the size of firms. As one manager said, his firm was too small for supermarkets to worry about. Related to this, Dench et al. (2000) report that the greatest pressures come on firms supplying supermarkets' own label products; none of our firms did this. Second was the nature of the goods. Where very distinctive products were made, firms had more control of price. Thus the firm with the most serious complaint about price pressures supplied standardised products.

Of the 22 firms on which we have reasonably clear information on this point, six specifically denied that cost pressures were substantial. At the other extreme were four, all very small and competing with little by way of a distinctive product, where cost pressures were very great. These pressures were of a 'bottom up' kind. The remaining 12 naturally experienced cost pressures but these varied and were not seen as dominating everything that the firms did.

The second qualification turns on firms' responses. Veg Products had diversified. Others avoided supermarkets by focusing on the food service market; food service

firms supply caterers and restaurants, and source their supplies from a range of large and small firms. There is less intense price competition here than there is in relation to supermarkets, and several of our firms reported reasonably established working relationships in which they had some power because the food service firms depended on them for a reliable product.

Product market conditions certainly played a role in sustaining low-wage work, and to that extent the LSE hypothesis is sustained. We also found, however, considerable variation and a degree of choice, which point to a more variable and contingent picture than the LSE view suggests.

ROLE OF BUSINESS NETWORKS (H2B)

Is there any evidence that firms can use business support networks, either as sources of knowledge to improve skills and work organisation or more generally to promote business development? Our evidence suggests a clear ‘no’ on the first question, thus supporting the LSE view, but a qualified ‘yes’ on the second.

The most notable industry association is the Food and Drink Forum, which operates in the East Midlands but has no West Midlands counterpart. It has a membership of about 200 firms, which represents perhaps a quarter of the firms likely to belong to it (that is, those other than the very micro enterprises). It offers advice on a wide range of issues including food hygiene and marketing, and has been actively involved in establishing a food park, where new businesses can rent premises and receive help and advice. The industry also has a scattering of local associations such as an ‘ethnic food forum’. These bodies are generally small and weakly funded; they rely heavily on the community altruism of their leaders, who are usually also the (extremely busy)

MDs of small firms. Developing their role into a broader and more lasting presence was an issue cited by several respondents.

We created an overall index of linkage to networks by asking firms about their degree of involvement in industry associations, government-funded bodies, and supply chains. Each of these was categorised on a 1-5 scale, but respondents did not always find it easy to be precise or to answer in relation to all categories. We also needed an assessment of the importance of particular networks, which we obtained by asking qualitative questions on how valuable a network was and what examples of relationships could be offered. We decided that these two sets of information would permit classification into four groups, from strong to weak embeddedness.

Half of the 22 firms had no substantial links with support agencies, either those funded by the state such as the Regional Development Agencies (RDAs) or voluntary bodies. Of these, five occupied fairly marginal market positions whereas the other six had notably stronger situations. Looking at the data another way, the thirteen firms in the strongest market position were spread evenly (3, 3, 3, 4) across the four network categories. There thus seems little association between market position and use of networks.

Among the 11 firms with links of some kind, there was a modest welcome for training activities and other subsidies for investment. There was a widespread feeling, however, that support agencies were out of touch with the needs of firms. Comments included the following.

Business Link advisers were ‘useless and unprepared’.

Advisers ‘lack serious knowledge and work at a very basic level’.

Advisers ‘do not know the specific needs of this firm’.

There were only two illustrations of more pro-active engagement. Both of these turned on the personal philosophies of the firms' owners. One was making a conscious effort to develop his firm and had used the Manufacturing Advisory Service to do so. The other had a personal commitment to skills development and a desire to 'punch more than our weight'. But these were isolated examples.

A potential alternative source of networking lies in interfirm relations, either laterally between firms in the sector or vertically through the supply chain. On the former, the weakness of industry associations meant that there were few linkages of this kind. On the latter, there were very few supply chain links, mainly because the large retailers simply bought the firms' products and, apart from insisting on quality standards, had little role in the firms' strategies. In general, the institutional environment did not put pressure on firms to shift from their low-wage employment policies.

SKILL FORMATION (H3A)

The lack of Taylorisation noted by Craig et al. (1982) continued to be notable. There was certainly a division of labour, in that tasks were broken down into constituent parts. But only the larger firms were mechanised. For example, one of these produced savoury snacks and there was a mechanised line on which the products were bagged and weighed. Even here, there was no work study or formal targets. Skills here, according to managers, were more social than technical: a willingness to work hard, to take on tasks as needed, and ability to work with others in a 'family' context. In the smaller firms, work was largely non-mechanised, and, in addition to social skills, there was an emphasis on hand preparation of food.

Firms and skill formation

We asked managers a series of questions about the structure of their training systems and the importance that they attributed to training. Thirteen of the 22 either had no documentation of their systems or very limited documentation; only two had clearly documented processes. Two also looked at training within appraisal systems; the remainder did not. On the importance of training, eight said that it was important or very important to them, while six explicitly denied that it was important while four felt unable to give a clear view.

The evidence supports the contention that there is little connection between firms' product market positions and their approach to skills (Dench et al., 2000: 51). To be more exact, there were two patterns. Among those in relatively weak market positions, skills were relatively unimportant. Among the nine firms with the weakest market positions, skills were either seen as unimportant or firms could give no view. Firms survived through the nature of the product, and they recruited workers who could carry out basic operations. As one manager put it, skills were not important to his competitive position. Among the stronger firms, there was rather more choice. Of the nine in the strongest positions, six placed considerable emphasis on skills. Among these, a few had formal training plans in which the skills of each worker were recorded and future needs were identified. The remaining three saw the product as the key competitive advantage, and were quite explicit that worker skills were not important.

In explaining this variation, personal choice seems to have been central. Invoking such choice may seem to be an abdication of explanation. But, as the strategic choice literature has shown, firms really do have space for choice (Child, 1997). In the case of small firms, these preferences often come down to the views of the owner-

manager; as the small-firms literature stresses, idiosyncrasy and preference are important influences, and managers can make choices with few constraints. Bishop (2006: 10) for example notes different approaches by firms in broadly similar situations. Grimshaw and Carroll (2006: 37) document the ‘important role of owner-manager values’ in the setting of pay in 36 low-wage firms.

This point may be illustrated by two firms which were located close to each other and which were both owned by people from similar Asian backgrounds. In one, the explicit approach was that skills were largely unimportant. Its owners saw innovation in the product as crucial, and felt that the process of production was relatively unskilled. In the other, there had been an emphasis on skills from the outset. The operations manager had worked in a large store and had always believed in careful training, while the MD saw training as important in giving workers recognition and increasing their motivation. It had also developed a ‘skills passport’, a simple record of training achievements which based on a list of 23 aspects of work, each of which was broken down into further sub-headings. All that said, the space for choice was constrained by product market conditions, weak institutional support, and the lack of internal resources.

Workers’ experience of responsibility and training

We categorised the 98 employees into two groups: 71 manual workers, who performed routine food preparation and packing jobs; and 27 white-collar staff, who were mainly in clerical or administrative roles. No managers or supervisors were included. The study also embraced small firms in two other, much more high-skill, sectors, namely, the creative and media (C&M) industry and information and communication technology (ICT) firms. Data from 286 workers in 24 firms from these two sectors were gathered. We use them for comparative purposes; further

information, including evidence on statistical tests between samples which are cited below, is available elsewhere (Tsai et al., 2007).

In some respects, workers fitted the model of low-skill and low-education employees. As might be expected, manual workers had few qualifications: 46 percent had no qualification, compared to only 15 percent of the non-manual workers. The figure for the working population as a whole in 2001 was 19 percent (Felstead et al., 2002). But the nature of jobs meant that there was a certain amount of training.

Table 1 summarises a series of measures of the job roles that workers undertook. There were as expected clear differences between occupational groups, with the manual workers in food scoring low on such aspects as engagement in problem-solving. Several of these differences, however, were occupational and not industrial, so that non-manual workers in the food industry reported levels of activity similar to those reported by the counterparts in the more highly skilled (and highly paid) sectors. The unsurprising implication -- consistent with much previous work on secondary labour markets (Craig et al., 1982) -- is that low-skill firms can contain some relatively high-skill jobs.

Turning to the development of skills, Table 2 reports data on training and also sources of learning. The most notable result is that food workers in fact report more training, and higher satisfaction with training, than those in the other two sectors. There is a degree of exaggeration here in that the food industry has to meet health and safety standards so that every worker will need the basic training. It was none the less given, and recognised by workers as 'training' rather than a mere paper exercise. And, in interview, workers could identify other forms of training such as more advanced hygiene standards and most found these useful. As noted above, moreover, some

firms had developed formal skills matrices to identify training needs on a systematic basis.

As for satisfaction with training, it is true that some of this can be attributed to low expectations. Workers had limited labour market opportunities, and they knew that firms' resources were restricted. None the less, it is not the case that an LSE simply means an absence of training or frustrated demand for it. It is also notable that learning from other people in the firm was widely reported, across all three sectors. It was not the case that workers did not learn.

CONTROL AND WORK PRESSURE (H3B)

The expectation from the LSE literature and also the 'small firm as autocracy' model is that workers will be in narrowly defined jobs with very little autonomy or involvement in the work process. Table 3 reports standard indicators. On the each of these, around one-third of workers reported reasonable levels, in terms for example of problem-solving and job autonomy. The autonomy data are directly comparable with those of other surveys notably the Workplace Employment Relations Survey (Kersley et al., 2004). As shown elsewhere (Tsai et al., 2007), autonomy levels were somewhat but not drastically lower than those of workers in comparable occupations.

Qualitative data add to the picture. First, workers whom we interviewed were clear that they were given some freedom to move around the workplace. They were not tied to a fixed work station, and there was often informal rotation between jobs. This can be related to the nature of the firm. In a small firm, the links between what any one worker does and the wider goals of the firm will be very direct. Managers were visible; in the questionnaire survey, 77 percent of manual workers reported that they saw managers, other than their immediate line manager, at least daily. Second,

observation pointed to a reasonably relaxed regime. Among the eight firms, in only one was regular overtime the standard practice; in the remainder, workers worked normal hours on a predictable basis. The work process had virtually no Taylorism in the sense of tightly specified jobs or rigid performance standards. Some jobs were certainly machine-paced but they were free-standing rather than being part of an assembly line. The staffing of jobs depended on rule-of-thumb ideas rather than the principles of lean production.

This interpretation is supported by evidence from two questions about the pressure of work (Table 4). Food workers generally reported low levels of pressure, and they were significantly less likely to experience pressure than workers in the other two sectors. As one worker put it, his was not a very demanding job. In another firm, workers were clearly aware of output targets but felt that these were reasonable and achievable; moreover, strong social ties with kin and friends made the workplace reasonably pleasant. Other data not reported here (see Edwards et al., 2007: Table 5) support this interpretation. In contrast to relatively large firms, where work intensification was clear (James and Lloyd, forthcoming), workers seemed to have a reasonable pace of work.

We investigated whether there were any differences in workers' responses in line with the sophistication of firms' approach to training. Of the eight with employee data, we identified three that had relatively developed approaches, as indicated by the existence of formal training plans and documented practices. Comparison with the remaining five showed, first, that there were no differences in terms of the frequency of communicating with managers or other relevant features; any differences on 'sophistication' would seem to reflect some other features of the companies. There was no difference in whether any of the four job components listed in Table 1 was

part of the job, though sophisticated firms were more likely to use the production of written reports. Opportunities to develop skills were also high, as was job autonomy; but work pressure was also high. This pattern, of autonomy plus responsibility, is widely reported across a range of studies (Hyman, 2006). It suggests that more advanced systems of work organisation have costs and benefits; in the present context, the benefits of a lack of rationalisation were reduced, but perhaps balanced by more developmental opportunities.

The experience of work, then, was not one of intense exploitation. Workers had a degree of space in the work process and they expressed satisfaction with training. This situation reflected limited Taylorisation of work and also the closeness of working relationships. An irony, however, is that relative contentment with low-wage and low-skill jobs contributed to their continued reproduction.

DISCUSSION AND CONCLUSIONS

The first LSE hypothesis is that there is a single and relatively fixed equilibrium. Following Wilson and Hogarth (2003), we have shown that firms in fact occupied varying positions, which reflected the nature of their market relationships (e.g. their dependence on customers, which in turn reflected the distinctiveness of the product) and their own strategic ambitions.

Second, the LSE model sees weak institutions and competitive product markets as creating a low-skills situation. We have supported the analysis of institutions, while again pointing to some, albeit weak, possibilities to escape from a condition of weak networking and support. As for product markets, they plainly affect what firms can do, and their pressure towards low-skill situations cannot be denied. But there was variation within them and, crucially, product market position did not determine

approaches to pay, skills and training. Among our firms, as among others (Dench et al., 2000), relatively good product market conditions did not necessarily lead to higher pay or more training, though in some cases they did. As Grimshaw and Carroll (2006) found, product market constraints press firms towards a low-skill path, but, even where these constraints are absent, other factors, such as the institutional context and firms' own norms, can militate against a more high-skills approach.

Third, the LSE model, along with the view of small firms as autocracies, expects work intensification and dissatisfied workers. These results were absent, because of the low level of Taylorisation and the maintenance of face-to-face relationships between managers and workers. For some labour process writers such as Richard Edwards (1979), this outcome is hard to explain. Yet any labour process requires a degree of consent. A more subtle view that takes account of ideologies, mutual obligations between workers and managers and the negotiation of consent (Edwards, 2006; Ram et al., 2007) would not set up such stark expectations.

There is, moreover, a key irony: worker satisfaction, combined with the ready supply of new workers, reduced any incentive to shift out of the current market position. There were, in short, few pressures within the firms themselves that might push them away from a low-wage position. The replication of many of the results of Craig et al. (1982) points to the long-run stability of low-wage practices.

We have used small firms to test out the LSE model. The implication in relation to such firms turns on the positioning of the present cases between the very bottom of the labour market and situations where firms occupy clearly profitable niches and need a supply of skilled and reliable labour. Some characteristics seem to have been common to any small firm in sectors such as manufacturing or low-value-added services. These include an extremely informal process in the setting of pay and close

working relationships between managers and workers. Characteristics specific to a certain type of firm included, in the present case, an absence of financial incentives, which contrasts with the approach of firms using more skilled labour. In contrast to firms at the bottom of the labour market, the present firms did not employ illegal labour and they had a less intensively personal relationship with employees; family and kin networks, for example, were less common than they were in very low-wage firms (Edwards and Ram, 2006).

Turning to implications for firms, the labour situations in them were remarkably stable, and there were no major challenges. Challenges lay more in the continuing uncertainties of the product market; for those firms seeking a move up-market, there were some, generally weak, implications in terms of training.

As for workers, there was also stability in the sense of reasonable satisfaction with work relationships. That satisfaction did not mean deep contentment: workers knew that they were in low-paid jobs with few prospects and recognised that this was the reality of their labour market position. There might be developments that would be in their interests, for example a more transparent approach to pay and possibly also profit-related bonuses. But there was little evidence that such changes were actually desired by the workers, and whether they would improve job quality is a question on which we can only speculate.

Wider policy implications are of two kinds (Edwards, 2007). An immediate one is that there is some limited space for support agencies to operate, and other industries offer examples, albeit weak ones (Edwards et al., 2002). It is not the case that all development is impossible, and a danger in the LSE approach is to write off all efforts at reform. In the longer term, constraints on labour supply would be the main pressure

leading firms to increase pay, but in the current climate these are weak so that low-wage work looks set to remain a feature of the UK labour market.

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Table 1 Job roles and responsibilities

%	<i>Food</i>		<i>C&M</i>	<i>ICT</i>	<i>All</i>
	<i>Manual</i>	<i>Non-manual</i>			
<i>N</i>	71	27	105	181	384
	%	%	%	%	%
Work group often discuss work issues ^(a)	33	92	81	72	66
Has taken on job outside job descrip.	29	52	67	56	54
Has identified a problem with work process	42	58	72	82	70
Takes part in problem-solving group	17	46	38	46	39
Any of 4 areas part of job ^(b)	66	96	81	94	85

Notes:

Figures in bold represent a statistically significant difference ($p < 0.05$) between the relevant occupational group and the other three groups.

(a) Question only asked where workers reported working in a group; $N = 238$.

(b) 4 areas are: monitoring product using formal tools, dealing with customers, preparing written reports, designing new products or processes.

Table 2 Experience and views of training

%	<i>Food</i>		<i>C&M</i>	<i>ICT</i>	<i>All</i>
	<i>Manual</i>	<i>Non-manual</i>			
Training in 4 areas in past year ^(a)	58	54	32	41	42
Any training in past year	70	70	48	58	58
Skills learnt (to some or great extent) from:					
work group	90	85	85	87	87
senior people in the firm	76	74	81	74	76
people outside the firm	13	42	66	41	43
Opportunities to develop skills (very good or good)	46	70	69	53	57
Overall satisfied with training & development	81	73	47	46	58

Note: (a) Areas as those in Table 1; percentages based on those saying that these areas formed part of their jobs (row N s = 47, 26, 89, 170 and 328). In rows 1, 2 and 7, the significant difference is between the food workers as a group and the other two groups taken together.

Table 3 Job influence

%	<i>Food</i>		<i>C&M</i>	<i>ICT</i>	<i>All</i>
	<i>Manual</i>	<i>Non-manual</i>			
Influence over: (% saying fair amount or great deal)					
pace of work	41	61	66	55	56
how work is done	36	74	71	70	64
tasks performed	35	46	63	58	45
‘Supervisor has more influence than I do in deciding what tasks to do’ (strongly agree or agree)					
	80	44	33	35	42

Table 4 Work pressure

%	<i>Food</i>		<i>C&M</i>	<i>ICT</i>	<i>All</i>
	<i>Manual</i>	<i>Non-manual</i>			
Job never allows time to get job done: frequently	12	18	26	23	22
Worry about work outside working hours: frequently	9	11	33	16	19

Note: Frequently = every day or most days; rarely = occasionally or never. In relation to the first item, the significant difference is between the food workers as a group and the other two groups taken together.