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Public policy for addressing the low-skills low-wage trap: insights from business case studies in the Birmingham city-region, UK

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ABSTRACT

The idea that some local areas are characterised by a low-skills equilibrium trap is prominent in academic and policy debates in the Global North. Factors shaping this position and associated implications for local economic development are only partially understood. This article provides new evidence examining employers' decision-making around investment and workforce management in the hospitality and retail sectors in the Birmingham city-region, UK, and their experience of the low-skills low-wage trap. The findings highlight intersecting sectoral and place-based factors in the emergence of, and barriers to escape from, this position. Responses require policy actions at firm, local and national level.

Keywords: skills, wages, economic performance, business models, low-skills low-wage trap, institutional theory

JEL codes: J20, J24, L21, R11

INTRODUCTION

The existence and persistence of a ‘low-skills equilibrium trap’ in some regions has become an important policy concern, and has significant implications for regional productivity and prosperity (OECD, 2014; Bachtler and Begg, 2018). Lower levels of regional skills are associated with lower employment growth and less resilience to economic shocks (Crescenzi et al., 2016; Di Cataldo and Rodríguez-Pose, 2017). Skills are a derived demand, and the productive and effective use of skills is dependent on employer characteristics and firm practices (Green, 2016). The low-skills equilibrium trap describes a circular relationship between comparatively low supply and low demand for skills (see Figure 1). The underpinning idea has become influential in describing regional and local outcomes, and has been applied across a range of sectoral and local contexts and a diverse group of countries in the developed and developing world; although to date limited attention has been paid to analysing the processes which generate these (Sissons, 2020). It has been highlighted by the OECD Local Economic and Employment Development programme as one element of comparatively weak economic development prospects for some local and regional economies (Froy et al, 2009; Green, 2012; OECD, 2014). These discussions reflect a longer-term concern about persistent regional inequalities in employment, growth and productivity in Europe and beyond (Iammarino et al, 2019). In the UK concerns about low-skills traps have been amplified by a decade of productivity and wage stagnation (Clarke and Gregg, 2018), persistent low-pay (Lee et al., 2018), and regional and local variations in economic performance (McCann, 2016). Concerns associated with the low-skills equilibrium trap bring the question of how regional and local economies work and for whom, together with what the appropriate balance is between labour supply and demand based policies, to the forefront of academic debate in regional studies (Clark and Bailey, 2018).

<Figure 1>

The evidence on the low-skills equilibrium in the UK has identified a concentration of employers operating in a low-skills low-wage trap in particular sectors and geographies (Wilson and

Hogarth, 2003); focusing attention on the need to explore the intersection of local and sectoral factors in shaping employer behaviour as a route for understanding patterns of spatially uneven development. There is a particular need to better understand employer decision-making in relation to the low-skills low-wage traps that some employers operate in, and how these are influenced by national, sectoral and place-based factors. To date this has been an under-studied area (for partial exceptions see Edwards and Ram, 2006; Edwards et al, 2009; Gog et al, 2018).

We seek to address this gap by exploring the factors (internal and external) which have shaped firms' development towards a low-skills position and their related practices regarding productivity, skills development and wage-setting, as well as assessing the most significant barriers which entrench this position and 'block' an exit. It takes the hospitality and retail sectors as its focus. These sectors are of interest because prior to the COVID-19 pandemic they have taken greater prominence in many local economies with the medium-term shift in employment away from manufacturing. In large urban centres particularly they have been associated with pro-growth policies in terms of physical development, yet they have a certain geographical ubiquity in that they are found (to a greater or lesser extent) in many local areas. Moreover, they are characterised by relatively high proportions of workers in low-wage low-skills positions. These generic features enhance the wider applicability of the selection of these sectors. Our geographical focus is on the sub-national experience of the Birmingham city-region in the West Midlands region of England, UK. Traditionally the manufacturing heartland of the UK, this area has seen long-term economic restructuring towards services.

This article addresses four questions associated with the low-skills low-wage trap in the hospitality and retail sectors within the Birmingham city-region. First, to what extent do firms experience a low-skills equilibrium trap and what factors shape this position? Secondly, what role do sector and place-based characteristics play in understanding this trap? Thirdly, what are the implications for local and regional economic development? Fourthly, what are the constraints and

opportunities to escape this trap? In examining these issues the article contributes to academic and policy debates about productivity and low-skills equilibrium traps, sectoral and city-regional perspectives. It provides new empirical evidence on employers' decision-making around skills investment, workforce management and underpinning organisational strategy. It contributes to informing economic development policy nationally and sub-nationally by highlighting barriers to, and opportunities for, escaping low-skills low-wage traps.

The remainder of this article comprises five sections. The next section further explores what low-skills low-wage traps are and theoretical perspectives that help in understanding them. The second section summarises regional restructuring and immigration trends in the Birmingham city-region. The third section outlines the methodology of in-depth interviews with employers in the hospitality and retail sectors in the Birmingham city-region to understand key factors shaping low-skills low-wage traps and employer behaviour/decision-making in relation to them. Fourthly drawing on employer insights, the findings section presents evidence for a low-skills low-wage trap and identifies potential opportunities for escaping the trap. The discussion section considers how the findings help answer the key research questions posed and considers the broader implications of the results. The final section concludes.

LOW-SKILLS LOW WAGE TRAPS AND THEORETICAL PERSPECTIVES

The origins of academic and policy debates on this topic are in a Finegold and Soskice (1988) paper 'The failure of training in Britain: Analysis and prescription'. The paper highlighted the predominance of low-skilled employment in low-value added activities (in comparison to other similar developed economies). The authors' explanation for this was predominantly institutional, including the organisation of firms, industrial relations, financial markets and government policy. Finegold and Soskice (1988) developed the notion of a low-skills equilibrium (LSEq) to describe this

situation, using it to denote both the balance and the self-reinforcing nature of the problem, whereby low supply of skills leads to low demand for skills which (in turn) reduces the incentives for investment in education and training. Later contributions suggested that the idea of a 'low-skills trajectory' better captures patterns of employer behaviour (Wilson and Hogarth, 2003). The LSEq has been used in different ways since its inception – including as a way to describe the situation of individual employers (Edwards et al., 2009) and economic sectors (Wilson and Hogarth, 2003). Recently the LSEq has also been increasingly used to describe the skills and employment outcomes in local and regional economies (Froy et al., 2012; Dawley et al., 2014; Sissons and Jones, 2016).

Since the original articulation of the LSEq, important labour market changes have occurred. In the UK, successive rounds of welfare reform have increased labour supply through reductions in the value of out-of-work benefits, and increased activation and mandation as part of an active labour market policy (Bailey, 2016). On the demand-side an influential body of literature has detailed a process of labour market polarisation, driven by technological change and the automation of 'routine' jobs, which has seen the simultaneous growth in both more highly-paid jobs and low-paid work, but with a 'hollowing-out of the middle' (Fernandez-Macias et al., 2012; Goos et al., 2014). The broader institutional environment has also influenced employment quality. The UK has a lightly regulated labour market (Davies and Freedland, 2007), with individualised employment relationships leading to limited upwards pressure on job quality (Findlay et al., 2017; Taylor, 2017). However recent changes in the UK have sought to increase levels of pay through national government action to accelerate the growth of the statutory National Living Wage (NLW) (the minimum wage). Less encouragingly, there is evidence to suggest that employers have responded by introducing more flexible employment relationships, with increased use of zero-hours contracts (Datta et al, 2019).

Turning to theoretical perspectives which might help in understanding low-skills low-wage traps at the employer level, institutional theory has been used to explain conditions where firms

appear to adopt similar business practices ('isomorphism') in terms of skills and pay. Institutional theory predicts that pressures from powerful external institutions (e.g. government, consumers, peer competitors) force organisations to become isomorphic in order to gain legitimacy, support and resources from those powerful institutions (DiMaggio and Powell, 1983). Further developments in institutional theory propose that internal pressures (i.e. generated inside the firm) also form part of the isomorphic process (Scott, 1987).

Recent studies applying institutional theory have examined relationships between, and within, the institutions and organisations that make up particular business environments. Some have attempted to understand isomorphic behaviours in firms in specific sectors (Andrews-Speed, 2015; Burden and Sorour, 2018; Zsidisin et al., 2005). Others have investigated reasons for variations in pay levels for similar roles in different geographical contexts (Ryan et al., 2013). Yet others have aimed to understand how some organisations have broken away from isomorphic behaviours in their sectors (Turner and Angulo, 2018). It is inferred from such studies that relationships between, and within, the institutions and organisations that make up a particular business environment are complex, variegated and often conflicted. As such these relationships need to be understood through detailed studies of firm, sector and place (Gog et al, 2018).

Contingency theory, which has been heavily utilised in organisational analysis and management to explain a wide range of organisational phenomena (Zeffane, 1994), also highlights the value of a primary focus on the detailed organisational context. Contingency theory states that organisational conditions, practices and performance (i.e. pay, working conditions, skills and productivity) are aligned with the characteristics of the external environment (Lawrence and Lorsch, 1967). According to contingency theory there is no single best way to design an organisation; rather organisational structures are contingent on external factors in their context. Given this, firms are likely to make internal changes to maintain their 'match'/'fit', with environmental demands (Donaldson, 2001). The theory is applicable to debates concerning low-skills low-wage traps that are

rooted in debates about labour market characteristics (Topel, 1997), which in turn have important implications for productivity, pay and progression in work (McLaughlin, 2009).

This article is informed by institutional theory and contingency theory in its investigation of the relationships between, and within, institutions and firms in the hospitality and retail sectors in the Birmingham city-region. Drawing on perspectives of employers in these sectors, it aims to gain insights into pressure points in these relationships which may be responsible for maintaining low-skills low-wage conditions. There is relatively little evidence for policymakers to draw on regarding 'what works' in exiting low-skills equilibrium traps (Green, 2016), so insights into how some firms appear to be forging an alternative path are valuable.

At the firm level two related concepts can help to explain the low-skills low-wage trap. Within their 'strategic skills model' Ashton and Sung (2011) distinguish between a firm's product market strategy (PMS) and competitiveness strategy. The former relates to the type of market in which the firm competes, while the latter influences how the firm gains comparative advantage within this market. Previous research has found that having a PMS based on higher value-added activities is positively correlated with employer demand for skills, although this varies by sector (Mason, 2011). Both the PMS and competitiveness strategy are shaped by the institutional environment in which the firm operates, again highlighting the importance of institutional, contingent and/or contextual factors.

Although there have been some instances (Mole et al., 2017) of linking a contingent and institutional positioning to low-skills low-wage research, the specific involvement of contingency and institutional theory is not widespread in regional studies. Moreover, the majority of studies that have incorporated such theory have generally focused their attention on the interactions between macro-level organisational characteristics, at the expense of the interface between these and firm-level characteristics (Zeffane, 1994). The remainder of this article examines the question of employer

decision-making and its impacts on demand and supply of skills, wages and local and regional economic development.

KEY FEATURES OF ECONOMIC CHANGE IN THE BIRMINGHAM CITY-REGION

The research is focused on the Birmingham city-region in the West Midlands region of England. The Birmingham city-region has experienced significant economic restructuring with long-run impacts on employment and pay. It has an extended history of manufacturing, through successive rounds of economic specialisms, particularly linked to metals. After World War II the manufacturing and service sectors expanded and immigrants from the Caribbean and Indian subcontinent settled in the area. By 2011 nearly 27% of Birmingham's population were from Asian/Asian British groups and 9% were from Black/Black British groups.

Industrial restructuring since the 1970s deeply impacted Birmingham's economy (as in other major cities elsewhere) (Massey and Meegan, 1978), as '[s]ectoral decline brought with it specifically regional decline' (Massey, 1979; 236). During the 1980s, Birmingham lost around 70,000 manufacturing jobs (Digaetano and Lawless, 1999). The long-run impacts of deindustrialisation on the Birmingham economy have been profound as economic growth has been comparatively weak for much of the period since the early 1980s (Martin et al, 2016). The persistence of historic economic weakness is also reflected in the comparatively large impact which the 2008-2009 recession had on employment in the area (Champion and Townsend, 2013).

The early-mid 1980s saw 'pro-growth' policies in Birmingham, as the city sought to retain manufacturing employment, but also to diversify sectorally and regenerate the city centre (Digaetano and Lawless, 1999). In the 1990s and 2000s, flagship developments aimed at cultural, conference, leisure and tourism markets changed the physical face of the city and employment in the 'visitor economy' increased significantly. However, it has been argued that the benefits of these

developments were not broadly felt, particularly among the city's deprived neighbourhoods (Barber and Hall, 2008).

In common with many other city-regions in Europe and the Global North, the 2000s also saw further immigration to the Birmingham city-region, especially after 2004 from eastern Europe. Many such migrant workers, at least initially, filled low-skilled roles, even if they had higher-level qualifications (Anderson et al., 2006).

METHODOLOGY

The research draws on in-depth semi-structured interviews with employers in the hospitality and retail sectors in the Birmingham city-region.

Firm selection was undertaken via a snowballing process using existing contacts and business networks. The Greater Birmingham Chamber of Commerce, business engagement teams and key informants from universities facilitated introductions to senior managers within appropriate firms. These were supplemented by other contacts. The firms were selected purposively to cover a diverse range of characteristics (across and within each sector). Interviews were conducted face-to-face and lasted 40-60 minutes, being recorded with the agreement of interviewees. Interviews were undertaken with twelve firms (see Table 1), supplemented by key informant interviews providing broader sectoral insights. As such the methodology provides in-depth insights rather than a representative overview across firms in the sectors that could have been achieved by a less detailed telephone survey. Firm interviews targeted senior managers/owner managers (as appropriate) with responsibility for strategic decisions appropriate to understanding productivity and skills issues.

<Table 1>

The interviews covered basic information on the interviewee and the nature of the firm and its products/services and markets. Informed by institutional theory predictions that institutions, employment relations/welfare and immigration regimes and other external pressures impact on strategic decision-making, interviewees were probed for details of how the external environment in which they operated shaped their firm strategy, business model and orientation. In turn these influence requirements for numbers of employees, job role types and skills, so information was collected on these aspects of the workforce. Further questions exploring working practices and job design, the relative importance of different performance measures, understandings of/approaches to improving productivity, wage-setting policies, linkages between pay and productivity, and the potential for wage growth for low-paid employees, reflect the concerns of contingency theory. Together the range of questions were designed to gain an understanding of how the firm's organisation and practices interfaced with the external environment, including place-based factors and the local labour market.

FINDINGS

This section first discusses evidence for a low-skills low-wage trap from firm interviews in the hospitality and retail sectors in the Birmingham city-region. It then describes the factors shaping the position of employers in a low-skills low-wage trap, with reference to ambition, business ethos and models, and local labour market conditions. Subsequent sub-sections provide insights into evidence for low-skills low-wage traps and barriers to escape this trap. The final sub-section discusses opportunities for escaping the low-skills low-wage trap.

Evidence for a low-skills low-wage trap

There were several indicators of businesses being in a low-skills low-wage trap. Most employers acknowledged themselves as being predominantly a low-wage employer (second column, Table 1).

One element driving this position was the competitive nature of the sector or sub-sector in which the employer operated and the pressures on 'the bottom line'. In segments which were very price sensitive (third column, Table 1), employers would seek to minimise wage costs, by paying at/close to the minimum wage. Coupled with this, in both sectors, was the use of part-time/ low hours contracts.

The firm's market niche influenced their position in relation to pay and skills. Some firms were not concerned with growth, but instead had a niche position in the market which they were content to occupy, rather than move into higher value-added activities (e.g. budget hotels). In these circumstances the businesses suggested that work in the company was, and would remain, low-paid and that there was little incentive for the business to invest in skills and training (other than induction training).

For some employers there was little challenge or incentive to change a low-skills low-wage position because they were (relatively) easily able to fill labour demand needs locally and did not face issues in recruitment even when offering low wages. In four cases in hospitality (H1, H3, H6, H7) employees were predominantly eastern European, in one case (H5) there was a reliance on students and in the other two cases (H2 and H4) the workers were predominantly British. There was also, particularly in some smaller firms, a focus on short-term survival rather than long-term growth.

What factors shape the position of some employers in a low-skills low-wage trap?

Three main groups of factors explain why some firms are in a low-skills low-wage trap. The first is ambition. For two 'independents' interviewed (R5 and H2) the desired trajectory was short-term survival or satisficing in the medium-term. For a family business there was an initial ambition to expand, but as family members pursued other careers this motivation was no longer apparent (R5). Here the lack of a pressing need to change the business model explained their position in a low-skills low-wage trap.

Secondly and relatedly, business ethos helped explain why some firms were in a low-skills low-wage trap and others were not. There were examples in retail of the explicit adoption of a ‘good jobs strategy’ⁱ and of the voluntary introduction of a real Living Wage calculated according to the cost of living rather than the statutory wage floor (R4). These practices signal a ‘high road’ ethos rather than the ‘low road’ to competitiveness characterising the low-skills low-wage trap.

Thirdly, as suggested by institutional theory and contingency theory, labour market norms help shape the operation of labour markets. In the context of an increasingly compartmentalised labour market, in the particular labour market segments in which some of the firms interviewed operated, a low-skills low-wage model was the norm. Locally there was an adequate supply of labour (amongst the indigenous local population, students or more recent migrants) either with low skills, or prepared to work in jobs requiring only low-level skills, to sustain the prevailing situation (Green et al., 2015).

Sectoral insights: variations in evidence for a low-skills low-wage trap and barriers to escape by sector

Hospitality

Interviews with hospitality firms identified several specific sectoral and place-based factors representing markers of a low-skills low-wage trap. First, there is a large supply of labour available to fill low-wage jobs. Low-wage hospitality roles are often taken up by international migrants, with the pressures to raise wages for recruitment relatively weak to 2017/18 (when the research was conducted). There was also availability/flexibility of students to fill hospitality posts: at that time Birmingham had a large and rapidly growing student population, who increasingly looked for jobs to supplement their finances. Second, low-wage job roles in the hospitality sector commonly involve tasks that are narrowly defined. As such roles are resistant to change, so is their ability to proffer higher wages. Third, there was evidence of functions being outsourced primarily on a cost basis as

one way to reduce input costs and exercise greater cost control. For example, outsourcing enabled the senior manager of a city centre hotel (H7) to have the flexibility to use housekeepers as and when needed, rather than having to regularly pay for their own housekeepers. A similar model was implemented with an independent bar start-up (H5) concerning kitchen and catering staff, which also resulted in regularly changing menus without the costs of having to do this in-house. Fourth, the high turnover of low-paid staff characteristic of much of the hospitality sector creates a cycle of limited training and issues of retention.

Whilst these sectoral characteristics and place-based factors provide evidence for a low-skills low-wage trap, there are also barriers to escaping this trap. First, cost pressures involved in procuring inputs led to a general unwillingness to pass increased wage levels to customers through prices as this would threaten sales and profitability. Second, there is a strong desire to maintain numerical labour flexibility due to the rapidly changing nature of demand in the sector. Interviewees highlighted the need to frequently adjust hours of work required from staff to meet changing demand on a daily/weekly/seasonal basis. In guaranteed hours' contracts, this might require workers to be highly flexible with such hours. Third, the use of non-wage incentives in reward packages arguably entrenches a low-wage mentality. In several interviews, there was frequent reference to non-wage incentives provided to low-paid employees (e.g. rewarding highly productive staff with (tax exempt) shopping vouchers). Fourth, incentives for employers to invest in training are low. High worker turnover in low-paid posts raises the risk that training investment will be lost before any substantive benefits can be gained. Additionally, low-paid roles are often narrowly defined, thereby limiting the skill-sets required for such roles and further diminishing the need for investment in skills development.

Retail

The retail sector shares some common features with hospitality regarding geographical footprint and labour requirements. First, both place an emphasis on customer service skills, rather than formal

qualifications per se. Hence the sector is relatively easy to enter. Second, in some (but not all) instances jobs are tightly designed; the rationale being to drive efficiency gains. The introduction of the NLW sharpened emphasis on the deployment of hours in the most productive way. In some instances (e.g. R3) this had led to a curtailment of the range of tasks undertaken by some workers, so reducing their job scope. Third, alongside more tightly defined job design for some workers, others saw their roles becoming more multi-skilled as staffing structures flattened. In a large retail chain (R1) multi-tasking had become the norm “from filling shelves to being on checkout”. This provided greater variety, but limited opportunities for worker progression. Fourth, use of technology could decrease demand for skills (e.g. use of self-service checkouts to enhance efficiency).

There are also barriers to escaping the low-skills low-wage trap. The first involves cost pressures in a difficult market. Enabled by technology, consumers drive changes in shopping behaviour, both in physical stores and the growth of online shopping. Pressure on real wages curbed consumer spending, while retailers faced cost pressures relating to NLW increases. In this context for many retailers the foremost focus was on short-term survival. Second, the aspirations of, and resources available to, different retailers were diverse. While all sought profitability, their growth aspirations varied. This was most apparent when comparing major chain retailers with an independent family-owned store (R5) adopting more of a satisficing than a profit-maximising strategy. Third, the informal ways of working in this particular store involving family ‘helpers’ (Ram et al., 2017), working on an ad hoc basis when required without direct recompense, was indicative of a lack of formal business and workforce development policies which tend to be associated with a position higher up the value chain.

Opportunities for escaping the low-skills low-wage trap

Although the Birmingham city-region has relatively high levels of low-skilled individuals across the local economy, the findings suggest that the low-skills low-wage trap is not homogenous across firms/sectors. The interviews revealed examples of opportunities for escaping the trap.

First, one route involved greater emphasis on monitoring inputs and outputs, and so examining productivity. There were examples of this strategy amongst large and small firms across both sectors. However such examination could be challenging. A co-founder of an independent bar start-up (H5) indicated that they generally lacked the time and resources to analyse data and that the majority of time was taken up on cash-flow challenges.

Second, investment in skills development strategies provides a means of boosting productivity and escaping the low-skills low-wage trap irrespective of firm size. The Local Industrial Strategy in the West Midlands has a particular focus on raising skills but neither hospitality nor retail have been identified to date as target sectors where specific attention is focused. In retail some firms were adopting skills development strategies associated with multi-skilling and greater monetary rewards. For example, the interviewee from a department store (R3) explained that with a reduction in employee numbers and technology allowing the removal of significant amounts of activity, increasingly those in employment have different (and expanded) roles (British Retail Consortium, 2016), spending a higher proportion of their time with the customer and so requiring more specialist knowledge (Ton, 2014). Similarly in the technical goods chain (R4) it was recognised that workers needed ongoing training to update their product knowledge so as to impart their expertise to customers. This firm used a variety of financial incentives - including monetary rewards for commission on sales, bonuses for customer service, etc. *“to reward what we want to achieve – which is profit and good customer service”*. This firm felt that financial bonuses, rather than a flat rate of pay, better achieved these goals. In hospitality, at some establishments that were part of wider groups, progression was possible for a *“few”* individuals who offered great *“potential”* by moving to other establishments (H4), while an independent employer (H3) offered free English language training to migrant workers to aid retention and progression.

Third, external to the firms, the NLW (setting a higher statutory minimum wage floor) was an important contingent factor providing an ‘external shock’ to their businesses. The NLW was a major

concern for many firms interviewed. It indirectly stimulated some (not all) firms to think of ways to increase productivity levels, for example through innovative management practices, or moving to “fewer bigger jobs” to ensure cost-effectiveness. In one large chain (R3) it had prompted further investment in centralised services, facilitated by greater use of technology. Thus, although a higher NLW was perceived as an obstacle for low-skill low-wage firms, consistent with Riley and Bondibene’s (2017) findings, the NLW arguably has positive ramifications as it forces firms to conceive of ways to improve business productivity.

DISCUSSION

Building on this evidence regarding firms’ decision-making, Figure 2 depicts influencing factors. It highlights macro factors shaping the external environment within which firms operate, including the regulatory wage floor, the welfare/ employment relations regime, the volume of skills supply and skills composition, the immigration regime and Brexit uncertainty (which were live concerns in the UK at the time of the research), and technology. In turn, in accordance with institutional theory and contingency theory, these factors shape micro practices within the internal environment as firms seek to align their organisational structure, working practices/job design, productivity and pay determination practices with the external environment. With the exception of Brexit uncertainty, all of these factors are relevant to regions outside the UK.

<Figure 2>

The remainder of this section addresses the four questions posed at the outset regarding factors shaping the low-skills low-wage trap, the role played by sector characteristics and place-based factors, implications for local and regional economic development, and constraints and opportunities for escape from this position.

To what extent do firms experience a low-skills low-wage trap and what factors shape this position?

At the heart of the low-skills low-wage trap is employer orientation towards growth in the face of constraints, workforce development and wage-setting and associated decision-making. This in turn is shaped by firms' product market and competitiveness strategies. A 'low road' approach is one where competitive advantage is predicated on price, low-wages and low-skill job design (Payne, 2018). 'Low road' practices, as a form of isomorphic behaviour, take place amongst firms in response to the institutional environment to ensure legitimacy in that environment. In several cases, firms have had to adopt the NLW but this has also resulted for the most part in the same contingent behaviours, and rather than focusing broadly on productivity they retained a low-skills approach around trying to improve labour efficiency ('working harder') as opposed to 'working smarter'. The introduction of the NLW impacted particularly on firms in the low-skills low-wage trap as it necessitated an uplift in a wages for those paid at/close to the statutory wage floor, but responses differed as to whether firms focused on work-effort or on firm productivity.

The macroeconomic context also shapes the low-skills low-wage trap by framing prevailing economic and labour market conditions and thus the broad context for decision-making (see Figure 2). The findings presented here relate to a particular point in time: employer interviews were undertaken in late 2017/early 2018 at a time when the city-region and UK economy had largely recovered from the Global Financial Crisis despite uncertainties regarding Brexit, with a ready labour supply of migrants and students helping fuel high employment rates. The UK welfare system, characterised by relatively low monetary levels of benefits and a conditionality regime, also means that out-of-work claimants are encouraged to move into low-paid jobs, so increasing the supply of labour. Hence the wider regulatory (institutional) environment is important in shaping how firms may respond similarly to such factors.

What role do sector characteristics and place-based factors play?

Sector and sub-sector are important in understanding firm decision-making. At one level the institutional environment of a sector and its markets shape firm behaviour. Pressures on real wages

meant that firms in hospitality and retail were reluctant to pass on price increases to customers and so tended to internalise cost pressures. This is a function of there being little room for manoeuvre (i.e. limited options) under short-term profits and sales pressures in the hospitality and retail sectors.

Importantly firms are also located in place. The availability (or otherwise) and profile of labour supply is an important place-based factor; firms compete for labour in the local labour market. In the Birmingham city-region employment rates were lower than nationally, especially for the least qualified. A ready supply of migrant workers in the city-region (including higher-skilled migrants willing [at least temporarily], to fill jobs requiring lower skills only), and also in particular neighbourhoods where some of the firms interviewed were located, meant that recruitment to low-skilled jobs was not a particular issue. In other local areas facing a more constrained labour supply it would likely have been more difficult for a low-skills low-wage trap to perpetuate. In making wage-setting decisions employers made reference to local wage norms and set their own wages accordingly. This illustrates isomorphic behaviour where local labour market conditions result in conforming to similar wage levels.

What are the implications for local and regional economic development?

Despite a diversity of experience amongst firms in any sector/local area it remains the case that a preponderance of firms characterised as being in a low-skills low-wage trap stifles opportunities for 'good' economic growth. A local place-based low-skills equilibrium trap is a way of understanding spatially uneven development and the comparative position of local labour markets. In such local areas the demand for skills is limited and this impacts upon the incentives for investment in training. It is telling that in a study focused on economic development and skills stakeholders in the English Midlands, Payne (2018) found that – despite an awareness of the issues – a lack of knowledge of interventions providing clear solutions to the problems of low-skills and low-pay led to their relative

neglect in policy terms. This is a 'problem area' that rests in the hands of policymakers as much as in the hands of firms, and is therefore an institutional issue.

The complexity of the low-skills low-wage trap for employers is such that a range of policy interventions are required, including business support, local economic development policy, sectoral policy, innovation policy, and provision of easy access to opportunities for skills development. This means that different policy domains need to be aligned to shape transitions from low-skills low-wage traps. This is hampered by the rapidity of change in institutional structures in the UK and by policy domains overlapping and interlinking at different spatial scales. Local initiatives need to be sensitive to national-level changes in order that actions at firm, sub-national and national levels can be mutually reinforcing, rather than operating in opposite directions.

What are the constraints and opportunities to escape this low-skills low-wage trap?

The findings identify several constraints on firms in escaping the low-skills low-wage trap. These include firms' business models and competitiveness strategies, employer/owner aspirations, orientations and business ethics. In turn these are in part shaped by national, sectoral and local labour market factors. Additionally, given concerns about the 'productivity puzzle', some employers' over-riding emphasis on increasing worker effort acts as a constraint to think more broadly about means of escape.

Just as 'low road' business models and competitiveness strategies can preclude escape, so changes to them can provide break out opportunities. Regulatory policy has a role to play in stimulating employers to think differently about business issues. There is scope for local sector-based policy to address specific sectoral issues in place. As outlined by Payne (2018) and highlighted in international studies where municipalities have greater powers and scope for local innovation and experimentation than in the UK (Green et al., 2017; Pike et al., 2017), there is a role for employment charters and public procurement to raise skills and wage levels. There is scope for greater innovation

in skills policy at local level to stimulate greater demand for skills, alongside established policies orientated towards skills supply. At national level, the level of the NLW is one mechanism through which policymakers can seek to 'shock' firms away from a low-skills low-wage trap position.

CONCLUSIONS

The existence and persistence of a 'low skills equilibrium trap' in some regions has become an important concern for academics and policymakers alike. Existing studies have identified examples of regional positions of being 'stuck' in such a trap. To date however there has been relatively little examination of employer decision-making in relation to the existence and persistence of low-skills low-wage traps at the firm level, including how these are influenced by sector and place. Better understanding employer decision-making can help to inform an assessment of the processes through which regions remain locked in a low-skills equilibrium. This article has presented an examination of employer decision-making, yielding new empirical evidence and insights on low-skills low-wage traps in two low-wage sectors in the Birmingham city-region. It has highlighted challenges/opportunities for local and regional economic development policy, while also contributing to academic debates on the existence and persistence of low-skills equilibria in local economies. Institutional theory and contingency theory stress the importance of the external environment in influencing firm practices. The evidence presented demonstrates the importance of the ways in which external economic and regulatory forces intersect to shape outcomes at the firm level in particular local labour markets. By considering them jointly in place it is possible to develop a more rounded view of the challenges relating to low-skills low-wage traps.

The findings demonstrate how entrenched some firms are in low-skills low-wage models, a position which perpetuates wider regional low-skills equilibrium traps. This has important implications for policy. Perhaps the most direct 'lever' to encourage employers to shift away from a low-road position is through gradual uprating of the statutory minimum wage, although policymakers will balance such uprating against possible negative employment impacts. 'Softer'

forms of sectoral or locally-focused business support can ‘make the case’ for business improvement and growth which can support exiting the low-skills low-wage trap. The orientation of skills investment can also help develop policy more focused on skills demand.

Although the findings presented here are from a relatively small-scale study, they have provided important evidence on firms’ decision-making which provides significant insights into the low-skills low-wage trap. The research was undertaken in one metropolitan area in a particular region of the UK (a liberal market economy). Its findings are however of significance for scholars elsewhere. The low skills equilibrium trap has been shown to exist in different types of regions. The balance of factors driving this position and potential policy options will therefore vary to some extent. However this study does underline the importance of the national institutional context, and particularly the role of labour market regulation and statutory minimum wages in influencing employer business models and establishing and perpetuating the low-skills low-wage trap at the firm level. These influences combine with factors operating at the sector level, and the specifics of local labour markets (including their prevailing ‘norms’). Through integrating these dimensions for other regions it is possible to gain a more detailed understanding of the balance of factors influencing low-skills low-wage traps at the local and regional level. This is a field where there is increasing recognition of the challenges faced – which the Covid-19 pandemic and its aftermath (which occurred after the research was conducted) brings into stark relief - but where there is a pressing need for ideas for interventions to tackle them as well as evidence on ‘what works’. There is clear scope for policy learning and generation of ideas internationally, even if not direct policy transfer.

The findings described here also have wider relevance to the international literature on skills challenges at the regional level. In particular, they resonate strongly with recent contributions which stress the need to combine analysis of supply and demand in explanations of regional development paths (Clark and Bailey, 2018). At a policy level the findings provide support for the need to better integrate across policy domains – including those encompassing industrial strategy and skills policy –

as well as coordinating across different levels of governance (Bachtler and Begg, 2018). They are also supportive of recent arguments for the need for policy to be better coordinated between and across sectoral and place-based approaches (Bailey et al, 2015).

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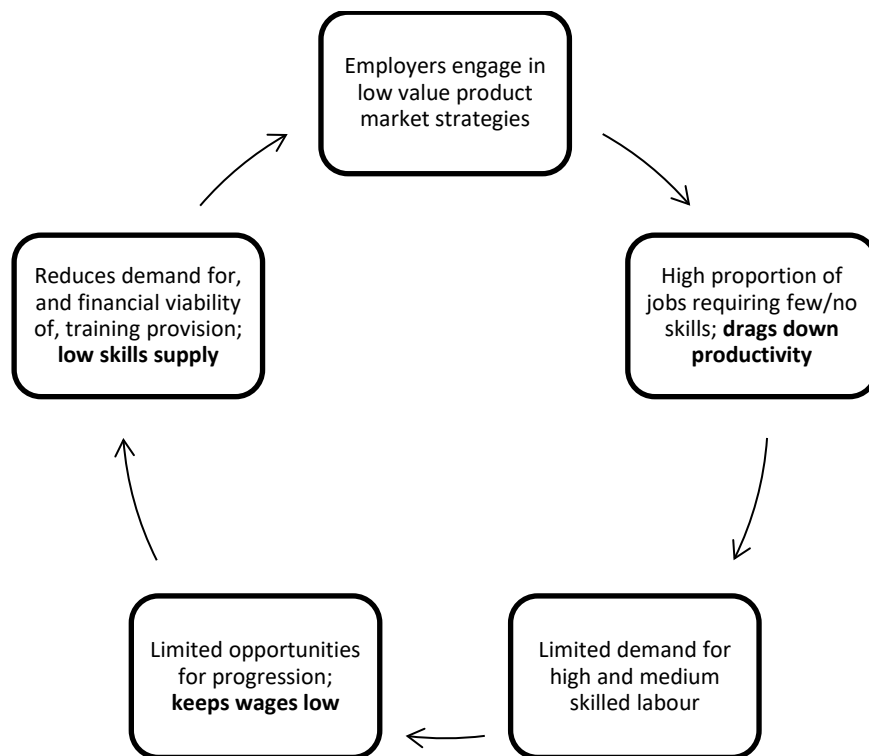
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Figure 1: Low-skills, low-wage trap



Source: adapted from Green (2016)

Figure 2: Understanding factors shaping organisational behaviour

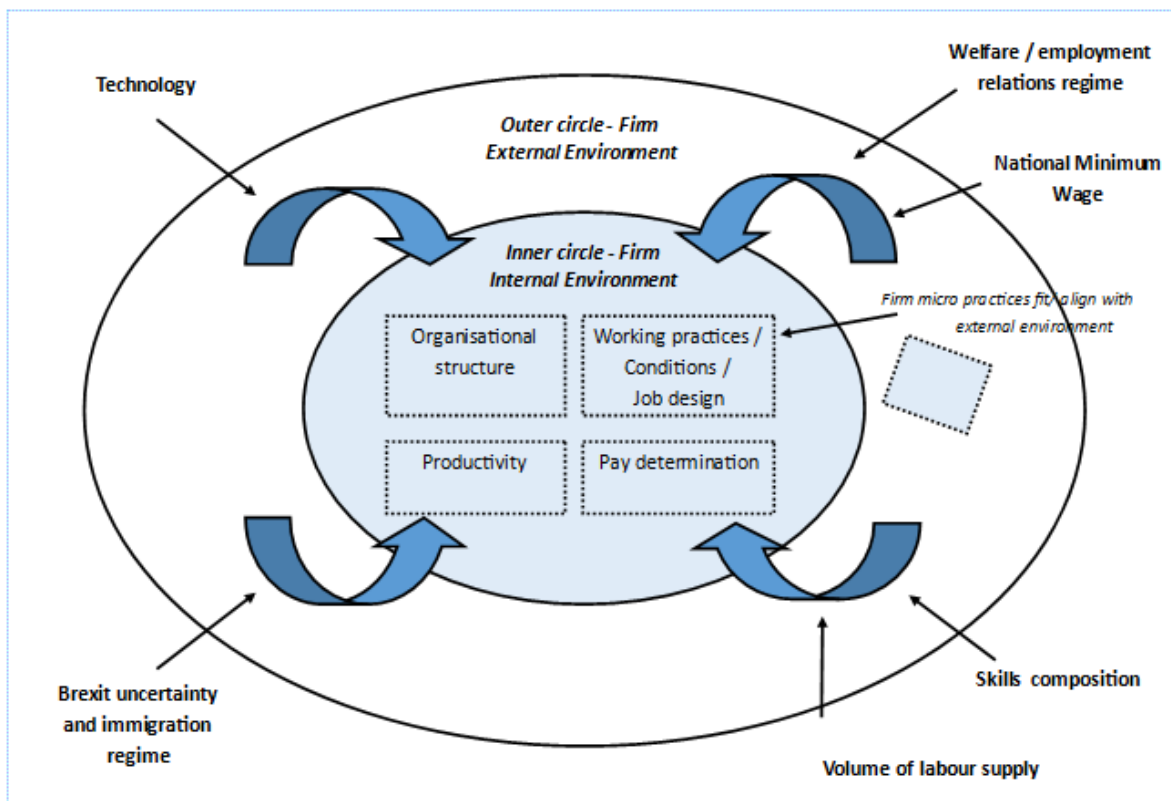


Table 1: Evidence of low skills trap and barriers/constraints to exiting low skills trap, across cases in two low-paid sectors (H = Hospitality; R = Retail)

| Case / Firm Description | Evidence of Low Skills Trap | Barriers/Constraints to exit Low Skills Trap |
|--|--|--|
| H1 – Large top end hotel (UK branch of global group of chains) | - Most staff close to NLW - NLW as core pay-setting mechanism | - Price sensitivity of customers - Wage setting: labour shortages and skills important, esp. for chefs |
| H2 – Budget Hotel (Independent) | - NLW for pay-setting: most staff close to NLW - Compete based on price | - Price sensitivity of customers - No internal pressure to raise wages |
| H3 – Large pub restaurant (Independent with brewery tie) | - Most staff close to NLW - Demand peaks and troughs – adoption of highly flexible working model | - Cashflow and labour efficiency as immediate concern - High proportion of part-time workers and focus on business labour demands at point in time |
| H4 – Outer city Hotel (national chain of a global group) | - Most staff close to NLW | - No shortage of local labour; staff turnover quite low - Only a few staff progress via other parts of the hotel group or training |
| H5 – Independent ‘craft beer and food’ bar start-up | - Most staff close to NLW | - Cashflow is immediate priority “Would have a skills issue if we did not have students or graduates” |
| H6 – Large city centre hotel (subsidiary of a global group) | - Slight majority of staff close to NLW - High staff turnover | - Wage setting linked to local market rates; emphasis on labour efficiency. - “Chefs more technically skilled so are paid more than a receptionist” |
| H7 – City centre hotel (part of national chain – subsidiary of global group) | - Slight majority of staff close to NLW. - Outsourced housekeeping for cost control | - Price sensitivity of customers - Trained staff on multiple roles (bar, reception) to meet demand flexibly |
| R1 – Large national retailer (HQ of regional branch, of a national brand) | - Most staff close to NLW, but “XXXXX would be top in terms of ‘enhanced package’.” | - Price sensitivity of customers - NLW rises drive ‘productivity’: multi-tasking/flexible roles now norm |
| R2 – Department store 1 (HQ and large store of UK-based chain) | - 35% of store staff paid close to NLW. - Students are 40% of staff, but paid full NLW. | - NLW is a critical driver of cost reduction actions - Perceptions: pay less important than job flexibility / location |
| R3 – Department store 2 (large store of UK-based chain / brand – an employee-owned business) | Pay data not given. Pay a little better than average, but ‘total reward package’ far better (profit share/final salary pension). | - Cost sensitivity of customers - “We’re not talking about rewarding people because of raised productivity, we have had to do it the other way round”. |
| R4 – Technical goods (National chain of technical goods) | <u>Voluntary Living Wage (VLW)</u> since 2015. Basic pay plus commission. VLW a top-up if threshold unmet. Bonus for good reviews. | - High retention; mostly full-time staff: ‘more invested’, for daily training etc. - Technology is of prime importance as “it’s a very technical product” |
| R5 – Electrical retailer (Independent, family owned - now closed due to changes in TV install policy / online) | Employed under 10 staff (most sales staff near or on NLW); family members worked for very low pay. | - Wage setting informal – NLW/local going rate for sales staff. Use of family with low recompense (business ethos of ‘satisficing’) - Pay rates stated as ‘low’ in retail sector generally. |

ⁱ This is associated with investment in skills development and improvements in pay, customer satisfaction and profits (Ton, 2014).