

Low pay and company size

Tom MacInnes and Peter Kenway

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Low pay and company size

Summary

April 2016 marks the introduction of the new national living wage, effectively a rebranded minimum wage for those aged 25 and over. This year it will be set at £7.20 per hour, rising to £9.00 per hour by 2020.

This paper sets out an initial estimate of how many people will be directly affected by this increase and how that varies across different sizes of company in different sectors. It is restricted to those aged 25 and over working in the private sector, around 2.1m or whom are currently paid £7.20 or less. It looks at the differences by gender, part and full time and industry. It finds that

- **Size:** Over half of low paid people aged over 25 in the private sector work in companies with over 250 employees. One third work in companies with fewer than 50 employees
- **Full-time/Part-time:** Around one third of low paid jobs are part-time roles in large companies.
- **Gender:** Women working part-time in large companies account for around one quarter of low paid jobs. Those working part-time in small companies account for around one sixth.
- **Sector shares.** Around one quarter of all low paid jobs are in large companies in the retail and wholesale sector. There are over twice as many low paid retail and wholesale jobs in large companies as there are in small or medium sized companies.
- **Sector risks.** In administration and support, as well as health and social care, the proportion of employees who are low paid is higher in large companies. In manufacturing, the opposite is true.
- The proportion of jobs that are low paid is always higher for part-time than full-time employees, regardless of company size or sector. Among people working full-time, the proportion who are low paid is higher in small companies. Among those working part-time, the proportion is higher in large companies.

Background and method

There are some things we know about low paid workers. We know there were around 5 million people paid below the (original) Living Wage in 2015. We know low paid employees are much more likely to be women, and much more likely to be in part-time work. We know the retail and hospitality sectors account for a disproportionately high share of low paid workers.

We also know that, this year the minimum wage for those aged 25 or over is to be rebranded as the National Living Wage set to rise much more rapidly than in its first 15 years. Starting at £7.20 per hour this April, it will reach £9 in 2020.

Of those currently paid less than £7.20 per hour, around 90% work in the private sector. One aspect of this change that has been less commented upon is the type of business they work in - what proportion of low paid people in small businesses, and how this compared to the number in larger companies. These figures are not regularly published, but understanding this picture will give a much better sense of how companies could adapt to these large increases in what is still effectively the minimum wage.

The analysis that follows uses data requested from the Annual Survey of Hours and Earnings (ASHE) via ONS. The data is for 2014. Companies are grouped according to size as follows

- Small companies – those with between 1 and 50 employees, numbering 1.3 million in the UK
- Medium sized companies – those with between 50 and 250 employees, of which there are around 33,000 in the UK
- Large and very large companies – those with over 250 employees, numbering around 7,000

To measure 'low pay', we took the 2016 minimum wage figure of £7.20 as the threshold – those paid below this amount are considered to be low paid. As such, the figures should be seen as broadly indicative rather than specifically accurate, although the pattern broadly holds at higher thresholds too. The patterns are what we are most interested in, rather than the exact percentages.

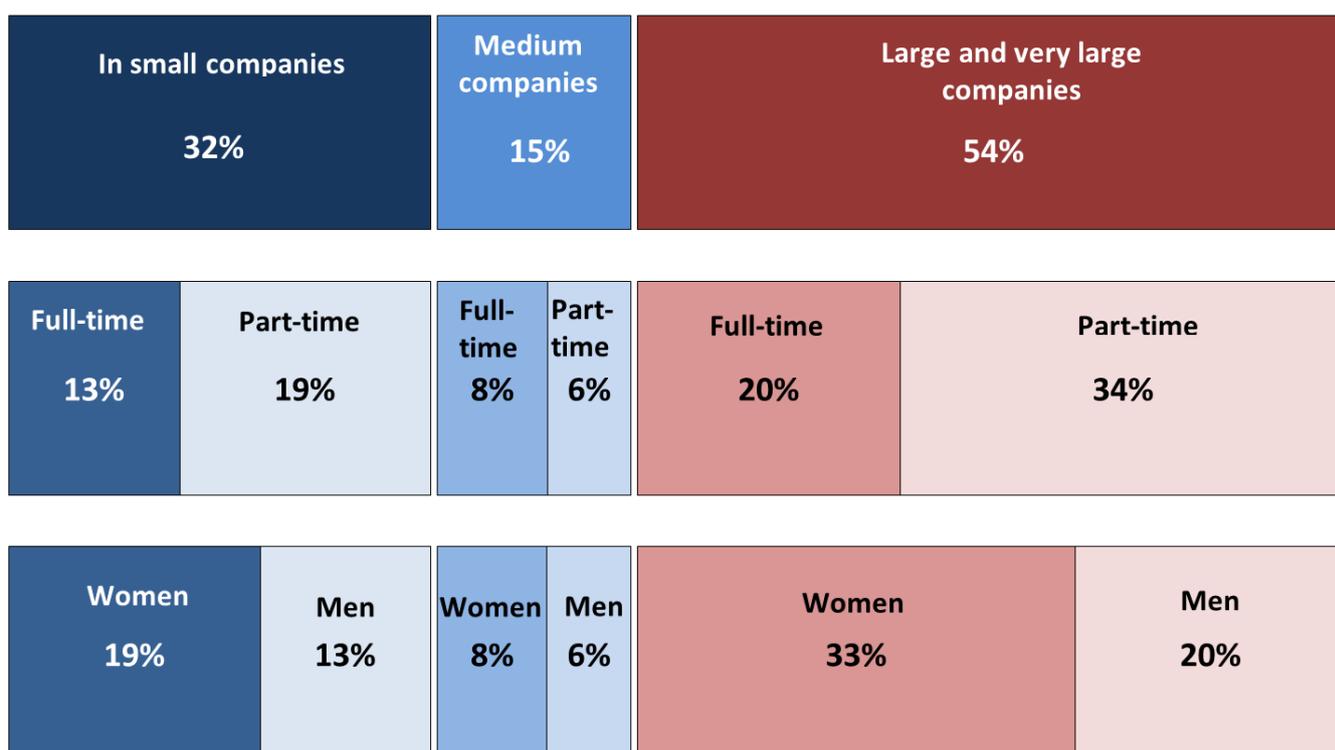
The analysis has to take account of the fact that the new National Living Wage will only apply to over 25s. The data supplied by ONS applied to all employee jobs, regardless of age. We have used other estimates from ASHE to remove younger workers, but have had to make assumptions about their distribution across sectors and sizes of company.

For some combinations of sector and company size, the data was not available to analyse and the numbers were too small. So when we talk about a total of 2.1m jobs included in this analysis, that number is likely to be a slight underestimate of the total of such jobs in the economy.

Looking at differences by employee type

We estimate that, in 2014, there were 2.1m jobs in the private sector carried out by people aged over 25 that paid less than £7.20 per hour. The graph below shows how they are distributed across small, medium and large or very large companies.

Distribution of low pay for different employee characteristics



Around one third of low paid jobs carried out by people aged over 25 are in small companies (32%), 15% are in medium sized companies. That means the majority, the remaining 54%, are in companies with over 250 employees.

One third of all these low paid jobs are part-time within large or very large companies. Another fifth are full-time in such companies. A further fifth are part-time within small companies. In medium sized companies, more low paid jobs are full-time than part-time. The opposite is true elsewhere – 60% of low paid jobs in small companies are part-time, as are 63% in large and very large companies.

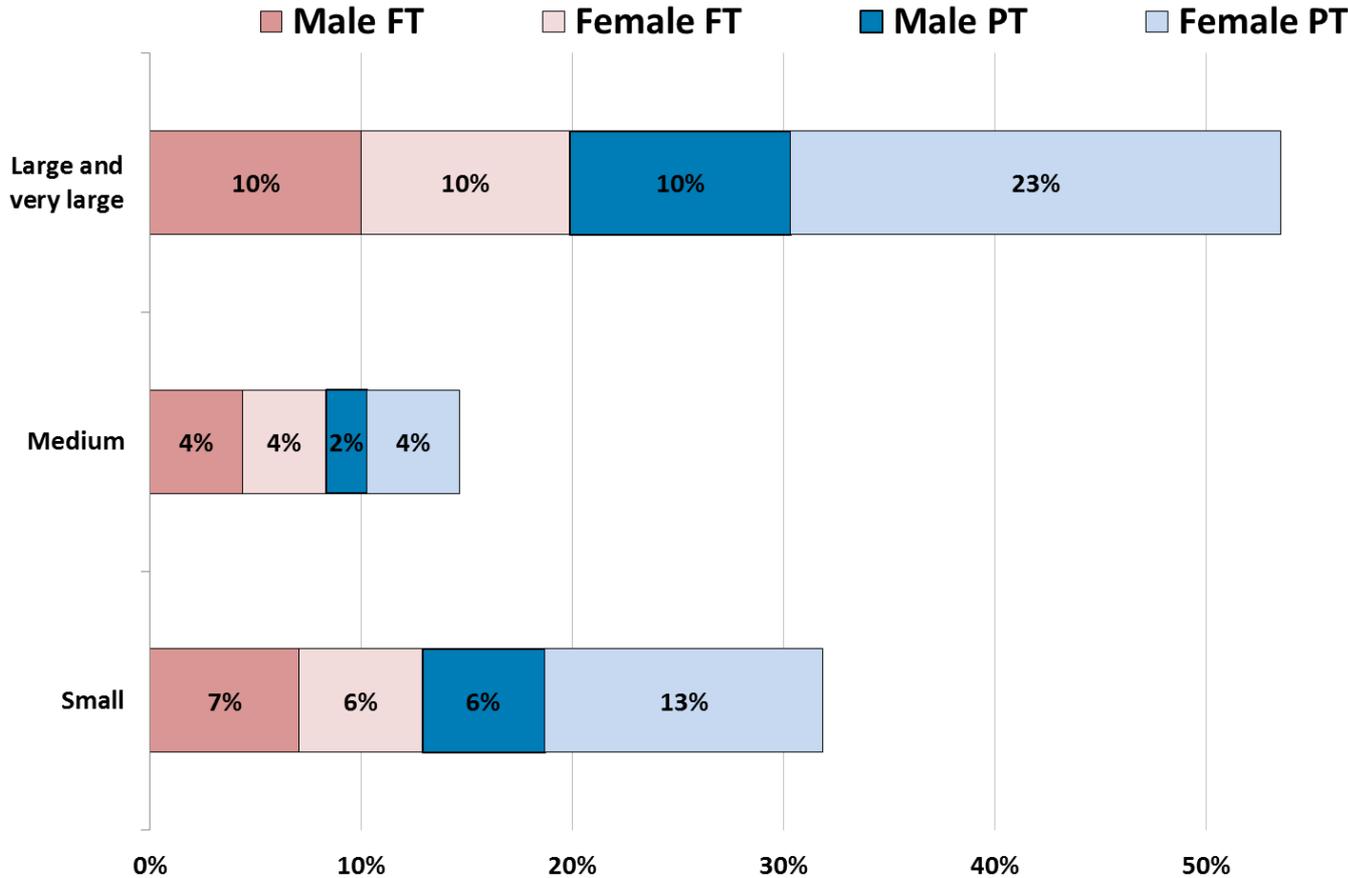
Women in large and very large companies make up a third of those aged over 25 who are paid less than £7.20 per hour. This is roughly the same as the total number of low paid men and women in small companies, and over twice as many as the number of low paid people in medium companies. Medium sized companies have a more equal balance between men and women in low paid work – 57% of low paid

jobs in those companies are taken by women, compared to 60% in small companies and 62% in large or very large companies.

In summary – the majority of low paid jobs are in companies of over 250 employees. Within these companies, low paid jobs are dominated by women and those working part-time to a greater extent than in other company sizes.

We can also look at the intersection of gender and part-time/full-time, again broken down by company size.

Share of low paid jobs for people aged over 25

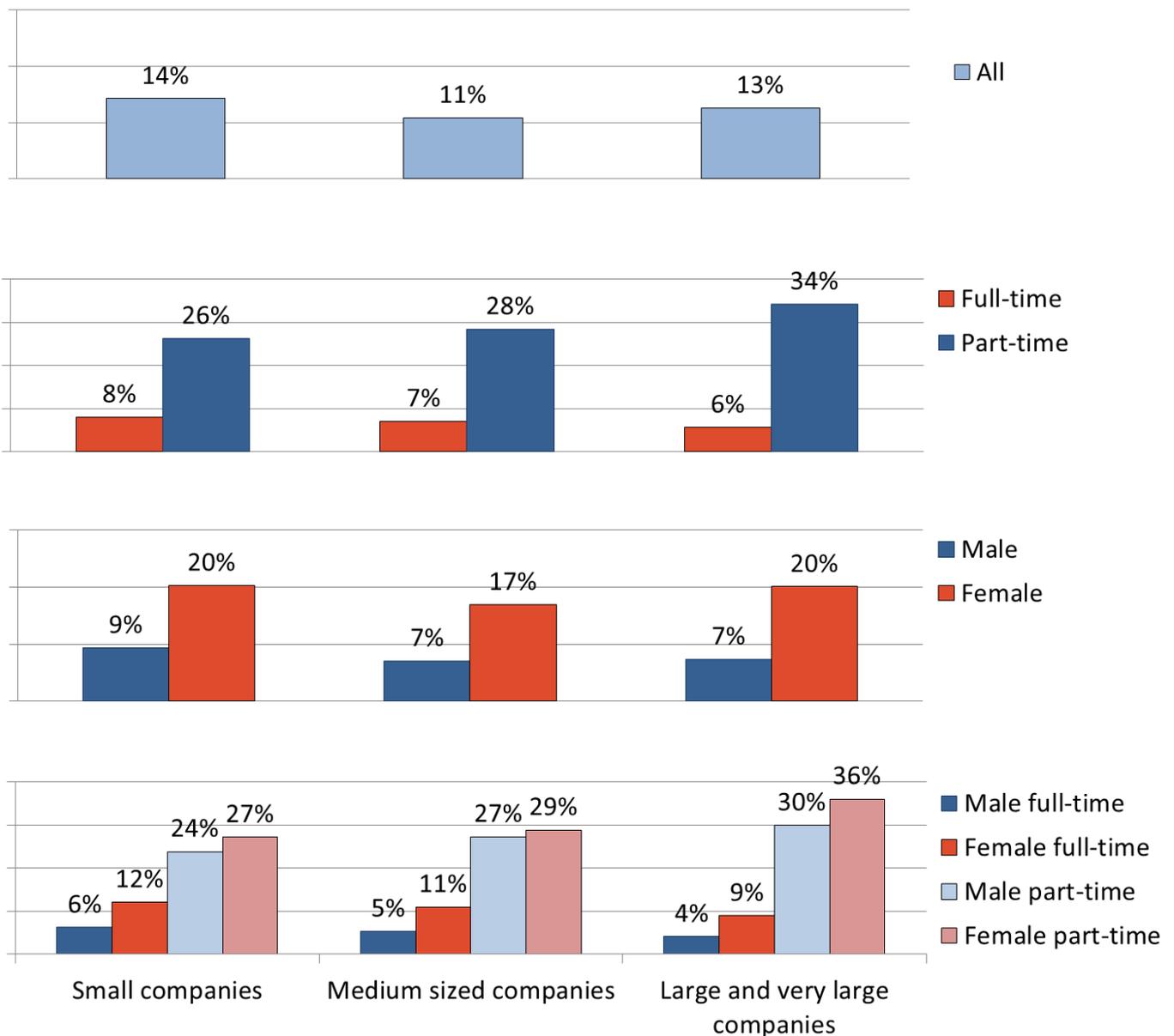


Just under one quarter of all low paid jobs are carried out by women working part-time in large or very large companies, more than the total number of low paid jobs in medium sized companies. Around one in six low paid jobs among those aged over 25 are carried out by women working part-time in small companies.

What becomes clearer on this analysis is that it is part-time work where the gender split occurs. For all sizes of company, the number of low paid men and women working full-time is roughly the same. In contrast, the number of low paid women working part-time is double that of men, regardless of company size.

So far we have looked at the total number of low paid people aged over 25 and they are distributed across different sizes of company. We can also look at it another way – for a given company size, what proportion are low paid and aged over 25? The graph below shows these proportions for men and women and part- and full-time employees. It only looks at those aged over 25, giving us an indication of the proportion of the workforce who will be directly affected by the rising minimum wage this year.

Proportion low paid and aged over 25, by different employee characteristics



Overall, there is a slightly higher proportion of the workforce in smaller companies who are both low paid and aged 25+ than in other sizes of company. The differences are not great, however – 14% of people in companies with less than 50 employees

are both paid less than £7.20 and aged over 25, compared to 11% in medium sized companies and 13% in large or very large companies.

There are some interesting, divergent patterns when we look at the proportion of each workforce that is currently low paid. For instance, if we look at full-time employees, we see that, as the company size grows, who are low paid and aged over 25 falls, from 8% in small companies to 7% in medium sized companies and then 6% in large and very large companies. But for part-time employees, the opposite is true. The proportion who are low paid and aged over 25 rises from 26% in small companies to 28% in medium sized companies to 34% in large and very large companies.

Looking at the differences in gender, the pattern is less clear. Overall, the proportion who are low paid and of an age to benefit from the new national living wage is smaller in medium sized companies (17% of women and 7% of men) than large and very large companies (20% and 7%) or small companies (9% and 20%).

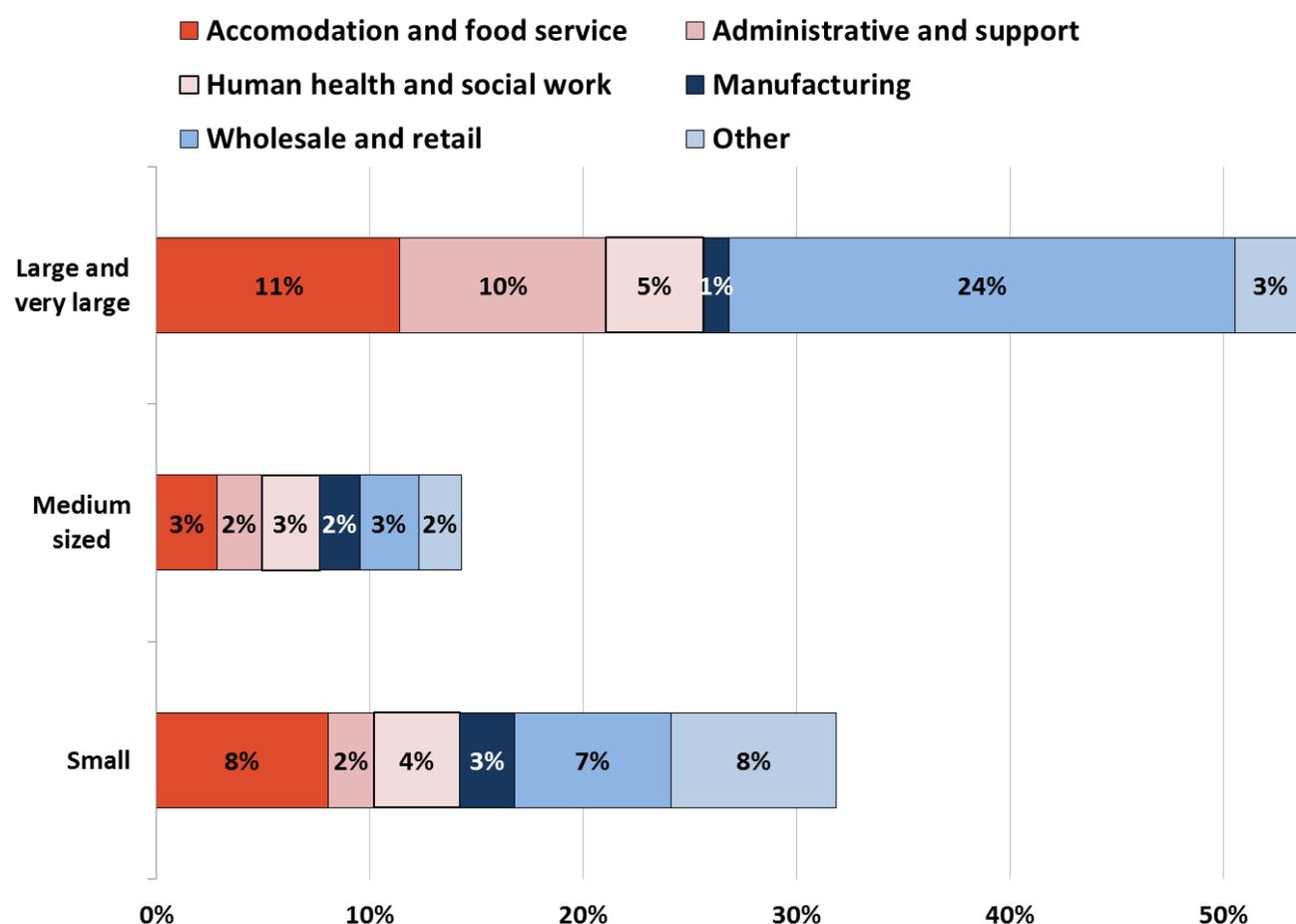
Finally, among both men and women, the proportion who are low paid and over 25 rises with company size for those working part-time and falls for those working full-time.

Looking at differences by industry

So far we have focussed on the employee characteristics of gender and part-time/ full-time. The data also allows us to look at differences between industries. In the analysis that follows, we use five main industry groupings – accommodation and food, admin and support, health and social work, manufacturing, and wholesale and retail. All other jobs are grouped into a sixth “Other” category.

The graph below shows how low paid jobs (again, only those carried out by people aged 25+) are shared out among these different industries according to the size of the company.

Distribution of low paid employees aged 25+ by sector and company size



The stand out figure here is the very high proportion of low paid people working in large companies in the wholesale and retail sector. They account for almost one quarter (24%) of people aged 25+ who are currently paid less than £7.20 per hour. This is more than double the share of any other industry/ size combination – 11% work in large companies in the accommodation and food sector. 10% work in large companies in administration and support.

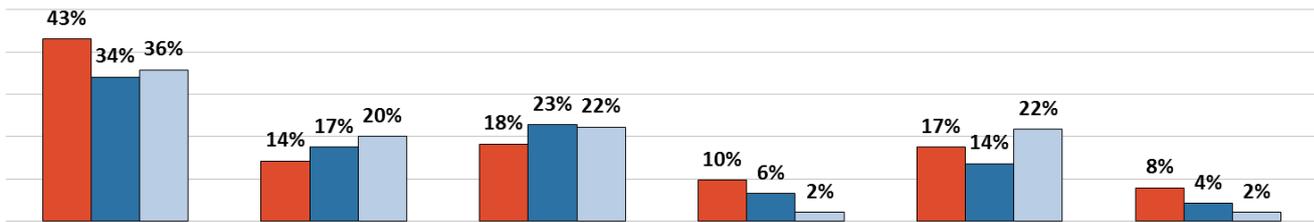
One other interesting figure, which is slightly harder to pick out, is the low share of such jobs in the manufacturing sector. Not just that, but the proportion of these jobs falls and the company size grows. We find 3% of all low paid work done by over 25s is in small manufacturing enterprises, 2% in medium sized companies and only 1% in large manufacturers.

So low pay in shops is a large company issue – around two thirds of low paid work found in retail is in large companies. Low pay in manufacturing, much smaller in scale, is much more a small/ medium enterprise issue – over three quarters of low paid work in the sector is in those companies. Low pay in hotels and restaurants is, in comparison, quite spread out across small, medium and large companies.

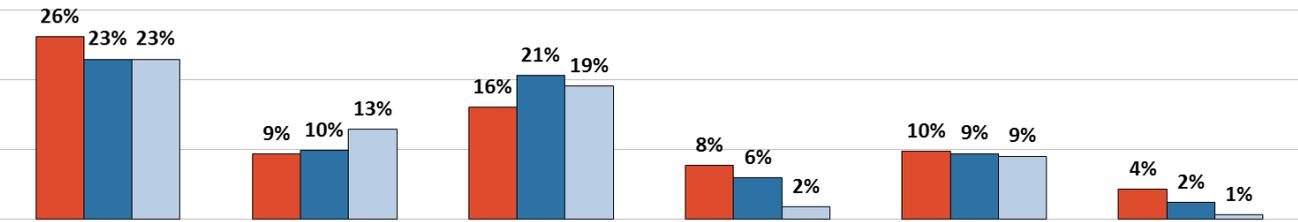
Next, as we did above, we can look at the proportion of the workforce in each sector that will be affected directly by the rise in minimum wage. The graphs below show the proportion of the workforce who are both over 25 and currently paid below £7.20 per hour. They show the whole workforce, then full-time and part-time separately.

Proportion of employees low paid by industry and company size

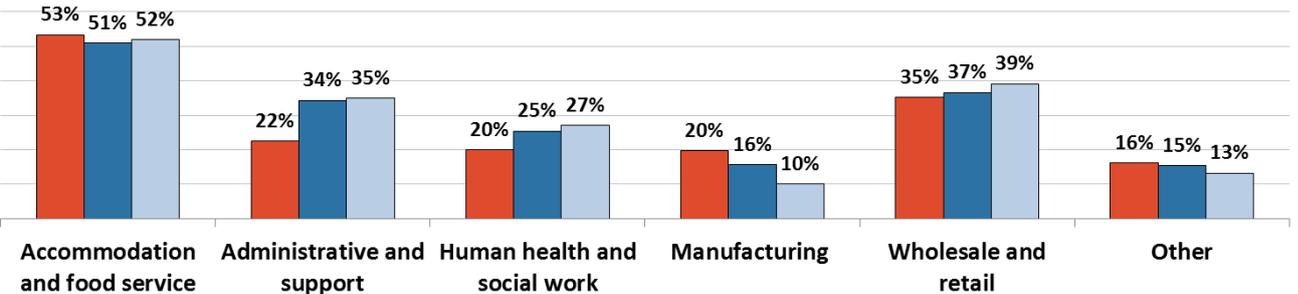
All employees in ■ Small companies ■ Medium sized companies ■ Large and very large companies



Full-time employees



Part-time employees



The pattern of low pay by company size varies from sector to sector. In the administrative and support sector, the proportion of employees who would be directly affected by the new national living wage level rises as the size of the company increases – this is true in part time as well as full time work. For manufacturing, the opposite is true – the larger the company, the smaller the proportion of the workforce who are both over 25 and low paid. Again, this pattern persists across part time and full time work. It is also the case in the “other” sectors.

Elsewhere, patterns are less clear, particularly among full time workers. In wholesale and retail, there is almost no difference at all among the proportion of employees who would directly benefit from the national living wage in small, medium or large companies. In the accommodation sector, the proportion of employees who are low paid is highest in small companies. In human health and social care, the proportion is lowest in small companies.

Looking at part-time work, in the administrative, health and wholesale/ retail sectors, as company size increases, so does the proportion of the workforce who are low paid and aged over 25. In the accommodation sector, however, while the overall proportion of the workforce who are low paid is high – over 50% regardless of size of company – it is quite similar for all companies.

Summary

Big companies are a big part of the low pay problem: big shop chains, big hotel and restaurant chains and big health and care providers account for almost half (45%) of all the 25+ low paid. But still around a third are in small companies.

Big shop chains account for a big part – two thirds – of the low pay problem in shops. Small and medium manufacturers account for almost all of the low pay problem in manufacturing. With hotels and restaurants, half the low pay problem is with the small and medium and half with the large companies.

In terms of the impact on the business, hotels and restaurants are hit the hardest – around 40% of all employees – with shops, health and social care and admin and support facing a hit of around 20%. Apart from manufacturing, size makes little difference here.

This analysis also shows the diversity of the workforce across company sizes and sectors. Company size matters a lot for part-time workers – the bigger the company, the greater the proportion of employees will benefit from the new national living wage. Among full-time workers, company size matters less, and if anything, the proportion who are low paid falls as company size increases.