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## Once more into the sunset? Asian clothing firms after the national minimum wage

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**Abstract.** Intense global competition and the advent of a raft of employment regulations (notably, the national minimum wage, or NMW) have placed the UK garment industry under severe pressure. The prospects for a significant segment of this sector—ethnic-minority-owned businesses—appear to be extremely gloomy, although earlier predictions of its demise proved to be unduly pessimistic. Drawing on case studies of eighteen firms, we present an examination of longitudinal change in the Asian-dominated West Midlands clothing industry. In particular, the aim is to examine the responses of manufacturers to market and regulatory change (in particular, the NMW). The findings clearly illustrate that the sector is in decline, with firms finding it increasingly difficult to cope with cheap imports, labour shortages, and employment regulations. A range of responses was evident and included firms that resorted to operating in ‘grey’ markets; manufacturers that ‘retrenched’ their operations; ‘work intensification’; and businesses that attempted to move ‘up-market’. Finally, potential policy responses are considered. In particular, the case of the Coventry Clothing Centre is examined. The Centre worked with the grain of employment legislation, and appeared to have experienced some success in encouraging local firms to accommodate the NMW and improve working practices.

### Introduction

The prominence of ethnic-minority entrepreneurs and labour in the garment trade is a common feature of many of the world’s major metropolitan areas (Rath, 2002). Latinos in Los Angeles (Bonacich and Appelbaum, 2000), Turks in Amsterdam (Raes et al, 2002), and Asians in the UK West Midlands clothing industry (Phizacklea, 1990) are well-documented examples of this phenomenon. Although the specific conditions of each ethnic group and region vary, there are a number of more general processes at play. First, intense global competition from newly industrialising countries and, more recently, from central Europe is exacerbating an already harshly competitive market environment (Raes et al, 2002). According to the UK government’s recently convened Textile and Clothing Strategy Group, “the industry is facing the greatest challenges in its history” (TCSG, 2000, page 5). Second, ethnic-minority garment manufacturers have often resorted to ‘informal’ working practices as a means of survival. For instance, Turks operating in Amsterdam’s clothing industry “dodged various rules and regulations, hired illegal immigrants, paid them off the books, evaded taxes, and cut corners in all kinds of conceivable ways” (Rath, 2002, page 1). Third, regulatory developments—for example, tougher enforcement in Amsterdam and a raft of employment regulations in the United Kingdom—would appear to limit the scope of clothing firms to continue to operate in such circumstances. In this paper we draw together these themes by providing an examination of longitudinal change in the Asian-dominated West Midlands clothing industry.

In particular, the aim is to examine the responses of manufacturers to market and regulatory change [principally, the national minimum wage (NMW)]. As Heyes and Gray (2001, page 83) have noted, extant studies of minimum wages have tended to concentrate upon the consequences of wage increases from employment while neglecting the dynamic processes of adjustment within firms.

To this end, case studies of eighteen Asian-owned clothing firms in the West Midlands (and interviews with key informants involved in supporting the local clothing sector) are used to investigate three interrelated issues.<sup>(1)</sup> First, the growing pressures confronting garment manufacturers in the West Midlands are assessed; these range from the intensification of global competition to the demands imposed by the recent introduction of employment regulations, notably the NMW. During the 1980s the decline of garment manufacture in Britain was such that it began to be discussed as a 'sunset industry' (Davenport et al, 1986). However, the UK clothing industry survived; this was in no small way attributable to firms like those in the current research: "the survival of fashion-wear production in Britain in the 1980s would not have been possible on such a scale without the presence of ethnic entrepreneurs and labour as producers in this sector" (Phizacklea, 1990, page 11). What are the prospects for continued survival in light of intense market competition and regulatory change?

The second issue for examination is the nature of employer responses to the NMW and competitive pressures. Britain's first NMW of £3.60 was introduced in April 1999. The context was not necessarily favourable (for a review of the debates see Edwards and Gilman, 1999; LPC, 1998). Ever since the Labour Party committed itself to an NMW, opponents argued that it would raise labour costs and lead to a loss of jobs; at the 1992 election, the loss of as many as two million jobs was predicted (for a review see IPM, 1991). Events after the election of Labour in 1997 allayed many fears. A Low Pay Commission (LPC) was appointed with a membership comprising employers, trade union members, and academics. Its first report was unanimous; on the basis of a wide range of secondary and original research, the LPC was able to recommend a level for the NMW which met with widespread approval and which was felt to minimise the effect on costs (LPC, 1998). The process of consultation persuaded many sceptics that the NMW was at least acceptable. An indicator of the shift in the political debate was the announcement by the Conservative Party in 1999 that it accepted the principle of the NMW (for reviews of this and other events, see EIRO, 1999). The LPC's second report, reviewing the effects of the NMW in the first few months of its operation, concluded that negative effects had been small (LPC, 2000).

Most research has tended to focus on employment effects (Esping-Anderson, 2000), with correspondingly little evidence on actual processes within firms. However, some studies indicate that efficiency effects can be discerned; the key point seems to be that the NMW has the potential to stimulate efficiency improvements in two ways (Brosnan and Wilkinson, 1988; Starr, 1981). First, rising wages may reduce labour turnover, or attract more skilled workers (or both). Second, management may be stimulated or 'shocked' into improving work organisation and working practices. Yet it is evident that such effects are not automatic. Much will depend on the economic context. Evidence from the United States suggests that, where demand is increasing, firms are able to bear increased wage costs and are also likely to invest in new processes and equipment (Card and Krueger, 1995). The LPC (1998, page 17) quoted the British Chambers of

<sup>(1)</sup> The area of general untailored outerwear is thought to account for about 500 mainly small firms in the West Midlands area (although the situation is unclear given the existence of many unregistered workshops and the prevalence of homeworking). The main concentrations (in decreasing order of importance) are in inner Birmingham, Smethwick, Coventry, Wolverhampton, West Bromwich, and Walsall (West Midlands Low Pay Unit, 1991).

Commerce as accepting that “a low wage policy leads to a vicious circle of low morale, low performance and low productivity”, and argued that an NMW “has the potential to encourage competitiveness based on a better skilled workforce and better quality products and services” (for a review of efficiency arguments, see Edwards and Gilman, 1999). All of this implies that the advocates of reform anticipated a fairly substantial regulatory shock. Certainly, it was the fear of such that led the preceding Conservative administration to oppose the European Working Time Directive and ridicule the idea of an NMW in the first place. By interfering with the self-regulating market, it was argued, regulation could only have negative effects. But labour markets are very rarely self-regulating and, as noted elsewhere (Gilman et al, 2002), the range of indeterminacy in pay-setting in small firms is at least as large as it is in large ones. How far, for example, the NMW affects wages higher up the pay scale, and thus affects the total wage bill and hence employment, is highly variable. It is the range of indeterminacy that explains why an increase in costs can be absorbed. By the same token, however, if firms are not aware of the potential to improve work organisation, they may fall back on the ‘obvious’ route of cost cutting (Edwards et al, 2002).

Third, potential policy responses are considered. To this end, the Dutch case of ‘cracking down’ on ‘informal’ trading and the UK-based tendency (evident in areas like the West Midlands) towards narrow business-oriented support are briefly assessed. Both are found wanting. A third approach of ‘constructive engagement’ is explored in more detail by examining the operation of the Coventry Clothing Centre. Heyes and Gray (2001) found that, in spite of the NMW, low levels of pay continued to characterise the textile and clothing industry and frustrated attempts to upgrade skills and retain skilled workers. They argued that the rate at which the NMW is set is based upon the belief that higher wages are detrimental to competitiveness; this negates the role that higher wages can play in stimulating innovation and modernisation. They suggested that “wage regulation should therefore play a fundamental part in future policy initiatives designed to stimulate economic dynamism” (Heyes and Gray, 2001, page 96). The case of the Coventry Clothing Centre can be seen as an attempt to move in this policy direction. The centre worked with the grain of employment legislation, and appeared to have experienced some success in encouraging local firms to accommodate the NMW and improve working practices.

## Methods and cases

The eighteen cases are drawn from a wider study examining responses to the NMW and working-time regulations in eighty-one small firms in a variety of sectors: printing, clothing, and hotel and catering (Edwards et al, 2000; Gilman et al, 2002; Ram et al, 2001). We surveyed the firms before and after the implementation of the NMW in the early spring of 1999 and 2000. Two contrasting approaches tend to characterise studies of employment relations in small firms: large-scale quantitative surveys of firms, or detailed qualitative studies of a small number of cases. Although the former has the advantage of representativeness, it says little about the processes of adjustment. Case studies can give rich insights but are less able to address broader issues about paths of adjustment across a range of firms. An intermediate approach was therefore chosen, comprising a two-stage investigation of businesses. In the first stage, conducted in the first quarter of 1999, firms were sent a self-completion questionnaire asking for details of employment, pay rates, hours, and other working practices. This was followed by in-depth, detailed, semistructured interviews (conducted by the authors) of a manager and an employee in each of the firms. Although responses to focused questions on pay, work organisation, and working time were sought, there was also scope to explore specific issues in depth. Interviews lasted a minimum of one hour. Managers were

asked to identify an employee from the most typical staff group (usually a sewing machinist). We were aware of the bias this could create but were less concerned with a representative picture than with having an informed discussion. In the event most employees provided a critical and independent view of their employers.

The second stage comprised follow-up interviews undertaken a year after the introduction of the NMW. These interviews, which were restricted to managers, were more open-ended than those in the first stage. The aim was to explore the complexities and dynamics of change rather than to take a snapshot picture of the 'impact' of the NMW. In addition to the interviews, more detailed investigations were undertaken with two of the clothing firms (Co 18 and Co 17) that hail from what some might consider as the 'sweatshop' segment of the clothing sector (Hoel, 1984; Mitter, 1986). Both of the 'sweatshop' firms were likely to be prime targets for the NMW. The case of Co 17 is particularly illustrative, because it was first studied by one of the authors some ten years ago. It closed down during the course of the study; but it was possible to interview the owner after the event to explore the reasons for closure, including the effects of the NMW and competitive pressures. In order to investigate the policy response to the exigencies of clothing firms, key informant interviews were conducted with stakeholders associated with the Coventry Clothing Centre.<sup>(2)</sup>

The selection of the firms was informed by a 'multiple case logic' (Eisenhardt, 1991; Eisenhardt and Bourgeois, 1988). As ever with work of this kind, issues of case selection and representativeness arise. On the former, our set of cases was compiled through extensive contacts with local industry experts. Our experts included people with specific experience in ethnic-minority-owned firms, which are particularly hard to access. Altogether some twenty-two organisations were consulted including business associations, trade unions, banks, local councils, and low-pay organisations. We claim to have cases that are distinctive and hard to study, especially given the amount of time and detail required by the research. As for representativeness, we are not seeking to generalise to a population but to examine processes and dynamics; the fact that we can make comparisons between different firms within the sector means that we are not restricted to making inferences from single cases. We aim to use our cases to explain the causal mechanisms at work (Edwards, 1992).

### **The West Midlands clothing industry: a sector in decline**

Gloomy assessments of the viability of the British clothing industry have been commonplace since the 1980s. The reasons are pretty clear. Between the mid-1970s and the early 1980s, employment in the clothing industry fell by a third to less than 200 000; the previously stable British market with its tradition of mass production, predictable design, and long production runs became increasingly vulnerable to newly industrialising countries (West Midlands Low Pay Unit, 1991). However, the industry survived, and it was clear that this was greatly assisted by the presence of ethnic-minority entrepreneurs and labour (Phizacklea, 1990). The inherent unpredictability of the fashion trade provided opportunities for 'flexible' producers. Small, Asian-owned clothing firms like those in the West Midlands exploited this precarious niche, though it should be noted that their 'flexibility' was based more on exploitation of a vulnerable co-ethnic workforce than on more enlightened approaches to work organisation (Lloyd, 1989; Mitter, 1986). Hence the survival of British fashion-wear production was significantly facilitated by the distinctly unglamorous efforts of ethnic-minority operators in areas like

<sup>(2)</sup> Interviewees included: the manager of the Coventry Clothing Centre; the manager of the Coventry Centre for Investment; a consultant responsible for overseeing the operation of the projects; an official of the Transport and General Workers Union; a member of the Coventry Clothing Manufacturers Association; and a member of the Centre for Local Economic Development (Coventry University).

the East and West Midlands (Ram, 1994), Manchester (Werbner, 1984), and London (Mitter, 1986). Their efforts allowed them to buck the trend of national decline that was seemingly endemic in the broader garment sector.

However, the UK clothing industry currently faces many challenges that threaten its existence (TCSG, 2000). First, purchasing policies amongst high-street retailers have led to a reduction in domestic sourcing and a corresponding fall in production levels. This reflects the corporate power of a highly concentrated retail garment sector. For example, three chains stores, with Marks and Spencer at the forefront, account for nearly a third of total sales (Panayiotopolous and Dreef, 2002). Second, the imminent removal of the multifibre arrangement, and the further globalisation of clothing markets, has accelerated the restructuring of garment manufacture in high-wage economies. It has been estimated that UK-based clothing production and employment will decrease by around 30% (Jones, 1996), and that high-wage economies may lose as much as 50% of indigenous production (Taplin and Winterton, 2000). Third, this drive to reduce costs has resulted in a relocation of production to central Europe (as well as the more-established destinations of Asia and Africa). Known as outward processing trade (OPT), this involves EU firms exporting garment parts for assembly in another country, and then reimporting them as finished garments. Much of this production occurs in countries like Poland, Hungary, Romania, and the Czech and Slovak Republics (Taplin and Winterton, 2000). Fourth, production has diminished further because of a significant decline in exports in 1999 (£400 million lower than in 1988), owing to a collapse of overseas markets and the strength of the pound (TCSG, 2000).

This global restructuring of garment manufacture has fundamentally shaped the operating context of the West Midlands clothing sector. It has had important consequences for market relationships, encouraged informalisation of working practices, and increased reliance on cheap labour. Clothing manufacturers in the West Midlands rarely have a direct relationship with high-street retailers. Rather, it is more typical for firms to be part of a chain involving a complex of intermediaries. There tend to be three main outlets for clothing firms: wholesalers, who sell their wares to market traders and individual shopkeepers; agents, who tend to deal directly with the major retailers; and larger firms, who use smaller manufacturers to augment their production at particular times of the year—these are sometimes referred to as cut, make, and trim (CMT) operators [see Ram et al (2002) for further details of market characteristics]. This niche has always been a precarious one, but it has, nonetheless, provided space for local manufacturers to exploit their ‘flexibility’. As a manufacturer commented in a study in the early 1990s,

“The trade revolves around the middlemen. We get orders because we can turn them around quickly, quicker than the foreign suppliers. But they only come to us after they have exhausted all other possibilities, and they grind us down in terms of price” (Ram, 1992, page 610).

The resilience of West Midlands clothing firms has often been predicated upon their ability to mine this volatile segment of the market. However, respondents in the current research were clearly of the view that further scope was severely restricted:

“[The market] is difficult because customers are going abroad now .... There is not much we can do in response so things are getting gradually worse” (Co 15).

“The market isn’t there any more. It is very tight so there is no point, the price isn’t there. We made a piece for Co X ... that piece cost £12. But I’ve been offered better quality imported for £4.95” (Co 3).

“Clothing manufacture is in decline. The big chain stores, the big boys—C&A<sup>(3)</sup> Debenhams, Principles, BHS—are looking at high profit margins but British producers can’t do it, so they are going overseas to keep their stores in a fabulous state .... We can’t compete. Present prices are very competitive in the Middle European bloc” (Co 4).

“[Business conditions] are not very good. We just try to keep going. The textile business is changing. If someone would buy it all, I’d walk out” (Co 9).

It is likely that the severity of these market pressures will further encourage informalisation of the sector (unless regulation or appropriate policy interventions can encourage companies to explore different ways of operating). For some time, extant studies of ethnic minorities involved in garment manufacture have noted the prevalence of informal working practices (Hoel, 1984; Mitter, 1986; Panayiotopoulos, 1996; Phizacklea, 1990; Ram, 1994). The ingredients of informality include: predominantly co-ethnic recruitment; a high incidence of homeworking; evasion of statutory duties; work intensification; low-tech production methods; and low pay. Recent reviews of the West Midlands clothing sector (Ram et al, 2002) and Greek Cypriots in the London fashion trade (Panayiotopolous and Dreef, 2002) point to continuing prevalence, and likely intensification, of such practices.

Clothing companies in the current research were Asian owned, and staffed predominantly by co-ethnic employees. The issuing of formal contracts of employment was extremely rare; indeed, in one of the cities in the West Midlands (Coventry), there was a campaign during the course of the study to encourage employers to provide formal contracts and terms and conditions of employment.<sup>(4)</sup> Most of the workers in the sample claimed that they work intensively. Despite this, employees at fifteen of the eighteen companies still expected their employer to want more effort from them as a result of the NMW. Half of the employers interviewed maintained that they would like to respond by introducing new machinery or technology to cut down on the cost of labour. Few, however, thought this was a realistic possibility. Only one company utilised what could be considered as high-tech machinery (computer-aided design and computer-aided manufacture).

Informality was further confirmed by examining the pay systems and procedures within the companies. There were no formal pay systems in practice in any of the companies. Despite the fact that most companies (59%) said that staff would receive the same percentage increase, 71% revealed that there were variations in the pay of employees carrying out the same work. Crude and informal piecework schemes (where employees are paid per item produced) were the most prevalent type of pay system; but some companies were considering moving to more formalised standard minute-measuring systems. However, the imposition of the NMW meant that many of the companies, in the light of lack of advice on how to adapt their piecework systems, opted for the easier option of putting everyone on hourly rates. Employers were asked about their lowest, average, and highest hourly rates of pay. Reported hourly pay rates from employers (taken just prior to April 1999 when the NMW was introduced) varied between £2.50 and £7.00 (employees reported wages between £2.00 and £7.00) with an average of £3.80. Only two of the eighteen companies, however, had lowest hourly rates above £3.60 (eight were exactly on £3.60).

<sup>(3)</sup> This firm has now gone out of business in the United Kingdom, illustrating the pressures on big retailers.

<sup>(4)</sup> This initiative was driven by the Coventry Clothing Centre, along with a Clothing Partnership made of various social partner groups (see footnote 2 for details).

For some time now, employers have complained of a 'labour shortage', in the sense of a lack of workers willing to accept low wages (Hendrie, 1993; Ram, 1994). The ageing of first-generation female immigrant machinists, the reluctance of the second generation to labour under such conditions, and tight immigration controls have forced entrepreneurs to change the ethnic composition of their workforce (Panayiotopolous and Dreef, 2002), or to utilise 'off the books' workers (Ram et al, 2002). Moreover, the practice of using piecework systems has allowed companies to ignore both the skill shortage and the efficiency issues. In the past, owners were not particularly concerned with efficiency levels; labour costs were more important. For example, slow and inefficient workers were tolerated because they were paid on a piecework basis rather than for the number of hours worked. The establishment of an NMW has cut this route, and forced employers to face the issue of skill shortages more directly. All but one of the companies said that they experienced problems with recruitment and employee skills. The following quotation mirrors the sentiment throughout the sector:

"We employ two OAPs but we've got no option ... we have to employ them as no-one is coming in. We are competing with supermarkets for labour which are not skilled jobs like machinists. Another problem is it takes too long to learn the job skills" (Co 6).

### Mapping the response

Virtually all the clothing firms said that they were worse off than they were a year before. Two had closed down completely, and employment levels were reduced to some extent in almost all the rest. This was blamed primarily on deteriorating market conditions, though the new regulations were sometimes reported to have significantly increased costs. The impact of the NMW and other regulations had the potential to be burdensome, irrelevant, or act as a positive shock not just in terms of outcomes such as pay, hours, and employment, but also in terms of processes. Our larger study of the firms in all three sectors had identified three main responses: business as usual, a 'regulatory shock' into niche market or more efficient practices, and an intensification of work in order to recoup costs. For the clothing sector, we have refined these into four main patterns of response: grey market, retrenchment, work intensification, and niche market (see table 1, over). These responses were derived from the authors' assessments of the case-study firms. Particular attention was accorded to the market position of the businesses, responses to competitive pressures, and the manner in which the NMW was accommodated. Table 1 documents the changes from 1999 to 2000 and briefly characterises how this position was reached. The different responses were not necessarily mutually exclusive, and overlaps were evident. Nonetheless it was possible to discern dominant forms of response, which are now discussed in more detail.

### Grey markets

A grey-market response usually entails a shift towards quasi-legal working practices. Grey-market companies tended to rely heavily on family members and long-established employees. Two of our detailed case studies, referred to as Co 17 and Co 18, provided clear examples of the grey-market approach. Co 17's main customer was a larger garment manufacturer that accounted for 90% of Co 17's production. Co 17's proprietor maintained that the rising tide of imports and low-wage competition from the Far East were imposing considerable pressures on his main customer. The arrival of the NMW proved too much for the customer and Co 17:

**Table 1.** Characteristics of the companies.

Company	Market position 1: 1999	Market position 2: 2000	Response	Characteristics of response or change
1	CMT	CMT	Retrenchment	Declining CMT business. Closure of one floor of business.
2	Manufacturing for niche	Manufacturing and importing	Retrenchment	Expanding business, retrenchment in UK, diversify into import market.
3	Own label and wholesale	Decline in manufacturing Closure of wholesale	Retrenchment	Declining 'own label' manufacture—closure of wholesale and retrench into what they know best. Considering imports in the future.
4	Manufacturing for high-street retail	Manufacturing for high-street retail	Retrenchment	Open minded to new work practices but declining high-street retail market forcing reactive rather than proactive approach.
5	Manufacturing for high-street retail	Manufacturing for high-street retail	Intensify/ monitor	Declining high-street retail market but attempting to improve situation with new premises and new layout for ease of monitoring.
6	Diversified product	Single product	Retrenchment	Declining undergarment business. Retrenched into the single product which was easiest to make out of their range.
7	CMT and manufacturing	Manufacturing and retail	Intensify/ monitor	Open minded to new work practices but declining high-street retail market.
8	CMT	Niche	CMT	CMT producer who managed to find new niche to keep business alive.
9	Sportswear	Declining range	Retrenchment	Declining niche. Lack of family support leading to run down.
10	CMT	Closure	Closure	Declining CMT—closed down a year later.
11	Jacket manufacturing	Grey market	Grey	Declining—grey markets.
12	Arcadia	Arcadia and growth	Niche	Made switch from low-quality high-street range to quality high-street range.
13	Manufacturing	Declining manufacturing Import and wholesale	Retrenchment	Moving away from manufacture to import and wholesale.
14	Leisure and corporate wear	Same	Niche	Holding on with declining niche—suspected of paying below NMW.
15	Niche and retail	Niche/closure	Retrenchment	Niche in workwear market but closure of high-street retail business.
16	CMT	Grey	Grey	Declining family CMT business, moving in and out of legal/illegal status, pay below NMW.
17	CMT	Grey then closure	Grey then closure	Declining CMT business. Closure after dabbling in grey market.
18	Manufacturing	Grey	Grey	Declining grey-market business.

Notes: CMT stands for cut, make, and trim; NMW stands for national minimum wage; Arcadia is a large retail group.



“Our main customer employed twenty packing women ... He paid each woman £90 and they were happy with that. With the introduction of the minimum wage he would have had to pay them £140–£144, that is an extra £1000 a week. That was his profit margin, so in theory he would have been working for zero profit and he basically sold up. An importer has taken over the company for the sole purpose of the order book and they told us that we are going to have work but a very small amount. We calculated it wouldn’t be feasible to stay in business. So we closed.”

The market dynamics here are interesting. One of the authors first researched Co 17 about ten years ago, when the firm was managing to survive, primarily because it and others like it offered flexibility to their big customers: small and rush orders were not convenient to send overseas, and Co 17 picked up the pieces. The situation has now changed. It is worth quoting the owner at length (see box 1). The key point is that imports can now be sourced from Eastern Europe, so that Co 17’s niche has been eliminated.

#### **Box 1. Co 17’s changing competitive position**

“Imports is the main difference .... Imports are getting cheaper due to the pound, but not only that, a lot of Eastern Bloc countries are opening up as a manufacturing base .... That is a big difference from the last time [that you interviewed me] .... Ten years ago, the Eastern bloc did not open its doors to anybody .... People are setting big manufacturing plants there and paying a pittance of a wage .... Have a look at any clothing shop now ... the stuff is not made in England. These countries like Romania and Latvia are just down the road. Before, it used to be the Far Eastern countries .... Then, if you wanted to import, you had to gamble on three to four months before you took the delivery, you got to get your colours right and everything. But now, you can place the order in one week, and have them delivered in two weeks .... The company that we used to make for got taken over by a firm that outsourced in Morocco .... They can make 20 000 garments in two weeks. .... They still cut the garments here .... They take the cut pieces over to Morocco by lorry, and have them sewn up there, and bring them back.

We use to do a lot of top-ups .... The goods from the main suppliers arrive in this country, and all of a sudden there’s a colour that nobody has thought about .... It’s too late to get it from the Far East .... That’s what we did ... but these eastern bloc countries are just a drive away.

Ten years ago when you first interviewed us, when we had an order from the catalogue company, it used to be over 1000 garments a week for twenty weeks. But now it’s 500 pieces, and they want them in two weeks, otherwise they will go somewhere else .... It is a lot of difference.”

Co 17’s demise was not a sudden one; the firm had struggled along in a desperate bid for survival. In an attempt to weather these strained economic circumstances, the company resorted to making counterfeit clothing. The owner relied on his close friend, the owner of Co 18, to provide him with this extremely slender lifeline. But it was only a temporary reprieve.

“We’ve made dodgy stuff. We had to resort to making them. ... So it was a case of make anything and take the chance and keep the workers. The only thing that you have to remember is if you can’t get the orders in, how long is the worker going stay with you? If they’ve slowed down to a snail’s pace and they should be earning £200 a week, a good employee, and she’s down to £100. How long is she going to stay? That was the reason for making the dodgy gear .... After a break we just lost heart in it and say enough is enough ... that was it.”

The manager of Co 18 estimated that about 60% of the firms with which he was familiar had gone out of business. During the last two years, Co 18 had also begun to produce counterfeit branded clothing to supplement its narrow customer base. Much of

this merchandise went directly to market traders. Because of the illegal nature of the product, the company relied heavily on particular homeworkers (usually extended family members) or trusted owners of other small manufacturing firms to produce these goods. In effect, it was retreating further into family networks in order to sustain this way of operating. An extended interview with one of Co 18's homeworkers provided an insight into the harsh nature of this existence. Manjit had been a homemaker for thirty-five years; she is related to the current owner of Co 18. She sews because she has few other options: "I have had no education and I don't know how to read or write. I cannot do anything else." On average, Manjit is paid around £150 per week. To earn this sum, she attempts to work nine hours a day, but this can fluctuate between seven and ten hours. She does not have any pension, holiday pay, or overtime entitlements. Moreover, in relation to the negotiation of pay,

"I have very difficult negotiations with the employers. I have to fight for a decent wage but if you negotiate too much, for example more than three times, then they tell me to go elsewhere. I feel like I am exploited and used because I don't know English and cannot go elsewhere. I am not paid on a regular basis and I have to keep asking for my wages. I am unaware of the minimum wage ... But who is going to pay us that?"

### **Retrenchment**

Retrenchment refers to companies that decide to 'cut to the bone' and concentrate on core operations. One owner-manager (Co 1) summed up the situation as "very tough competition from abroad, but now with the £3.60 we are losing two ways—higher wages but more competitive price". His response was to scale down operations from two floors at the present site to one. When the NMW came in, the pay system changed from piece rate to day rate because "it was very hard to implement piecework for the minimum wage, assessing last week's average and giving workers that". However, this was not solely because of the NMW. The system had been under pressure for some time because of increasing variability in volume, style, and delivery requirements. "Now we take what work we are given, so there is always new styles etc, and it takes them [workers] two or three runs to get used to it."

Another firm (Co 15) chose to cut back by closing one of the two businesses at its site. This was blamed primarily on imports, but the NMW was said to have had a final effect:

"In the past when competition increased and prices reduced we could have asked workers to have less pay but we can't now, it's illegal ... it's closed the business down—we couldn't sustain the level of outgoings with the level of income."

In the remaining operation, in which all but the very best performers had moved from piecework to the NMW hourly rate, lower productivity was said to be the result: "it has effectively taken out the efficiency of manufacturing because if they are happy to earn the £3.60 they do not push themselves." The owner claimed that he was 'stuck' with these workers, owing to the combined effect of employment protection legislation and scarce replacement labour.

For some, the simplest route, in the light of the strong pound, was to focus on importing. These firms had already contemplated closing their manufacturing operations completely. As well as importing from Asia, patterns could be sent electronically to plants in Greece, Eastern Europe, or Morocco where freight times are reasonably quick. One firm bought a share in a Moroccan company—"this means we are able to open doors with customers who wouldn't talk to us before"—with the British operations scaled down to concentrate on short turnaround and 'top-up' orders. One children's clothes manufacturer (Co 2) decided to invest in a new factory in India; this would

enable the production of larger orders to be switched from the UK factory, leaving them to deal with short-run production and warehousing facilities.

A few companies saw the NMW as the final straw in a long line of pressures. In one such firm, which had been struggling for some time, the response was to scale down but intensify manufacturing work. The owner blamed the high pound first and foremost, but described the NMW as the 'final straw' leading to a near total withdrawal from manufacturing. He saw little alternative to retrenchment: "the market isn't there any more, it is very tight so there is no point, the price isn't there ... it is very unstable so why invest?" (Co 13).

#### **Work intensification and increased monitoring**

Intensification of work normally refers to a situation where more or extra effort is expected during a given period of time or for a particular reward. It is where the effort bargain requires more from an employee than the previously accepted norm (Baldamus, 1961; Behrend, 1957).<sup>(5)</sup> We found few employers using work intensification to recoup costs as a systematic response to regulation, largely because the space for doing so was often lacking owing to the already intense nature of the industry.<sup>(6)</sup> A variant of this pattern occurred in clothing firms that had previously relied on piecework. Here the NMW had major implications and owner-managers freely blamed it for increasing costs and falling productivity. The problem was not just the administrative complexity of monitoring and keeping records of each worker's weekly income for purposes of the NMW. Highly variable earnings meant that even the most productive workers sometimes earned less than £3.60 an hour. Most firms therefore took the opportunity to switch to measured day work. The immediate response of one employer (Co 6—who utilised retrenchment as a main response) to the pay increase brought by the NMW was to cut the hours of the male, day-rate workers ("we try to keep productivity the same by having them in less and telling them to work harder") and for the female pieceworkers "we told them we need more pieces too". Co 7 argued that they "have had to change everything" as a result of the NMW. Most workers were moved to day rate (although a few better workers still had a piece-rate component)—this was said to have increased pay costs by 30%. It was also commonly claimed that productivity was down as a result:

"The minimum wage is a bad thing, not so much in actual pay terms but because there are no incentives any more. For the borderline cases it has destroyed incentives as they will be paid £3.50 [sic] whether they work hard or not."

"They have decided that they will get paid anyway so performance is down ... the only way to improve productivity is to stand there and watch them."

Tighter controls were therefore usually introduced to monitor employees. Closer attention was sometimes paid to the training of poorer performers, workers' hours were reduced, and a number of staff were laid off. Sitting supervisors next to girls was also used as a means of getting them to produce more.

The two companies whose main response was intensification and monitoring had actually moved to new premises, partly to try to ease such problems. In the first

<sup>(5)</sup> This means that it would normally be regarded as a regressive or negative form of raising profits or lowering costs. To assume a natural tendency towards efficiency would be odd outside the (neoclassical) economic textbook. For example, most small and medium-sized enterprises make decisions on the basis of the various constraints they may face; on present knowledge and personal goals which may go beyond or even fall short of profit maximisation; and on employment of employees who may not be the most efficient available (Edwards et al, forthcoming). As much comparative research highlights, low-skill and low-value-added methods are more common in the United Kingdom than in other countries (Prais, 1995).

<sup>(6)</sup> There were, of course, companies taking other main responses who attempted to include intensification and monitoring as part of their response.

company (Co 7), the owners also brought in consultants to review operations at the new site with a view to improving productivity. A depressing business context formed the backdrop: “because things are going abroad now, and there is not much we can do in response, so things are getting gradually worse.” The second firm (Co 5) moved to the new factory partly for presentational reasons, as “it gives a good impression to get the work for Arcadia”. In addition,

“it is a good environment and facilities to keep the workers too ... we are trying hard to keep hold of what staff we’ve got—the young generation is just not interested” and, importantly, “recording and monitoring is much better in the new factory.”

This was seen as the key response to the NMW, as wages had increased by around 7%. The firm had never used a piecework system as it was “too complicated for me and difficult to control ... instead we just try to do it (maintain performance) by monitoring”. Overall, “the minimum wage has not bothered us too much when it came in” because it did not necessitate a change in the pay system, though it was a contributory factor to a tightening of control.

### **Moving into niche markets**

The small minority of clothing firms that were able to make a ‘niche shift’ reported much harsher business conditions over the past two years. In one firm (Co 12) the response was “to shift to a niche which is keeping us alive”. This entailed a move away from volume work to the high-quality, hand-made end of the market where the demand for small and customised orders is less susceptible to the threat of imports. However, the shift resulted in significant job losses (sixteen staff) and substantial investment in training the surviving workforce. The owner claimed that the labour market was drying up despite layoffs across the sector: “there’s a very big labour problem as youngsters are not keen to come in ... we need to invest in training, as we can’t get the labour.” Rates of pay were set above the NMW at £4.00 per hour in order to retain skilled staff against competition outside the sector as well as within. The owner felt that “we are still behind (in pay), but we can’t get the prices from the customers”. Perhaps crucially in helping to make the shift, the firm had not had a piece-rate system for some time:

“All the staff are good so they get equal pay. There are no differences. We had an incentive scheme in the past but it proved a disincentive to the slower workers. It is better to pay the same so they know they are treated fair. And they do talk amongst themselves ...”

In another firm (Co 8) the shift was more directly linked to the NMW:

“We have changed from wholesale to the corporate wear market because this is better quality and selling prices are better .... Before say, a year ago or more, this was just five per cent, then we were forced to go upmarket. It took six months to get enough business in but now since October [1999] we have been one hundred per cent in corporate wear, with better prices .... The £3.60 was the major factor in the change—though we were looking at it already, it was the spark to make greater efforts as soon as it came in place.”

In this respect, the NMW was something of a critical incident. As a trouser manufacturer they considered themselves better able to take the niche-market route because of capitalisation (“it takes twenty machines to make a pair of trousers but only three for a jumper”). However the shift into more profitable lines did not mean that everything was rosy in this firm. Labour costs had increased and the variation in employee performance remained a thorny issue. The NMW led to the demise of the piecework system as about half of the workforce was assessed to be under this rate in performance terms. About twelve individuals were each said to be underperforming by an average of £30 per week according to the SMV system (a type of piecework calculated

on a 'standard minute value' of output). So far, in addition to the effect of higher prices, this has mainly been dealt with by the better performers 'balancing out' or effectively subsidising the slower workers. This had not caused too many problems as the better workers tend to appreciate the predictability of earnings, though a new bonus system might have to be introduced in the future.

### **Possible policy responses**

At a national level, the government's Textile and Clothing Strategy Group has set out fifty-five recommendations designed to salvage the garment sector (TCSG, 2000). They comprise strategies to promote competitiveness, collaboration with training groups, innovation, and skill development. However, the continued contraction of the sector, particularly in the West Midlands (Ram et al, 2002), suggests that these policy ideas have not yet borne fruit. In this section, we consider three potential policy directions: 'more of the same'; 'cracking down'; and 'constructive engagement'.

#### **More of the same**

This approach—which is characterised by an acceptance of the current state of affairs—seems to be much in evidence, particularly with regard to working practices in the sector. It is an approach that suggests that the policy is not totally inflexible or out of touch, but is simply not sufficient to address deep issues. In a recent review of the West Midlands clothing industry (Ram et al, 2002), which drew upon interviews with low-pay officials and enforcement agencies, widespread avoidance of employment regulations (as well as health-and-safety directives) was discovered. This is borne out by the experiences of some of the case-study firms in the current research.

'More of the same' should not be equated with a lack of interest or activity by local policymakers. Indeed, the West Midlands has witnessed numerous initiatives to address the problems facing the sector. In 1996, a clothing-sector forum (comprising employers, agency officers, and educational institutions) was set up to publicise the plight of the local industry and support promotional events. Collaborations between education and training providers have seen the mushrooming of training schemes, design initiatives, and fashion shows [see Husbands and Jerrard (2000) for further discussion of these schemes].

However, local employers do not appear to have responded enthusiastically to this policy activity. Many of the schemes have been characterised by some of the problems that afflict policy interventions in the wider small-business population: they have been 'top-down', poorly resourced, and short term (Ram, 1998). Moreover, they have rarely focused on addressing working practices; revamping of premises, image improvement, and marketing have been the traditional preoccupations. As Husbands and Jerrard (2000, page 129) note:

"Locally, intervention in the clothing sector has been informed by a set of competing and sometimes contradictory objectives. The most widespread form of local intervention has been direct support of individual firms through assistance with rates, refurbishment or interest payments. This was characterised for its ad hoc and reactive character, as well as for the lack of accountability in the utilisation of public money."

More of the same is unlikely to have that much effect on any of the companies within this research other than to cause them to continue with their present responses.

#### **Cracking down**

Stricter enforcement of employment regulations is a further policy option which would apply in particular to those companies taking the grey-market response. The implications of such an approach are difficult to assess, but the reputed pervasiveness of

'informal' working suggest that they are likely to be significant. Salutory lessons can be learnt from the clothing industry in Amsterdam, which before 1997 was dominated by Turkish immigrants. Between 1980 and 1987, the Dutch clothing industry emerged from a period of decline and the role of Turkish immigrants based in Amsterdam was important. Significantly, government agencies turned a blind eye towards illegal practices in the sector, and a protectionist trade policy restricted competition from imports. This propitious trend for immigrant entrepreneurs was aided by favourable market conditions and a peak of 1000 sewing shops was reached in 1992. However, between 1993 and 1997, the sector collapsed dramatically and only fifty contractors remained in 1997. Liberalisation of trade and a sharp downturn in demand were contributing factors. But, equally, stricter enforcement of rules and regulations regarding immigrant work made the main asset of immigrant entrepreneurs—the recruitment of cheap and flexible immigrant labour through their own social network—obsolete. As a consequence, immigrant contractors disappeared again from the streets of Amsterdam (Raes et al, forthcoming).

In the case of West Midlands clothing firms that deliberately flout the law, and have no interest in changing their working practices, stricter enforcement and prosecution would seem a reasonable policy option. This is one cost of regulation that has to be recognised: imposing the NMW is bound to create some losers, or else it has no real point. Moreover, loss of this type of company is likely to be of longer term benefit to the economy as a whole. However, it might be possible to operate a more flexible approach to firms who are currently operating outside of the law, but who are prepared to bring themselves up to the legal minimum standards. In short, a process of constructive engagement is worth considering.

### **Constructive engagement**

Engaging with companies in order to encourage the use of better production techniques, training, and employment practices in order to improve their competitive position is an option for which we found some evidence in the Coventry area. As a result of a conscious policy decision on the part of the local city council, a Clothing Centre was established in 1989 with the aim of promoting positive forms of working practices and work organisation. The range of facilities and support for the local companies includes computer-aided design and manufacture services, training in modern manufacture, advice on sales and marketing techniques, and a technical-support service. By far the most ambitious project was that under the European Commission's ADAPT programme that funded a number of advisors to promote quality manufacturing and training between 1998 and 2000. The ADAPT community project was jointly funded by the European Commission and the Clothing Centre partners. The aim of the project was to develop and implement an industrial-development strategy for the sector which built upon the original aims of the city council. It identified and piloted innovative approaches to assist companies in implementing new management and production methods and helped raise skill levels and employability of workers threatened by redundancy.

In 1998 the Clothing Centre also developed a charter of minimum standards and workplace conditions in consultation with the Coventry and Warwickshire Chamber of Commerce, Training and Enterprise, and the Coventry Clothing Manufacturers Association. The main aim of the charter was to assist companies to obtain work from high-street retailers by ensuring that the companies were able to meet retailers' basic operating standards. For larger companies there are established quality standards (such as ISO 9000 and Investors in People) but these are not tailored to the specific needs of clothing manufacturers. The charter enables companies to measure their progress against a set of standards and benchmark against other

companies in the Coventry area. Companies are audited and then reports are issued identifying areas for improvement. Assistance is also provided to implement suggested improvements, and certificates of compliance are issued to those meeting the standards. Out of the thirty-eight companies originally audited in 1999, only one passed the initial audit. However, seven firms were assisted to meet the standards, with a further sixteen companies improving their conditions but not quite meeting the standards. The ability of the Clothing Centre to get the large Arcadia (Burtons) retail group to take an interest in their work was important in attracting the support of local companies. The recognition of the standards by Arcadia would improve the chances of companies working for the group and assist the centre's overall objectives of moving companies away from CMT production.

A rerun of the charter initiative was undertaken in 2000. This time there were two levels—standard and advanced—reflecting the fact that some companies had already achieved the initial standard. This time thirty companies were involved but only twenty two reached the audit stage, reflecting the difficult conditions companies were facing. Nineteen of the twenty two achieved the charter, seven at the standard level and twelve at the advanced level. Those meeting with the requirements of the charter were awarded a Certificate of Compliance in August 2000.

The centre is considered a major resource and companies thought that it provided a vital service for the local clothing industry. All local companies were aware of its existence and many said that they frequently made use of its services. In a report, Clark and Smith-Canham (1998, page 21) argued:

“It is important that increased investment takes place in the Clothing Centre to enable it to expand its current level of support for local industry. The Clothing Centre is an ideal forum through which to promote the sector and its product ... There may also be opportunities for the Clothing Centre to play an increased role in co-ordinating activity between local firms in the future. Central to the success of the clothing industry in other areas (such as Emilia Romagna, Italy and the Lace Market, Nottingham) has been the promotion of interlinkages between firms through specialist service centres similar to that of the Clothing Centre.”

In recent years, the fiercely competitive environment and legislative measures have made the need and the impetus for regulation and change in the clothing sector all the more important. Yet, simultaneously, the external environment has generated two conflicting pressures: it forced companies to be more aware of the need to change existing practices and, second, at the same time made it more difficult for them actually to carry out the changes necessary. These pressures make the role of the centre all the more important. Yet, at a time when it is needed most, its resources are declining. The work of the centre has been reliant on a few individuals putting a lot of time, expertise, and work into the projects. The absence of some of these individuals caused the work of the centre to suffer even to the extent where a reduction of services and a strategic change of direction was being considered to enable the centre to remain viable.

Constructive engagement is the most intensive form of assistance and, of course, is no panacea. It does, however, show that different responses are required within the industry and aids companies to look for solutions above and beyond those that involve the low-pay, low-skill, low-value-added route.

## Conclusion

For much of the 1980s and 1990s, clothing firms in the West Midlands have managed to survive on the ragged edges of a fiercely competitive marketplace. Despite heightened global competition, the sector survived because the inherent unpredictability of the market provided enough opportunities that could be exploited by manufacturers

who, in turn, drew upon a vulnerable co-ethnic workforce. However, even this limited and precarious market niche is under threat. A variety of factors have conspired to create a situation that is increasingly desperate for many manufacturers, including the progressive relaxation of the multifibre arrangement; global trends towards the decentralisation of clothing production; the strength of the British pound; and the dwindling supply of cheap labour. It is in this context that the regulatory 'shock' of the NMW has been introduced. There can be little doubt that the West Midlands clothing sector is in steep decline.

However, as we have seen, clothing firms have responded to the mix of market and regulatory pressures in a variety of ways. The modal response has been one of retrenchment, as employers desperately try to cut costs and manage production. This has often been accompanied by closer monitoring of employees and work intensification. Some firms have been pushed into the grey market, while others have been pushed out of the market altogether. A small minority have managed to secure a foothold in higher value activities.

In terms of potential policy responses, three approaches were identified. The first, which is largely the position as it stands now, means that companies will be left to their own devices. The end result is likely to be one of continuing decline. Following the Dutch example of cracking down and enforcing legislation more strictly would lead to a steeper and quicker decline within the industry. The third path of constructive engagement represents a positive alternative. The Coventry Clothing Centre is an example of a major initiative aimed at regenerating a local manufacturing sector. It has established a range of services that are needed to support businesses and encourage them to grow through a range of progressive practices. It has been able to promote networks within the sector and gain the trust of businesses that have traditionally worked in a very insular environment. Although this was not its main aim, the centre created an environment in which regulation of work organisation and employment became an important matter in the modernisation agenda. In effect it helped some of the companies to use their strengths of flexibility to look for other niche elements within the market, but in a much more positive way.

The case of the Coventry Clothing Centre also shows that up-skilling through an active strategy of constructive engagement is possible. There are three elements that are key to this process. First, managerial networks need to be developed and strengthened. It is well established that small business owners are reluctant to avail themselves of external support (Curran et al, 1995); this reluctance seems to be even more acute for ethnic-minority firms (Ram and Jones, 1998). However, the current research shows that there is a demand for agencies that are credible and relevant to the needs of employers [see Ram and Smallbone (2001) for further discussion of this issue in relation to ethnic-minority firms]. Second, the sectoral dimension is important in establishing the credibility of support agencies. The appeal of the centre for many employers was undoubtedly the relevance of its services, not simply the ethnic dimension. Finally, a long-term approach to the sector is required. It is clear that the centre is blighted by the short-term funding arrangements that often affect such advisory bodies. Such a short-term arrangement militates against the development of collaborative relationships with employers. Even if these conditions are met, important issues remain: the role of workers in such arrangements is far from clear; employers are not under any obligation to participate in such initiatives; and many employers are very pessimistic about the continued viability of the sector, such is the severity of the market situation at the moment. Nonetheless, the process of constructive engagement does, at least, provide the possibility of a progressive response to the challenges posed by regulatory and market change.



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