

PIN - Productivity Projects Fund

Interim Project Report

Non-standard work and productivity: is there a connection?

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About PIN

The Productivity Insights Network was established in January 2018 and is funded by the Economic and Social Research Council. As a multi-disciplinary network of social science researchers engaged with public, private, and third sector partners, our aim is to change the tone of the productivity debate in theory and practice. It is led by the University of Sheffield, with co-investigators at Cambridge Econometrics, Cardiff University, Durham University, University of Sunderland, SQW, University of Cambridge, University of Essex, University of Glasgow, University of Leeds and University of Stirling. The support of the funder is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

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Non-standard work and low productivity: is there a connection?

Interim Report

Introduction

Productivity growth rates in the UK have long been a focus of public policy and academic debate, but the flatlining of labour productivity since 2010 has brought new urgency to the subject. Many commentators refer to a 'productivity crisis' that has stalled real wage growth for the longest period in memorable history. Initiatives to reveal the sources of the malaise have proliferated, but with limited consideration of the role of work organisations and labour practices in shaping labour productivity outcomes. Detailed studies of how labour time is managed and utilised in pursuit of productivity are rare. What are the implications of changing business models and new methods of organising work for labour utilisation and productivity? These issues are the focus of this report. It examines how recent structural changes in labour markets and workplaces, and 'new' labour utilisation practices, may have impacted productivity. The specific aim is to illuminate the nature, diversity and significance of non-standard work in three industries - fast fashion, retail and service delivery.

Context and Research Questions

The flatlining of UK labour productivity since 2010 coincided with a significant expansion of employment. Approximately 3 million additional jobs have been generated since 2012, of which roughly two thirds are variously non-standard, insecure and informal in character. Headline examples include the rising incidence of bogus self-employment (BSE), zero hours contracts (ZHC), and temporary agency jobs (TAJ). The costs and benefits of these growing forms of labour contracting modes to businesses and the individual workers concerned have been widely discussed, tested in the courts, and continue to remain highly contested. But their significance for the productivity of the UK economy has escaped detailed scrutiny.

Our research is directed to four central questions:

How has the growth of non-standard employment impacted the utilisation of labour and with what implications for the measurement of labour input?

How does contractual status influence the relationship between pay and benefits and the expenditure of labour time?

What are the implications for productivity of labour utilisation practices that are non-compliant with, for example, the national living wage and health and safety legislation?

Are some forms of non-standard work inimical to productivity gains?

The measurement of productivity is known to be fraught with difficulties, requiring high levels of empirical rigour in the collection of data on (i) the quantity and quality of labour 'inputs' and (ii) the value of produced outputs. Our study focuses on the labour input side. Inaccurate measures of the utilisation of labour hours in the production of goods and services will bias measures of productivity. Under-reporting the number of hours utilised to produce a good or service will impart an upward bias, while over-reporting will have the opposite effect. The significance for labour productivity is potentially considerable in the case of non-standard work. Labour time (the number of hours worked) may be systematically concealed and under recorded; effort may be expended but not remunerated; breaks in the working day, required under health and safety legislation, may be eliminated but remain invisible in the official statistics.

With these preliminary observations as a backdrop, the following three sections present evidence of the diversity of labour utilisation practices in three industries.

Fast fashion

The apparel industry is heterogeneous, highly fragmented and characterised by differentiated regional and sub-sectoral patterns. For many decades in decline, the industry has recently exhibited signs of recovery: nowhere more so than in fast fashion, the focus of our research. Power dynamics in the governance of value chains play a crucial role in determining price, quality, and speed-to-market. Supply chain dynamics are the key to setting the terms and conditions under which labour is utilised. Fast fashion is differentiated from other parts of apparel as it focuses on lower price segments, simple products, quick response manufacturing in proximity to consumer markets. The typical workplace is small, with first tier manufacturing units employing about 50-100 workers (while the statistical mean stands at 10 workers), and is situated within a complex multi-tiered and fissured supply chains. The systemically small – trial and repeat – order sizes within fast fashion put manufacturers under permanent pressure to secure capacity for their production units and, in consequence, put further pressure on work and employment conditions. In these conditions non-standard employment has displaced the conventional employment relationship.

Productivity statistics in apparel manufacturing require careful interpretation. First, while the figures indicate a productivity increase of 16.2 per cent across the UK (2008-18), these increases not only differ widely across regions, they also show equally different relationships between trends in productivity, employment costs, and employees. Second, qualitative evidence from the East Midlands study suggests that the official statistics most likely overstate productivity as the data on hours worked (labour input) are underestimated. In brief, interviews with stakeholders revealed:

- High levels of informality and hidden work. A high proportion of the workforce do not have employment contracts and are highly disposable, only working when the factory has orders.
- A high proportion work significantly more hours than stated on their wage slips. We recorded cases of unpaid work (hours worked tend to be significantly underreported). Workers as well as manufacturers speak of ‘going wage’ rates around £4-5.50 which suggests that between 30-50 per cent of working time is unpaid. This is likely to vary between different tiers (first tier, as opposed to second tier, manufacturers are often heavily audited) as well as across the business cycle.
- Pay levels are low and, as hours depend on orders, weekly/monthly incomes are unpredictable. A high proportion of subcontractors fail to comply with the statutory National Minimum Wage, a dynamic that makes the production of (low value) fashion in the UK at times cheaper than in South Asia. Non-compliance with minimum wage standards is endemic in fast fashion production in many manufacturers’ own assessment. The National Minimum Wage violations described above are difficult to restrain through established enforcement practices.
- The nature of work is characterised by product down-grading (a focus on relatively simple garment designs), and skills downgrading (relying on core machinist skills). Opportunities to utilise skills are limited.

These findings suggest that ‘number of employees’ rather than ‘number of hours’ may provide a more accurate measure of labour input. This is likely to be the case in first-tier manufacturers who are regularly audited by lead firms. In the case of ‘unauthorised subcontracting’, it is difficult to estimate either the number of employees or total hours worked.

Logistics: Delivery workers

The volume of parcel and food deliveries in Britain has exploded, accounting currently for more than 1 billion home deliveries. Britain, the biggest online shopping market in Europe, boasts a growing army of workers engaged in the connected activities of logistics, distribution and delivery. Transformations in the logistics function and parcel delivery have been directed at securing more exacting, demanding and time critical levels of service delivery at minimum cost. The 'last mile of delivery' at the end of the supply chain is said to be the key to competitive advantage. The application of increasingly complex IT systems which track and trace the movement of parcels under the gaze of the final customer is paramount. This reconfiguration in turn has fuelled a burgeoning logistics infrastructure and a myriad of subcontracted fissured supply chains and relationships. The result is an increasingly competitive market for parcel delivery companies. Large retailers entice their customers with 'free and immediate' delivery which relies upon the supply of flexible labour services at minimum cost. Evidence from our study highlights the following:

- Delivery drivers highlighted their self-employed contractual status with piece-rate remuneration practices. As a result drivers were not entitled to any sick pay, or holiday pay. They reported that they were often required to work long hours in order to secure acceptable levels of pay. Many reported that their pay was often below the statutory minimum wage.
- Given the piece-rate system in operation there are growing levels of unpaid work amongst delivery workers. This is particularly acute for life-style couriers who are often only paid by successful delivery (for example sorting parcels for delivery, loading vans, travelling between delivery locations are unpaid activities).
- Technological advances not only monitor the movement of products but also, crucially, workers. Growing levels of workplace surveillance and monitoring were evident, with close performance management and sanctions for non-delivery. Drivers recognised failure to comply with delivery targets and timed deliveries (based on customer preference) may result in financial penalties or loss of future work.
- Workers are required to account for 'unproductive' work, in some cases timed by the second. Self-employed drivers highlighted the contradiction between their employment status and the high levels of surveillance and monitoring to which they are subject. In effect they work under an authority relationship characteristic of the standard employment relationship. Notions that they are 'free' independent contractors is hard to sustain.
- There are growing levels of both work extensions (lengthening of unpaid hours) and intensification (greater effort per worker hour). The evidence highlights that close performance management as well as remuneration policies for self-employed workers both extended and intensified the working day. Workers reported on missing breaks as well as feeling under pressure to complete the required deliveries in a given day.

Retail work

There has been a long-term decline in retail employment. The British Retail Consortium (BRC) reports that 2019 was the worst year on record for retail sales growth. In contrast to the UK labour market overall, ONS figures show a long-term decline in retail employment with both employees and hours falling in Q3 2019 when compared to the previous year, a 15th consecutive quarter of year-on-year decline in the retail workforce (British Retail Consortium, 2020). In particular, full-time employment fell by 4.5% compared to the decrease in part-time employees of 1.5%. Total hours fell by 2.6%, with full-time hours also seeing a greater reduction (3.2%) than part-time hours (2.0%).

Qualitative data was secured from two national retailers in south east London. Initial analysis revealed the following headline findings with regard to contracts, workplace attendance, remuneration and possibilities for progression.

- There is widespread use of minimum and zero hours contracts. Respondents reported high levels of unpredictability and uncertainty with regard to both days and hours worked and indicated a strong preference for more regular hours.
- Employment flexibility is 'one-side', with managers generally texting or contacting workers via WhatsApp to organise working time and may ask workers to come in at a day's notice, often to cover for sickness.
- Participants reported attendance issues, continual labour turnover and constant recruitment. In one retailer calling in sick two or three times a week is classed as a week's absence from work; workers are sacked for sickness after two warnings. To monitor attendance more closely, clocking-in is now by finger-print to prevent workers clocking in and out for each other.
- Managers concede that at times they have to put pressure on workers to cover shifts, particularly as a result of sickness. There is an expectation that workers do overtime at Christmas. Workers reported feeling pressure from managers to take on extra hours at very short notice. Respondents reported that stores are short-staffed and workloads have increased.
- Holidays and sick pay are calculated on contractual rather than actual hours with sick pay kicking in after one year's service and after three shifts. Although holiday is service-related, this means that those working full-time hours do not get proportional holiday entitlement.
- A flat hourly rate is paid for weekends and evenings and 'overtime', with the exception of Sundays and bank holidays although one of the retailers had reduced Sunday rates from time and a half to time and a quarter and bank holiday rates by 50%. Breaks are unpaid.
- Training is basic (health and safety), often via videos or online and workers did not feel that they were developing skills; Opportunities for personal growth were seen as minimal. While participants confirmed there were opportunities to become managers, the prospect of becoming a manager was perceived as stressful, underpaid (including unpaid overtime) and not worthwhile in terms of career progression. Trainee managers take on the role in addition to their current job.

Concluding comments

The relationship between the growth of non-standard contracts – zero hours, temporary and ‘bogus’ self-employment – and associated workplace practices has received limited attention thus far in the productivity debate. The connections between deregulated labour markets, weak enforcement agencies and the proliferation of non-compliant business practices for productivity has been underexplored.

There has been limited attention to unmeasured inputs in partially regulated industries employing insecure workers sometimes without employment contracts, wages and regular hours of work. Non-disclosure of hours worked may be a significant source of productivity measurement error (garments and delivery).

Conditions inimical to productivity gains and innovation centre on the following issues:

- Significant elements of unpaid work
- Draconian regimes of low pay, insecurity and fear; one-sided flexibility has eroded traditional notions of reciprocity in the employment relationship with consequences for positive sum outcomes.
- The significance of fissured workplaces and competitive regimes predicated upon wage and work degradation militate against innovation and productivity enhancing workplace regimes.