

**MUCH ADO ABOUT NOTHING?
SMALL RURAL ENTERPRISES AND
THE NATIONAL MINIMUM WAGE**

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INTRODUCTION

The first UK National Minimum Wage (NMW)¹ was introduced in April 1999. Not surprisingly, commentators have variously argued that the NMW has been set at a level which is too low to tackle persistent pay inequalities (Burkitt et al. 1999), that it should not exist at all (Dillow 2000), or that it is just about right (Bain 1999). Critics claim that the introduction of a NMW will generate adverse effects such as job loss and reduced incentives to training (e.g. Minford and Haldenby 1999; Dillow 2000).

Many analysts see the negative effects of the NMW as likely to be concentrated in small enterprises. Pay rates tend to be lower in small enterprises (Dickens and Machin 1998; Bayliss and Corney 1999); hence any impact of a statutory pay minimum is likely to be more keenly felt in these organisations. Acknowledging this, the Government has charged the Low Pay Commission with responsibility for monitoring and evaluating the impact of the NMW on small businesses (Low Pay Commission 1999). Moreover, the Department of Trade and Industry has published seven best practice guides to help small employers in ‘low pay’ industries such as retail. In their second report the Low Pay Commission (2000: paras 4.5-4.9) has argued that the transition to the NMW has been more difficult for small business owners. The incidence of low pay is also known to be greater in rural areas (Low Pay Commission 1998; Countryside Agency 2000). For instance, the lowest weekly wages for full-time adult employees at April 1999 were in the predominantly rural counties of Cornwall (£297), Northumberland (£315) and Isle of Wight (£323); these compared with the average for the whole of England of £405 (Countryside Agency 2000: 39). A study of small rural businesses can therefore be seen as a critical test of the effects of NMW on the UK economy. If its impact on these businesses is marginal, it is likely that its consequences for other employers will be even more limited. Moreover, the data presented here, based on fieldwork carried out up to June 2000, is more up to date than that available to the Low Pay Commission for their second report (Low Pay Commission 2000).

The purpose of this paper is to analyse the effects of the NMW on small rural enterprises during its first year of operation. Contrary to those who claim that the NMW would have disastrous effects on small enterprises, we argue that the NMW has had very little effect on

the small rural business population. In only a handful of cases has the impact been significant.

MANAGING THE INTRODUCTION OF THE NATIONAL MINIMUM WAGE: A CONCEPTUAL FRAMEWORK

Neoclassical economic theory insists that as the price of labour rises, other things being equal, employers will reduce their labour input and/or reduce other, non-wage, benefits in order to remain economically viable. Such a view assumes that labour markets operate in a perfectly competitive manner: that employers are price-takers with no discretion in pay-setting; that workers of a given skill level receive the same wage rate at all firms; and that workers possess perfect information about wage rates offered by all employers and will move if wage rates are higher elsewhere. Market competition, it is argued, ensures that employers who pay workers wage rates higher than their marginal product will suffer a decline in profitability leading to job loss and elimination from the marketplace (e.g. Forrest 1984; Lal 1994; Dillow 2000).

Critics of the neoclassical approach argue that studies of the impact of statutory minimum wages do not universally demonstrate a negative relationship between changes in wages and employment (Card and Krueger 1995; Dickens et al. 1999). Employers are not price-takers and have some discretion to raise the wage rates of low-paid workers. In contrast to neoclassical theory, critics maintain that low pay reflects not the marginal product of workers but the vastly greater economic power of employers (Pond and Winyard 1983; Sachdev and Wilkinson 1998), a situation of ‘monopsonistic exploitation’ (Philpott 1996). Second, neoclassical analysis focuses on the impact of minimum wages at the aggregate, macroeconomic level yet the implications of the approach for pay and employment at the level of the individual enterprise are indeterminate. Raising pay rates need not *necessarily* lead to job loss and business failure for individual employers. Indeed, the employment effects may even be positive at the level of the firm. By increasing the purchasing power of low-paid workers, who have a higher propensity to consume and thereby spend rather than save any additional income, the NMW may raise demand in the economy as a whole and at the level of some individual firms (Pond and Winyard 1983). Third, employers may respond not by cutting labour costs but by introducing measures to raise productive efficiency or to reduce

organisational ‘slack’ (Edwards and Gilman 1998). Unless the business is in a weak financial position, the NMW need not *necessarily* lead to job loss and business failure.

An alternative approach recognises the active role, albeit constrained, that employers can adopt in structuring employment and pay (Rubery 1988). Rather than simply being price-takers, employers have some discretion to set pay rates though the scope for choice is constrained by both external labour market pressures *and* internal institutional forces such as trade unions. The implications for small employers are ambiguous. On one hand, it might be argued that small employers are less constrained by institutions such as trade unions yet, on the other, their proximity to the market might mean that external labour market pressures are more keenly felt.

Affected employers may choose not to ignore the NMW and underpay staff; alternatively, they may increase pay rates for workers paid below the NMW; and/or they may decide to increase pay for groups not directly affected, for example, to restore differentials with other members of the workforce. Employer responses to the additional wage costs imposed by the NMW are also likely to vary. They may simply absorb them, accepting a cut in profit (or a greater loss), or they may attempt to implement offsetting measures. Employers may attempt to offset the additional wage costs of the NMW through cost-cutting, revenue-raising and efficiency-enhancing practices.² Supporters of the NMW have argued that labour market ‘shocks’ such as the NMW may cause employers to change their competitive strategies, shifting attention towards issues such as product development, quality and efficiency. Unable to compete on the basis of undercutting wages, employers may shift to increased investment in physical and human capital. The purpose of this framework is to facilitate an account of how and why small rural employers have responded to the NMW in the ways they have.

METHODOLOGY

The paper reports on a longitudinal study of 407 small rural businesses. Employers were interviewed up to three times during the first year of the NMW.³ All participating businesses:

- were legally independent at the time of the initial telephone interview;
- employed 1-99 people at the time of the initial interview, including at least one worker who was not an owner/partner/director;

- were located in a rural area, within one of four specified counties (Cornwall, Norfolk, North Yorkshire, Northamptonshire). These counties were selected for their high rural composition. Rural areas were defined in terms of postcode areas (see Figure 1).

| Figure 1 | |
|--|---|
| Rural Postcode Areas | |
| <i>1. Cornwall</i> | TR 2, 4, 5, 6, 8, 9, 12, 13, 16, 17, 19, 20 PL 10, 13-17, 22-24, 26-30, 32-35 |
| <i>2. Norfolk</i> | IP 26 NR 9-11, 13-17, 20, 22-25, 29 PE 14, 31-36 |
| <i>3. Northamptonshire</i> | NN 6-7, 9, 12 |
| <i>4. North Yorkshire</i> | BD 23, 24 DL 6, 8, 10, 11 HG3 LS24 TS 9 YO 7, 8, 13, 17, 18, 19, 21, 22, 23, 26, 60-62 |
| Notes: postcode areas were identified by the authors through visual examination of a postcode map for each of the four counties. The maps provided considerable detail, permitting the authors to exclude large urban settlements. Although this was inevitably a subjective endeavour, the authors are satisfied that this approach enabled rural areas to be identified. | |

Sample businesses were selected randomly from a Dun and Bradstreet business database subject to the criteria above. All initial interviews were telephone interviews (response rate: 80.6%); subsequent contacts were a mix of telephone and face-to-face interviews. The initial telephone sample was structured to give equal weight to businesses in the four counties, between businesses in ‘low pay’ industries and other industries, and to achieve a spread between different employment size bands (1-9 workers, 10-19 workers, 20-99 workers). These targets were broadly met. The mean employment size of the initial telephone sample businesses was 17.4 workers. Face-to-face interview respondents were selected on the basis of whether they had previously reported pay changes as a result of the NMW or, alternatively, had reported underpayment. Sample attrition was low: nearly 80% of the original sample were retained through to the final stage of fieldwork (Table 1).

| Table 1 | | | |
|---|------------------------------|------------------------------|----------------------------------|
| Research Stages: Number of Interviews Achieved | | | |
| | Stage One (May-June 1999) | Stage Two (Sept-Oct 1999) | Stage Three (April-June 2000) |
| Telephone interviews | 407 | 292 | 282 |
| Face-to-face interviews | - | 40 | 34 |
| ALL | 407 | 332 | 316 |
| Notes: figures for Stage Two face-to-face interviews include one extended telephone interview with a respondent with whom a face-to-face interview could not be arranged. | | | |

PAY ADJUSTMENTS

The effects of the NMW on employers can be explored in terms of two dimensions. *Breadth* effects concern the proportion of employers affected within a given population. Employers can be affected by the NMW directly, in being obliged to make compulsory pay awards, and indirectly, by influencing discretionary awards for workers already paid at a rate above the NMW or for those outside the scope of the legislation such as workers aged under 18. *Depth* effects refer to the impact of the NMW *within* individual businesses. This will depend on the pay rate at which the NMW is set, the proportion of the workforce affected, and the level of labour-intensiveness. Looking at both dimensions together, it is possible that a large proportion of employers might be affected by the NMW but only in a minor way because the pay increases awarded were small or because only a small proportion of the workforce were affected. Alternatively, it is possible that a small number of employers might be affected greatly because pay rates were previously extremely low, or because the majority of the workforce was affected. Indeed, the Low Pay Commission estimate that the average pay rise for workers affected by the NMW to be of the order of 30% (Low Pay Commission 2000: para 3.19) indicating substantial pay hikes for affected workers. It is important to investigate both breadth and depth dimensions.

On the breadth dimension, during its first year, 24% of employers reported pay increases as a consequence of the NMW.⁴ This figure is broadly consistent with other studies (British Chambers of Commerce 1999). Many of these employers did much more than simply comply with the NMW. Of those employers implementing pay increases as a result of the

NMW, the sample was evenly divided between those solely making compulsory pay changes and those making discretionary changes. However, only 13% of the sample reported increases in total wage-bill and only 8% reported a reduction in profit as a consequence of the NMW.

There were clear geographical differences in the breadth impact of the NMW. Employers in Cornwall and Norfolk were the most likely to have been affected by the NMW. For instance, 33% of Norfolk employers reported an NMW-related increase compared to 12% of North Yorkshire employers. Other evidence from the telephone sample supports this perception of Cornwall and Norfolk as low-pay areas. Employers in these two counties were more likely to report that the NMW would have an effect on local firms' pay than their counterparts in North Yorkshire and Northamptonshire. The relevant proportions of employers in Stage Two in each county reporting that the NMW would affect local firms pay was: Cornwall (55%), Norfolk (53%), North Yorkshire (45%) and Northamptonshire (31%).

There were also clear differences between sectors in the incidence of low pay. As anticipated, most employers affected by the NMW were located in industries where the incidence of low pay is known to be high such as retail, hospitality or residential social care. But pockets of low pay workers were found in sectors not usually noted for low wage levels. Examples include cleaners and car valeters and trainee mechanics in garage businesses.

On the second dimension, depth, there was considerable variation within specific enterprises. Clearly, where a high proportion of an employer's workforce were awarded pay rises, the impact of the NMW could be serious. For most respondents, however, the impact on wage-bill has been relatively limited: of those employers reporting NMW-related pay rises, 17% reported *no* overall increase in wage-bill at all. But in other businesses, many workers were affected and the associated impact on wage-bill was substantial. Of those who provided precise data on the impact on their wage-bill, only 14% of affected businesses reported an increase of 10% or more in the wage-bill (Table 2). The mean pay increase per enterprise was 4.4%.

| Table 2 | | |
|---|---------------------------|-----------|
| Impact of NMW on Overall Wage-Bill | | |
| <i>'Overall, have the changes you have made so far in your business as a result of the National Minimum Wage, led to an increase in your total paybill, a decrease in your paybill, or have they made no difference?'</i> | | |
| | % of employers (weighted) | |
| No difference in overall wage-bill | 17.1 | |
| Some increase in overall wage-bill: | 66.0 | Of which: |
| - <5% increase | | 33.9 |
| - 5-9% increase | | 17.8 |
| - 10% increase or greater | | 14.3 |
| No precise data | 16.9 | |
| | 100.0 | |
| Unweighted N | 47 | |
| Mean % rise in wage-bill | 4.4% | |
| Notes: question asked only of employers reporting NMW-related pay rises. Where respondents offered a percentage range, the midpoint of the range has been recorded. Mean % rise in wage-bill based on unweighted N=40 as precise data is missing for 7 cases. | | |
| Source: telephone survey, Stage Three | | |

For those businesses for which precise data is available, a mean average of 7.2 workers per firm, mostly women, received NMW-related pay increases. This constitutes 45% of these enterprises' workforces. Those employers with higher proportions of affected workers tended to have more substantial increases to their wage-bill. Employers with at least half of their workforces affected reported a mean overall wage-bill increase of 5.5%, compared with only 3.0% among employers with fewer than half their workforces affected. There was, however, considerable variation between individual employers: some employers with most of their workforces affected only reported very small increases in overall wage-bill. Of course, the precise impact of the NMW on a firm's wage-bill will depend not only on the proportion of workers affected but also on the extent to which wages have been increased and on the extent to which offsetting measures have counteracted the upward pressure on the wage-bill.

Stage Two telephone sample respondents were asked how important an influence on the business the NMW had been and asked to indicate their position on a numeric scale with 1 indicating 'no impact' and 5 indicating 'very high impact'. Across the whole sample, the

mean score was only 1.37 with 79% of respondents giving a score of 1 (no impact). Only 4% of the sample indicated a score of 4 or 5. Even among those firms required to increase pay as a result of the NMW, the average score only rose to 2.11 with 38% of respondents indicating a ‘no impact’ score. Those employers reporting the highest increases in their wage-bill also attributed a higher impact to the NMW.

MANAGING THE TRANSITION TO THE NMW

| | % of employers (weighted) |
|--|---------------------------|
| ‘Unaffected’ | 74.2 |
| ‘Non-compliant’ | 2.3 |
| ‘Absorbers’ | 13.5 |
| ‘Adapters’ | 10.1 |
| Unweighted N | 316 |
| Source: the latest data from all surviving businesses for which data is available is used. For most cases, data is used from Stage Three; for a small number of cases, the data is used from Stage Two. Percentages do not sum to 100 due to rounding. | |

Four types of employer can be distinguished in terms of how they have managed the introduction of the NMW (Table 3). *Unaffected* employers are those paying wage rates at least as high as the NMW rates throughout the period of study and who therefore have not consciously increased the pay of any workers as a direct consequence of the NMW. Future increases in the level of the NMW may, of course, mean that erstwhile unaffected employers will be obliged to raise wage rates. About three-quarters of Stage Three sample businesses could be described as ‘unaffected’. *Non-compliant* employers are those underpaying at least one worker, because of wilful refusal or because of ignorance. Only 2% of sample respondents were still failing to comply with the NMW. *Absorbers* are employers who have implemented pay increases as a consequence of the NMW but have made no offsetting adjustments; they have simply absorbed the additional wage costs. This group comprised about 13% of the sample. *Adapters* have not only increased pay rates but have also made other adjustments to offset the additional wage costs. Adjustments may take the form of cost-cutting, revenue-raising or efficiency-enhancing practices. This group constituted about 10% of the sample. In compiling Table 3, emphasis has been placed on the status of respondents

as at Stage Three, the latest time-point for which data is available, though some data from earlier stages has also been incorporated.⁵ The remainder of the paper focuses on ‘absorber’ and ‘adapter’ businesses.

ADJUSTING TO THE NMW

Where employers have raised wage rates as a consequence of the NMW, they can adjust in two main ways. They can either absorb the additional wage costs or, alternatively, they can adapt their business practices to offset the increase in wage rates. Employers may absorb the additional wage costs because they are unable, unwilling or unsure how to implement offsetting measures, or because they do not perceive the need to do so. Three types of adaptation can be distinguished: cost-cutting, revenue-raising, and efficiency measures. Employers may attempt to cut labour costs, for example, either by reducing their labour input or by cutting non-wage employment benefits; they may also cut non-labour costs. Alternatively, employers can attempt to increase revenues by raising product prices, developing new products, or by increasing advertising and promotional expenditure to increase sales volumes. Efficiency measures include changes in working methods and/or equipment, and increases in training to develop workforce skills.

Absorbing the NMW

Assuming employers choose to comply with the NMW, their capacity to absorb additional wage costs will depend on a variety of factors: the ‘bite’ of any statutory minimum (that is, the difference between wage rates and the level of the NMW); the proportion of the workforce affected; knock-on effects on workers not directly affected by the NMW; labour costs as a proportion of all employer costs; employers’ ability to implement measures to offset the additional wage costs; and employers’ financial position.

More than half of the businesses affected by the NMW simply absorbed the consequent pay increases. The evidence suggests that absorbers were prepared to incorporate the additional costs of the NMW, rather than implement offsetting measures, because they were fairly minimal. Over 80% of absorbers reported the limited impact of the NMW as the motive for

absorbing the additional costs. This contrast with the very much smaller number claiming they were unable to absorb the extra wage costs.

“I don’t think the owner of the school felt it necessary to offset it any way. It was so small, the impact that it made on us, there was no need. I guess if it had made so much of a difference you’d have to look at maybe reducing staff hours. But we work on such a tight regime here. There was no need so we didn’t do anything.” (243/3: independent school, 45 staff)

“We just absorbed it. As I say, it had very little impact on us at the time ... I think because, at that time, it just made so little impact on us. If you look at the outgoings of the business, that just formed a very small part. It just wasn’t worth worrying about to be honest.” (238/3: motorcycle retailer, 13 staff)

For several business owners, the NMW had been anticipated as a serious problem but, in practice, had passed by without major consequences. The NMW was seen as just one more issue to worry about rather than has having calamitous consequences for the business.

“I think now, yes, there was a lot of fuss when the minimum wage came out but it’s just been absorbed. Yes, it’s calmed down. In the end, it’s just another headache. Or, perhaps at our age, it’s made us think more about ... whereas before we would’ve expanded the business, if anything we are cutting back now, pulling in the reins rather than saying, ‘Right, we’ll go for it’, because it’s just another cost. It’s another bit of legislation. I think, yes, I do sound very gloomy but I wouldn’t have said it’s just the minimum wage that’s done it now. It’s just another factor and I can’t say it’s had a dramatic impact.” (201/3: garage, 10 staff)

Although involving only a small number of cases, the evidence suggests that ‘absorbers’ were more likely to have sustained smaller increases in their total wage-bill as a result of the NMW than ‘adapters’: a 3.0% wage-bill increase, compared with a 7.2% increase among adapters. This demonstrates that absorbers were affected less by the NMW than were adapters, particularly if it is acknowledged that in the absence of any adjustments, the increase in the wage-bills of adapters might have been even greater.

Adapting to the NMW

Perhaps the most surprising finding was how few employers had introduced adaptations of any kind (Table 4). Less than half of those employers reporting NMW-related pay increases

also reported practices to offset the additional wage costs. This contrasts with evidence from the Low Pay Commission (2000: para 3.39) that three-fifths of employers had made changes to the organisation of work, one-third had increased their use of new technology and one-third had improved the quality of service they provide as a consequence of the NMW. Our findings also differ from those of a national study of 1300 small and medium-sized businesses which suggest that over a third of business owners have adopted new, non-wage forms of competition as a response to the NMW (Kitson and Wilkinson 2000).

| Table 4 | |
|---|------------------------------|
| Employer Adaptations to Offset NMW-Related Costs | |
| <i>'As a result of the National Minimum Wage, either in the run up to its introduction or since, have you made any of the following changes in your business?'</i> | |
| | % of employers (weighted) |
| ANY ADJUSTMENT | 42.3 |
| Increased your own personal workload or hours of work | 21.0 |
| Reduced employees' hours to do the same amount of work | 11.4 |
| Decided NOT to recruit someone you otherwise would have done | 10.5 |
| Increased the prices of any goods or services | 8.3 |
| Laid any staff off | 7.7 |
| Cut other costs in the business (e.g. suppliers) | 7.6 |
| Reduced non-pay benefits for any employees | 5.9 |
| Introduced new equipment to increase efficiency | 4.8 |
| Introduced new goods or services | 4.7 |
| Switched to using (more) younger workers | 4.6 |
| Changed working methods to increase efficiency | 4.1 |
| Increased employee training | 2.6 |
| Reduced employee training | 2.6 |
| Improved quality of goods or services | 1.2 |
| Increased the proportion of employee pay based on output or performance rather than hours worked | 1.2 |
| Switched to using (more) self-employed/freelance workers | 1.2 |
| Switched to using (more) family labour | 1.2 |
| Other changes | 11.7 |
| Unweighted N | 78 |
| Notes: question asked only of employers reporting NMW-related pay rises. Respondents were prompted as to whether they had implemented any practices to offset NMW-related pay increases. All responses are shown. No respondents reported the following practices: switched to paying workers cash in hand; increased spending on advertising or promotional activities. Respondents could report more than one response. | |
| Source: telephone survey and face-to-face interview data, Stage Three | |

Though the number of cases is relatively small, there does appear to be a link between the impact of the NMW on employers' overall wage-bill and the introduction of any offsetting measures. For those employers incurring an increase of less than 10% in their overall wage-bill, only about a quarter reported any adaptations in business practices to offset the NMW. For those employers incurring higher wage-bill increases, the proportion is over three-quarters. This suggests that 'shocks' need to be of sufficient size to stimulate employers to action. Less drastic changes may not be sufficient to cause employers to act, particularly if the financial condition of the business is perceived by the employer as satisfactory.

Using the threefold typology of employer adaptations outlined earlier, it is clear that cost-cutting was the preferred means of adapting to the NMW. As it is easier for employers to cut costs than it is to raise extra revenue, in the short-run at least, it is no surprise that where employers attempted to adjust to the NMW, they focused on cutting costs, primarily labour costs. Nearly one in ten employers (8%) reported laying staff off as a response to the impact of the NMW. But, as the remarks from the restaurant owner below show, it may be difficult to separate the influence of the NMW from broader business pressures, to establish just how far the NMW is responsible for job losses. In this restaurant, labour costs were rising as a proportion of business turnover partly as a result of the NMW and partly for other reasons. The employer responded by laying off two full-time employees, neither of whom was on the NMW. Hence the NMW may only be one factor in decisions to cut staff rather than the primary cause.

“It [the NMW] was a big problem because it forced us to shed two full-time jobs. We always carried those full-time jobs throughout the winter although it wasn't entirely justified, principally because of the difficulty of recruiting again in the spring. Because if you say, 'Well, we don't actually need people in the winter so we'll get rid of them and then we'll recruit again in the spring', trying to recruit in the spring could be very difficult because all the coast are trying to recruit as well. So you're competing against all of that ... And there's a lot of people now, particularly in areas like this, who are quite happy to go and work for four or five months on the coast and then not work in the winter, sign on the dole or moonlight or whatever they do. There's quite a lot of people who are happy to do that. So if we'd got good full-time people, we wanted to keep them. We were happy and we could just about do it. The minimum wage meant that we couldn't do it. We just had to be pragmatic and say 'Look, I'm sorry, but we just can't carry these two jobs'. In fact, we managed by sheer good fortune to lose the two jobs by natural wastage.” (208/3: restaurant, 24 staff)

The most common response reported by employers was to work longer hours themselves than before, reported by 21% of affected employers. Relatedly, 11% of affected employers reported the reduction staff hours worked in order to save on labour costs. These practices can be seen as the most convenient for employers to adopt in the short-term to offset NMW-relate wage costs.

New practices to raise revenue or to increase efficiency were seldom cited. Fewer than five per cent of affected employers reported the introduction of new products or services, improvements in product quality, the introduction of new equipment, changes in working methods or increases in employee training. In fact, as many respondents reported a *decrease* in training as reported an increase. Supporters of the NMW argued that introducing a minimum wage would lead employers to compete on the basis of investment in the development of their human and non-human resources rather than on the basis of undercutting wages (Low Pay Unit 1988). While there is a strong logic to such arguments, the data from the face-to-face interviews suggested, as others have argued (e.g. Philpott 1996), that employers will treat training as a cost to be minimised rather than an investment in human capital. Indeed, such an employer response seems particularly likely in the British context where training is often seen as a luxury which, in times of economic hardship, employers cannot afford (Keep and Rainbird 2000). While any shift among small rural employers towards product market strategies based on high skills and high pay might develop over a period of time after successive uprating of the NMW, rather than as an immediate response to the initial NMW, there is little evidence of such an emergent shift. Indeed, there are good reasons to suppose that such a shift is highly unlikely. For example, it is hard to envisage how a fish and chip restaurant owner can move towards the high value added end of the supply chain.

The data presented here indicates that small rural employers have implemented adaptations to the NMW less frequently than other studies suggest. Two reasons can be offered. First, for most employers the impact of the NMW had been so marginal that they have been prepared to absorb the additional wage costs rather than implement changes. Such changes might conceivably generate more problems than benefits because the potential for significant gains was so limited. Second, the present sample often felt that they were operating at close to

maximum efficiency anyway and that further efficiency gains from changes in equipment and working practices would be difficult to achieve.

CONCLUSIONS

In this paper we have focused on those businesses which might be expected to provide the ‘worst case’ scenario for the impact of the NMW: small businesses in rural areas. The findings are largely consistent with those reported elsewhere (Low Pay Commission 2000): that the transition to the NMW has been managed successfully by the majority of affected UK businesses. Though the Commission acknowledges that smaller enterprises have found the transition more difficult, this study suggests that small rural employers have largely been able to cope with the initial rates of the NMW without serious disruption to the normal operation of the business.

Most small rural employers have not been affected in a significant way by the NMW. Less than a quarter of employers reported pay increases as a result of the NMW and even where business has been affected, the impact has, in most cases, been marginal: an average rise in overall wage-bill for affected employers of less than 5%. This is particularly important as the sample was designed to over-represent businesses in ‘low pay’ industries. There are several reasons for this limited impact. First, in many instances only a small proportion of the workforce were affected or pay rates were increased by only a small amount; hence the overall impact on business costs was relatively limited. Even where businesses were struggling, employers often viewed the NMW as only a minor problem because, relative to others such as low customer demand or competitive product market conditions, its impact was perceived as fairly negligible. These market factors were usually seen as more significant influences on the commercial fortunes of the business. Second, some employers have been able to adapt other business practices in order to reduce the impact of the NMW on the business.

Most affected employers absorbed the additional costs of the NMW with a smaller number adapting by cutting costs, raising prices or implementing efficiency measures. In most cases absorption was preferred because its impact on business finances was fairly negligible rather than because more proactive responses were unavailable or unpalatable. Employers were

more likely to implement offsetting practices where the impact of the NMW on the overall wage-bill had been greater. Where the NMW was not such a ‘shock’, employers were less inclined to introduce adaptive measures. More substantial adjustments might create problems greater than the ones they were introduced to resolve.

Where employers did implement adjustments to counteract the effects of the NMW, they tended to reduce costs rather than attempt to raise revenue or introduce efficiency measures. Cost-cutting, most often achieved by employers working longer hours themselves and reducing the hours worked by others, can be seen as an easier and more convenient option, at least in the short-run, than introducing measures aimed at increasing business revenue or raising efficiency. There is little evidence that the NMW has caused significant job loss to date. Nor does it appear to have had a significant impact on capital investment, workforce training or new product development. Of course, over time, as successive increases in NMW rates begin to have a cumulative effect, employers may turn their attention to longer-term measures such as investment in physical and human resources.

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NOTES

¹ The initial standard rate, applying to most workers aged over 21, of £3.60 per hour was increased to £3.70 per hour in October 2000. Workers aged 18-21 are legally entitled to a rate of £3.20 per hour (from June 2000). Workers aged 22 and over receiving accredited training are also entitled to £3.20 per hour for 6 months after starting a job with a new employer. Various groups are exempted, for example, workers aged under 18, the self-employed, apprentices aged 18-25 in the first year of their apprenticeship, and people working and living as part of a family (such as au pairs).

² Other, incidental, by-products of introducing the NMW such as improvements in labour productivity due to increased worker morale or lower labour turnover and absenteeism may also improve business efficiency.

³ Where an interview with an employer could not be obtained, interviewers were instructed to obtain an interview with someone knowledgeable about the NMW and its impact within the business.

⁴ Findings are presented in grossed-up form to give equal weight to enterprises in each county, and to give equal weight to businesses in 'low pay' and 'other' industries. It is anticipated that this will inflate the number of employers recorded as being affected by the NMW.

⁵ For instance, business ownership changed hands in a few cases during the period of study and new owners did not always report NMW-related changes because the previous owner had already made these. Where these were discovered, data from earlier stages was used to supplement the Stage Three data.

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