

**The Minimum Wage and the National Living Wage in New Zealand:
Case Study Evidence from Small Owner-Operators and Employees in
the Food, Clothing and Hospitality Sectors**

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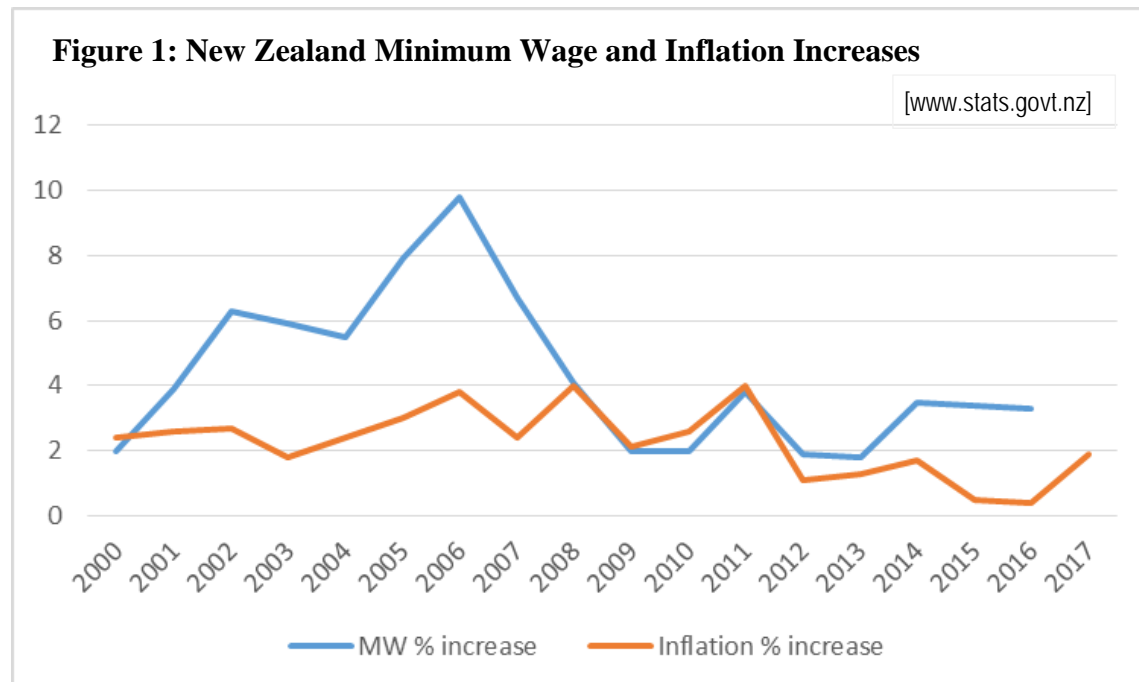
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1. PREAMBLE

This study examines how small and medium sized firms in New Zealand administer the minimum wage (MW) legislation and how they are responding to the call for a National Living Wage (NLW). It focuses in particular on the issue of compliance or non-compliance to the New Zealand minimum wage legislation and the adoption of a wage strategy that supports the call for a NLW. It further investigates the reasons why many business owners believe they cannot afford to support a NLW in New Zealand. We examine well-established firms in the low paying sectors of clothing, food manufacture/processing, and hospitality (restaurants and supporting services). We explore the characteristics of a sample of small and medium sized firms in each sector. We consider the composition of the labour force, the pay structures in place, and key features of work organisation. We also consider organisational structures, sector-specific pay practices, as well as other formal and informal benefits. Finally we consider any changes in management practices, recruitment practices for firms positioning themselves as payers above the MW, and any movement towards paying a NLW.

2. INTRODUCTION TO THE NEW ZEALAND MW CONTEXT

New Zealand was in fact, the first country in the world to pass national minimum wage legislation in 1894. The country has continued to be proactive regarding minimum wage. For example, McLaughlin (2009) suggests (that) New Zealand has increased the minimum wage significantly since 2000, and with a minimum to average wage ratio of around 50 per cent, it was one of the highest in the OECD. Increases in MW which match or are above the CPI since 2000 are borne out in figure 1.



Furthermore, as well as the rates of MW changing the definitional interpretations (i.e. adults, youth, and training) has also changed, table 1.

Table 1: New Zealand Minimum Wage Increases

In force from:	ADULT	YOUTH	TRAINING
1 March 1997	\$7.00	\$4.20	
6 March 2000	\$7.55	\$4.55	
5 March 2001	\$7.70	\$5.40	
18 March 2002	\$8.00	\$6.40	
24 March 2003	\$8.50	\$6.80	\$6.80
1 April 2004	\$9.00	\$7.20	\$7.20
21 March 2005	\$9.50	\$7.60	\$7.60
27 March 2006	\$10.25	\$8.20	\$8.20
1 April 2007	\$11.25	\$9.00	\$9.00

In force from:	ADULT	NEW ENTRANT	TRAINING
1 April 2008	\$12.00	\$9.60	\$9.60
1 April 2009	\$12.50	\$10.00	\$10.00
1 April 2010	\$12.75	\$10.20	\$10.20
1 April 2011	\$13.00	\$10.40	\$10.40
1 April 2012	\$13.50	\$10.80	\$10.80
1 April 2013	\$13.75	\$11.00	\$11.00

In force from:	ADULT	STARTING OUT	TRAINING
1 May 2013 ^[3]	n/c	\$11.00	n/c
1 April 2014	\$14.25	\$11.40	\$11.40
1 April 2015	\$14.75	\$11.80	\$11.80
1 April 2016	\$15.25	\$12.20	\$12.20
1 April 2017	\$15.75	\$12.60	\$12.60

Note:

- On 1 May 2013 the minimum starting-out wage was replaced by the minimum wage for new entrants and the training minimum wage for trainees under 20 years of age.
- The youth minimum wage applied to employees aged 16 and 17 years. From 1 April 2008, the youth minimum wage was replaced with a minimum wage for new entrants, which applied to some employees aged 16 or 17 years.
- From 2001 to 2008 the adult minimum wage applied to employees aged 18 years and over. Prior to that, the adult minimum wage only applied to those aged 20 years and over. From 1 April 2008, the adult minimum wage applies to employees aged 16 years and over who are not new entrants or trainees.

[Source: <https://www.employment.govt.nz/hours-and-wages/pay/minimum-wage/previous-rates/>]

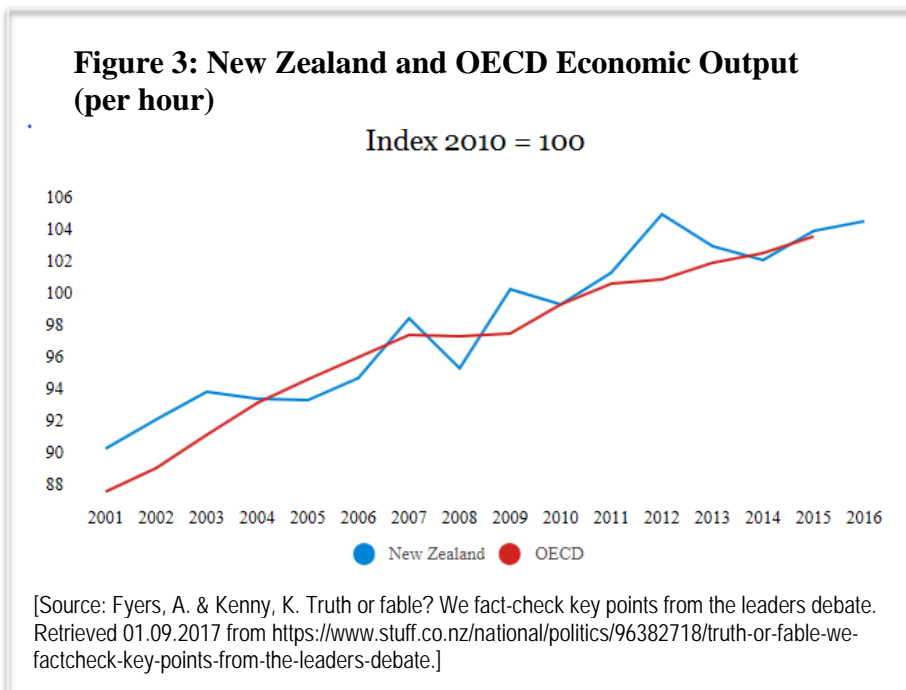
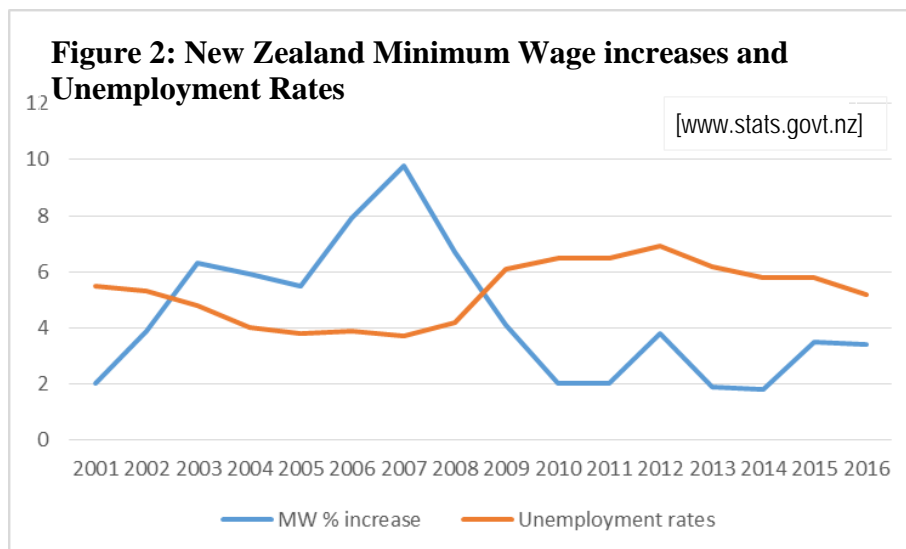
Table 1 indicates there has been a consistent yearly increase in the MW, and it has delivered increases for the New Zealand worker ahead of the country’s CPI (figure 1); yet the impact of this minimum wage policy is unclear. Malone, (1995) had previously highlighted issues around minimum wage increases and unemployment?

“We estimate that a 10 percent increase in the minimum wage reduces the employment of all young adults by 3.5 percent, and increases their unemployment rate by 3.5 percentage points. The same increase in the minimum wage reduces the employment of all young adults without school or post-school qualifications by 5.7 percent, and increases their unemployment rate by 6.5 percentage points. Furthermore, we find the opposite effects among teenagers. A 10 percent increase in the adult minimum wage increases the employment of teenagers by 6.9 percent and reduces their unemployment rate by 3.0 percentage points.”

International evidence (Neumark & Wascher, 2007) supports such an argument.

“First, we see very few - if any - studies that provide convincing evidence of positive employment effects of minimum wages, especially from those studies that focus on the broader groups (rather than a narrow industry) for which the competitive model predicts disemployment effects. Second, the studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups.”

Yet this is not borne out by the facts in New Zealand. Coloration of the rising MW, unemployment and productivity in New Zealand perhaps hints to an inconsistent story (figure 2 & 3). To further muddy the waters, during this period the world has faced the global financial crisis, which had a global negative impact on employment; and such data does not take into account employer behaviour in or engagement with the informal economy.



It is difficult to establish a clear link between the MW and inflation in figure 2 and although figure 3 indicates productivity is comparable with the OECD average, Evers and Kenny (2017) state that New Zealand productivity is well below leading OECD countries.

A further development, in recent years, on the debate around New Zealand's MW, employment and productivity has been the growing support for the adoption of a NLW. In New Zealand Car et al.'s (2014) work on psychologies' role in poverty reduction and their further call for testing of the validity of traditional income models (Car et al., 2016) offers some compelling arguments for the implementation of a NLW. Currently in New Zealand the NLW is voluntary and sits at \$20.20, up 40c on the 2016 rate. This is \$4.55 more than the MW set in legislation by the New Zealand Government. Already a small number of firms are adopting the NLW (<http://www.livingwage.org.nz/accreditedemployers>) and there is a growing movement within local body government to pay all staff the NLW as a minimum (<https://www.stuff.co.nz/the-press/news/95412858/christchurch-city-council-adopts-living-wage-for-staff>).

Within the small and medium size business community the impact of a NLW is not clearly understood. There are unanswered questions regarding the reception to, take up of, or impact from MW legislation or introduction of a NLW. Yet this is a very important segment of the New Zealand economy. The small and medium size businesses in New Zealand (classified as less than 50 staff) currently employ 43% of New Zealand's workforce and constitute 35.2% of the Nation's GDP; whilst large business contributes 48.5% of GDP and the remaining is classified as excluded industries/other items (Data source, Statistics NZ, 2014). Therefore, any changes in legislation which directly impact this segment will have a significant impact on the New Zealand economy.

The contribution this report makes to the discussion of employee payment practices in New Zealand is through investigating how small and medium sized businesses in low wage sectors are complying with the MW legislation and responding to the ongoing debate for a NLW. This is examined through the eyes of owner-operators and employees in these low wage sectors.

3. RESEARCH METHODS AND DATA SOURCES

This research has been conducted in Christchurch, New Zealand as part of a broader UK/NZ collaborative study. Christchurch is the 'garden city' and the largest of New Zealand's South Island, set on the Canterbury Plains. As of June 2016 the Christchurch population was 375,000 (CCC, 2017), an increase from the 2013 Census figure of 341,469. This can be viewed in the context of a greater Christchurch basin of over half a million people (Statistics NZ, 2015a).

The Canterbury region has the second largest number of business locations in New Zealand. (Statistics NZ, 2015b). There are 37,434 businesses in Christchurch (64,849 in the Canterbury region) with 186,880 paid employees (262,140 in the Canterbury region). The largest employers are in the manufacturing, health care, retail, construction and hospitality sectors (Census, 2013). Growth rates in retail and hospitality sales in Christchurch city continue to rise. For example, sales for the March 2015 quarter were \$1.9 billion, a 5.4 percent increase compared with the same quarter in 2014. This compares with an increase of 5.1 percent at the national level. (Statistics NZ, 2015c)

We adopted a case study approach to examine the concrete ways in which small business owners in Christchurch respond to MW legislation and the NLW debate. We examined the impact of the legislated MW and voluntary NLW in a range of market and business context, in line with 'multiple case logic' (Eisenhardt, 1989) often advocated in qualitative research. Participants (small business owners-operators) and respondents (sector employees) were

sought in the food, hospitality and clothing sectors. We engaged them through face-to-face structured interviews, with questioning which paralleled the parent study undertaken in the United Kingdom by CREME at the University of Birmingham. Confidentiality was assured to all participants in line with the University of Canterbury human ethic protocol. Therefore all data was anonymised during transcription. We then made some generalisations about business patterns, behaviours and attitudes involving the sample of small businesses within each sector. We do not assert that we encompass universal small business opinion per se.

The key components of this research, as outlined in this report, are the aggregated case studies of small firms and employees in three low-paying sectors: clothing, food manufacture/processing, and hospitality; followed by a discussion section on similarities and differences in business behaviours and implications of the MW and NLW legislation .

4. FINDINGS

4.1. THE FOOD MANUFACTURE SECTOR

I. BACKGROUND

The first sector we profiled was the food sector, which includes owner-operated firms which produce or process food for business to business B-B or business to customer B-C markets (See Table 2).

Table 2: Profile food industry firms

Firm	Sector	Year Established	Current ownership	Employees 2017	MW Status	NLW Status
P01	Retail food production	1966	21 years	13	compliant	non-adopting
P08	International food	1997	founder	10	compliant	non-adopting
P14	Retail food processing	1992	founder	7	compliant	non-adopting
P15	Wholesale food production	1978	10 years	120	compliant	non-adopting
P16	Retail food production	1987	founder	18	compliant	non-adopting

Although the five participant firms in our sample are all long established firms, they operate in the sector differently. One is a business to business (B-B) producer of daily food items supplied predominantly to food retailers; and is conveniently located in an industrial region of Christchurch so it can operate under industrial compliance conditions which meet its strategic objectives.

So we've gone into a process of, you've heard it before, lean manufacturing. We're one and a half years into it and we are seeing some improvement and that's fantastic (P15).

The remaining four participants are business to customer (B-C) and are strategically located in different residential areas around Christchurch close to cliental, foot traffic and busy roads.

Like we see ourselves, demographically, very well placed in this particular area because we do have a lot of corporate market [pause]. So they actually come to us from all over town, and we also courier to those particular corporates. But we also have a captured market in this particular demographic, of retirees and first home buyers and young families but we've also got destination shoppers who will come to us specifically for [named product] (P16).

All the firms are registered companies. They are all family businesses with three participants indicating that their wife worked in the business and children worked casually. *They're [children] all at university doing their things. They'll help out occasionally (P15).* One participant said that her husband and son both worked full time in the business. *I've got one son who's fully qualified. He was trained in the business (P16).* The final participant currently had no family working in the business but had full-time family working in the past.

They all employ full-time or part-time workers. With the exception of family members, they employ very few casual workers. This workforce has changed over time for all firms, especially with a reduction in casual workers.

Not any more [employing casual workers]. We used to but with legislation it's not worth it (P01); and yeah, so everyone has a contract and if they're casual they have a contract, but we only have one who's casual. The rest of them are either part-timers or full timers - all on contracts (P16).

Participants referred to the practice of paying casual staff in cash as a by-gone era.

We had a 15 year old, came for two Saturdays. So I just paid her [cash in the hand] but it became too complicatedThose days are gone, well gone, because I think 99% of all our income is now on EFTPOS (P08).

Gender and age vary between participants. Some employees stated that they felt that students were regularly employed in this industry as part-timers because they would accept the minimum wage. As an employee suggested: *Lots of school girls are willing to work part-time for minimum wage (R02).* The argument was that often such a pay rate was adequate to supplement a student lifestyle. As in: *I mean I'm happy with what I get, but of course I'd like more. [Note: still living at home]. It's not those consistent costs, it's just my car. That's all I have to worry about really. (R30).*

II BUSINESS STRUCTURE AND PERFORMANCE

Two of the participants view themselves as niche operators in markets dominated by large firms; one as a niche operator in a market dominated by small firms; one simply viewed herself as one of many small businesses operating in their market; and the final participant considered himself to be a medium-large firm increasing their market share.

We're in the forefront of trade in our particular [pause], we have got a niche market because we are a specialised European style [producer], so we don't see ourselves as a leader in our particular trade (P16).

All participants said they were in the national market, apart from one that believed they only faced local competition. The general view was that they faced competition from both local and national producers and distributors.

So anyone with an oven is competition. I mean that's the broad generalisation. So for example, if you know those home ovens, you know you put your [raw material] in and set it off overnight and in the morning you've got a fresh loaf of bread, that has to be competition in some form or some level. But then, of course you've got your corporates, that can virtually make every product and somehow they do, through their network of firms around the country. So they might make [product 1] at one end of the country. They might make [product 2] at the other end of the country but they distribute it throughout New Zealand. That's massive competition (P16).

All five participants believe competition is intense and commented on the changing trends in food consumption, the labour intensive nature of food manufacture, and the challenges to remain consistently profitable. For example: *Like at the beginning of the year it was very, very quiet and it was very hard to make a dollar and actually, a couple of months, we weren't making any money (P01).* They all believe their sector was dominated by competitive pricing strategies and that it a buyer's market.

If you've got a corporate buyer or any buyer in fact, knowing how to, and willing to get the best price and forget about everything else. All of a sudden that's where we're talking, how do you make things work if that's where it gets driven down all the time? If there were less competitors in the game, then that buyer might be saying, well hang on a minute, there's only so many, so we have to just tread carefully here and pay a fair price. But in today's industry the fair price and the best price are two different things (P15).

Participants believed their industry sector on-the-whole adhered to New Zealand's minimum wage requirements, in typically paying minimum wage or just above. Three participants expressed concern that their competitive position was being eroded through a tiny number of small firms that were not complying with New Zealand's wage legislation. These firms were paying wages and offering conditions to employees that were below legal standards. But participants felt somewhat powerless to do anything about this. *Well we can't do much about it. We can't and you're not going to even rat on them either, eh (P15).* They inferred that, in particular, some new immigrant businesses were serious offenders in avoiding compliance;

I know for a fact the latest trick at the moment is they make their, and these are generally people who have English as a second language. They make their staff shareholders and pay them a dividend instead of wages and there's no law on dividend and that's how some of them are getting around minimum wage compliance (P01);

and exploiting their own migrant communities' willingness to accept lesser conditions.

They viewed challenges to their competitive position as being a shortage of good tradespeople, tax avoidance and non-compliance by some competitors, the increasing wage bill, retaining and satisfying staff on low pay rates, and changing customer attitudes towards food.

III. PAY DETERMINATION: MW/NLW

All pay rates were determined by the owners. This was generally based on the owner's own subjective assessment of their business capability to pay and market position (Table 3).

Although there is a trainee wage rate within the New Zealand MW legislation none of these firms used it.

[Pays minimum wage] whether they've worked a day in their life - yes, there is a training wage - but I don't believe in that, you know. So yeah, I get what the country's trying to, you

know the government's trying to do, but I just don't agree with it (P01).

I don't think 12.75 is going to encourage anybody [trainee, starter] to come work with the [name of firm], I'm sorry. I'd be too embarrassed. I would be (P16).

Table 3: Pay rates of participant food industry firms.

Firm	Sector	Pay rates*			
		Lowest	Highest	Estimated average	
P01	Retail food production	\$15.75	\$25.00	\$18.50	Across all staff
P08	International food	\$15.75	\$17.50	\$16.50	Across all staff
P14	Retail food processing	\$15.75	\$32.00	\$22.00	Across all staff
P15	Wholesale food production	\$16.75	\$22.00	\$18.50	Across all factory staff
P16	Retail food production	\$16:00	\$28.00	\$18.00	Across all staff
* At the time of this study the NZ MW was \$15.75 and the advocated NLW was \$20.20					

Their starting rate was set at the minimum wage, or just above, and the rate then increased based on experience and skill sets they acquired through working. Younger staff such as students and school leavers generally started at MW. Which seemed acceptable, as one staff member said: *Younger people don't need as much money as older employees with commitments such as family, home, etc. (R26).*

Participants spoke of being aware of pay rates within their sector and other sectors, and that these could impact their ability to attract quality staff. For example: *Supermarkets will start off at \$20. And pay their [production] managers \$60. You know, it's bloody hard to compete (P01).* They did not view competitor practices as having a major influence on their decisions around staff pay rates. One participant believed small businesses were influencing each other by *dragging each other down (P08)* in regard to low pay rates in general, while others referred that competitor practice could influence recruitment capability. Information about competitor practices was available to participants through industry associations, staff feedback, talking to other employers, and a certain level of hearsay. Decisions regarding pay increases were more likely to be based on individual performance.

Minimum Wage

With regard to MW legislation, the rate does influence the minimum they paid.

Participants were in agreement that there was a need for a MW, although one viewed the MW

as being too high for untrained staff. A second believed it should be indexed against the country's CPI, rather than at the whim of the Government.

So the government's basically sticking it to us as an employer saying, well, you know you've got to put your wages up three percent and the CPI's one percent, you know, yeah. How's this all going to work? So it's all coming off the bottom line basically (P15).

Another participant viewed the MW as being acceptable for some staff but not adequate for most staff. Especially with regard to quality recruitment and retention.

It's really hard to find an experienced person under the age of 25 that you can hang on to (P08).

You can't say, aw, we only pay the bottom [MW], you know what I mean (P14).

One participant referred to using the 90 day trial-period clause within the legislation

Gives them a chance to prove themselves and that 90 day law has been the best thing that's ever happened to our business community because three months, show their true colours whether they're team players or not (P01).

All participants kept adequate wage records and in some cases used professional payroll services. This was confirmed by staff who all had employment contracts and received official pay slips: *It was a printed pay slip, weekly (R30)*. One staff member did refer to their employer only professionalising the pay system in the past 3 years. Before that: *we had no payslips [laugh]. I never once saw a payslip (R11)* she said. One employee interviewed received cash payment for casual work.

National Living Wage

Participants were aware of the NLW movement in New Zealand, but none of them knew that the recommended rate at the time of this study was \$20.20 .

I know they [advocates for a NLW] want it to go up. Has it gone, is it? I don't know the exact amount (P16).

In fact one participant thought they were already paying staff the advocated NLW rate.

I think we pay all staff the living wage now. Apart from our young people [Told by interviewer that the NLW rate is \$20.20]. Ohh well we don't then. No we are in the mid to late teens; 18, 19 dollars per hour (P01).

Participants did not believe anyone was paying a NLW minimum to staff in their industry. In fact most viewed the prospect of a NLW minimum as detrimental to themselves and the sector as a whole. Furthermore there was some concern regarding affordability and staff motivation if the NLW was introduced.

Affordability: So I'm just looking at the big picture, that represents 20 percent, 25 percent increase in wages [introduction of NLW]. Right, that 25 percent increase in wages, as you know, isn't sustainable on our bottom line. So we're sort of, you know, we're in that never, never land unless we can work out a sustainable model to achieve it to which we're trying to work out. Hence we're doing lean, but it's a big gap still to join the dots. So we do lean. That's one step, but you're going to look at the other obvious price points, you know, where you're pricing your product. They're the only two things really that are going to move. So all the other things are really dictated to us, aren't they? Your rent is your rent. Your power cost is your power cost. Your overheads, if you're smart you can as you grow the business, they'll drop anyway. But they don't drop enough to warrant what we're talking

about [paying NLW], so (P15).

Motivation: *That's where the problem is with the MW or NLW, you get a school leaver, a young person; and you need to show them the work ethic. Then I think you should start at something like \$10. And then after six months you say now you have done very well, kept up your appearance, you have done alright. Then you say okay \$12.50. Then after a year, you've done well, you've done all, we give you another \$5 an hour. You know what I mean. And that's how it builds up and people stay on (P14).*

I'd consider doing \$18 an hour for a flat rate. The rest is on some sort of bonus structure. Increase sales by this much, increase your spend per customer and get your average spend per customer up, you can get this, you'll get more wages, things like that. But just to give them money for just turning up, we'll get no more work out of them (P01).

Additional benefits for staff

None of the participants admitted to paying cash to employees, although there was some evidence of cash paying within the employee participant sample. One participant who was a casual worker said he was paid \$15/hr in cash for his work time. Whilst for one participant owner who claimed not to pay any cash, his employee said:

He sometimes, if we had a really good day, he would pay us cash, umm, like tips. We'd get like a \$20 bonus every now and then and stuff like that but that was a little bit under the table [laughs] (R11).

Participants were keen to discuss other benefits that they offer staff. Informal benefits they offered staff were: free or discounted company food products for themselves or their family, company dinners, movie tickets, birthday presents, finishing work early - with pay, and Friday night drinks. In general participants made efforts to socialise staff within their businesses. The social aspect of working in this sector was also borne out in staff interviews. *Yeah I think that was what it was. I mean we used to be social, work together, socialise together. Me and one of the girls even lived together [laughs] (P11);* while another staff member referred to *liking the boss and having things in common with other staff (P10).*

Formally documented benefits beyond legal requirements of MW, holiday pay and sick pay included: superannuation (as there is an opt-out clause in New Zealand's superannuation scheme), uniforms, bonus payments, Christmas gifts, four day week - three day weekend work schedules. One participant is also considering medical insurance for long term staff.

Informal (unrecorded): *It's more of a personal bonus system that we give bonuses to people we feel have been working loyally and productively and are, yeah, it's more of a token bonus system that we give cash incentives to people. Not only just cash, you know but it could be movie tickets, a night out, you know people get free food while they're on the floor. They get a birthday cake at their birthday. They get 25 percent discount off all their purchases. You know, so that's just small things that they get for working here (P16).*

Formal (recorded): *Three years ago we implemented four day weeks, three day weekends. So everyone on the floor out there is going to get a three day weekend every weekend of the year. I wished I was on it [laughs] (P15).*

IV. ENFORCEMENT AND DETERRENCE

In general participants were not familiar with any penalty regime for employers who did not comply with MW legislation, beyond what they have heard in the news media. They were, as stated earlier, aware of non-compliant firms. Again the issue of migrants operating cash

businesses, as in: *pay under the table and don't pay any tax (P08)*, and exploiting their own people was raised.

Yeah I do think we need to all have the same level playing field. But they have family working for them for very little, and my children all get at least minimum wage. I'd rather give my children a good wage so they can save money. And I think the law is there to do it (P14).

But much of their information was hearsay. *Can I give you hard, cold evidence? I can't. So I've got to be careful in replying on that one (P14).*

Participants did not believe enforcement was rigorous enough in New Zealand or that penalties were high enough to deter firms that transgress. *Useless, if someone complains, zero happens (MM.ER.01)*, and *I think we are too slow checking (P08)*.

V. RECRUITMENT AND RETENTION

Participants referred to difficulty recruiting skilled and experienced staff. *Very difficult. That's why we pay more than we can afford (P01)*. Full-time staff tended to be more stable employees, whilst part-time were being replaced on a more regular basis. The reasons for staff turnover varied, but the level of remuneration is a major contributing factor.

Good question. You would have to say it's because of money at the end of the day..... but we do an exit form on everyone. So we do get the figures and I guess if you look at that, it is mostly about money or not getting on with someone in their group. Those would be the two main reasons (P15).

Other reasons for leaving included moving from Christchurch, engaging in tertiary study,

They say 'aw this is a boring town', and they were really unhappy being in Christchurch. Since the earthquakes we are totally short on all sorts of staff (P08);

and there is a view that this sector is often a *stepping stone to somewhere else (P01)*.

They recruited from trade schools such as the local Christchurch cooking school, local high schools: *We contact Papanui or Burnside Careers teachers. Then we ask and they send somebody (P14)*, internet advertising such as 'Trade Me', and bringing in migrant labour (who were accepting of MW conditions); and less sophisticated approaches such as staff word-of-mouth, signs in the window and employing people applying at the door.

Ahh, most of it's word of mouth. We have a good reputation but generally it's [pause], the last couple have walked in off the street. One's been an old staff member who was a young person who's come back to us. Another one was a customer which we knew, but lately, it's been on Trade Me. And that's very, very expensive (P01).

For short-time replacements recruitment agencies were used, although sparingly.

I had someone go on holiday, umm, a lady that's worked with me for 15 years, she had a six week holiday overseas last year and the easiest thing for me to do for that person, was to go to a recruitment agency and pay big dollars to get a chef to fill in for her. He just sort of stepped in and I had to pay for that. The business had to pay for that but it's like \$35 an hour. You know what I mean. It's big, big money but it was only for six weeks (P16).

VI. SOURCES OF ADVICE

Membership of industry trade associations was a common source of advice, as four of the five

participants belonged to associations and found them beneficial for industrial relations and legal advice. Other forms of advice came through business mentors, family, and professionals such as accountants and lawyers. Interestingly none of the participants referred to seeking advice regarding MW legislation.

One participant had been in his industry association for 30 years and had for many years been on the executive. He said this was very useful as members talked to each other and in many cases mentored each other: *so I've got lots of advice and help from likeminded people, particularly the senior people in the association. But now it's me, I'm the senior person, so (P01)*; as well as help with legal and industrial relations issues, *we have a free service in the [trade] association for a 10 minute phone call with a solicitor. Yes, that's quite good (P01)*. Advice on compliance and administration of the MW was sourced from his payroll service provider. The others referred to industry trade associations as being beneficial regarding employment advice. One also considered their publications to be worthwhile, *you pick up on the odd thing, so that's good and so supporting the industry because we want to support the industry (P15)*. Another spoke of the benefits of industry competitions and industry surveys. One participant simply looked to his accountant for advice.

VII. EMPLOYEE: INDUSTRY PROFILE

The employee sample was from across the food sector, with two respondents working for participating firms and one participant having left employment in the food industry.

Table 4: Profile food industry staff

Employee	Years employment with current employer	Number of previous employers	Pay rate	Employer type
R02	3 years	2	\$15.75	bakery
R09	11 years	1	\$22.00	bakery
R10	1 year	3	\$15.00	manufacture/ retail
R11	5 years	1	\$15.75	manufacture/ retail
R13	4 years	3	\$21.20	distribution
R30	18 months	3	\$15:50*	bakery
* Left employment when MW was still set at \$15.25				

The length of employment varied considerably in the sample, from one year of service to eleven years. Respondents had also worked one, two or three other firms. Reasons for leaving their previous employment included a lack of development opportunities, inflexible hours, business failure, and low wages. *I ended up working two jobs, and besides my current job is more of a management role (R09)*. The respondent who had left their employment in the food industry said *I got sick of it. I'm worth more than this, so I left; and yeah the stress. Because there is a lot of stress in bakeries. Last minute orders and what-not [R30]*.

None of the respondents were currently union members. Five respondents said that they were paid through formalised payroll systems, while one was paid in cash. They all spoke of the main workplace attraction to their current employer as being flexible, being given more responsibility, learning on the job, and good staff and customer interaction. *I enjoy working with the owner who is a cool guy (R10)*. Apart from one respondent who saw their job as a *dead end job (R02)* and another who left her employment. The other four saw some opportunities for advancement in their current job: *He is building a new [outlet] and I would like to manage that (R10)*, and felt there were opportunities for personal growth.

Yeah, I've learnt more stuff in the kitchen because they have a vaster menu than the place I worked before. So that's where I kind of found my love for food and the rush of the kitchen and stuff. Umm, and gained more confidence with customer interaction and have made some good friends there as well. Which I just think helps me in general because I was quite shy, yeah (R11).

Respondents commonly said that pay rates were not discussed at work and the only knowledge they had about pay rates in the industry was previous experience or hearsay talking with friends and acquaintances. They were generally not looking to work more hours but did say that their hours and shifts were changeable, yet also flexible enough to fit their personal needs.

I'm sure if I said I wanted to cut down hours, they could. I mean I went part time for a while and they were okay with that and then I came back to full time and they found the hours for me (R11).

Respondents suggested there was no real pay 'incentive' to work harder. There were no regular reviews and they felt they had no influence on their pay-rates. Most thought that their pay-rate was similar to those across the industry, although one respondent on the MW thought the rate was poor, whilst another said. *There was no system of pay increases for anyone. It was bad overall (R30)*.

But again, as highlighted previously, the pay-rate was not the only contributing factor to working in the industry. Respondents knew what the MW rate was but did not know about the advocated NLW, saying such things as: *I don't know much about it. Aren't we one of the most expensive countries in the world to live in? (R09)*; while another guessed the NLW to be \$19.50 per hour. When asked why employers didn't pay the NLW responses were that employers would not be able to afford to do so and that it doesn't take into account different skill levels.

Affordability: Can't afford to. I mean he [the owner] was living in a caravan for a while. So if the employer can't afford to live in a house, he can't afford to pay his staff higher wages either (R11).

Skill levels: A 16 year old working part-time on a Saturday to pay \$20.20! You need to adapt pay to skills and needs of staff (R02).

None of the respondents viewed their job as a permanent career choice. But when asked why they stayed in their current employment the key reasons were the good relationships with other staff and the job meeting current needs. But one respondent did state that where they worked the MW was the norm and there was very high staff turnover.

PART TWO: HOSPITALITY SECTOR

I. BACKGROUND

The second sector we profiled was the hospitality sector, which includes owner-operated restaurants and businesses providing hospitality related services to restaurants bars and caterers; and employees from the hospitality sector (See Table 5).

Table 5: Profile of hospitality firms

Firm	Sector	Year Established	Current ownership	Employees 2017	MW Status	NLW Status
P19	Restaurant	2007	founder	9	compliant	non-adopting
P21	Distribution	1999	founder	6*	compliant	nearing NLW rate
P22	Catering/services	1992	founder	15	compliant	nearing NLW rate
P23	Restaurant	1999	founder	10-20**	compliant	non-adopting
P28	Convenience food Restaurant/ Caterer	2012	founder	25	compliant	non-adopting
* In addition, employees one commission rep ** Winter-session staff is currently 10, but increase to 20 in summer session						

The five participant firms in our sample are from a diverse range of hospitality industry pursuits; both business to business (B-B) and business to customer (B-C). The sample portrays the broad nature of the hospitality industry where participants were involved with restaurateuring (specialty fine food dining and populist burger dining), distribution, catering, and specialist services. Unlike the food sector sample which had a strong emphasis on price points, the hospitality sample of small firms has a far greater service focus. For example when a participant was asked what their business activity was, they stated:

So our main business activity is actually customer service. It's more about the customer experience. You can get a burger from anywhere but what we do at [business name], it's more the whole experience and we found that a good burger, yeah, sort of can help make somebody happy but if you give them an amazing experience, that's what really makes their day. So we sort of focus more on the customer experience, customer service. So we're sort of moving, training our staff, moving away from being about making burgers into making an experience. Amazing experience from when you walk in the door to when you get served, to when you receive your burger to, to eating your food, to walking out the door to the social media when you get home, the whole experience from start to finish (P28).

All the firms are registered companies and are still operated by their founders. Three were husband and wife owned and operated businesses: *she looks after the books pretty much and I look after the business (P23)*; and the remaining two spoke to their brothers being involved in

the business. One also referred to his daughter being employed by the firm, *Yeah, she does our import export stuff (P22)*. They do perceive family businesses as having benefits through togetherness, long term decision making, succession, and the family brand: *customers love a story (P28)*; but there are problems with always being in work mode and having difficulty separating family from business.

Well you make your own decisions. There's no board. We have a fairly formal way of making big decisions but other than that, you know we don't have to satisfy shareholders or anything else. So we make long term decisions, I think we're not trying to make the maximum dollar in any one year. We're trying to get the long term business (P22).

There is also the view there is strong family support, as one participant put it: *Oh you can cry together (P23)*

And in response to the question on disadvantages. *Ahh, well you're always at work, aren't you (laughs). So work comes up in the conversation (P22).*

II BUSINESS STRUCTURE AND PERFORMANCE

The participant firms employed full-time or part-time workers under employment contracts. Only one referred to having casual employment contracts and another to using commission based employment. One participant stated that they (husband and wife) were the only full-time staff. Employees were multi-national, where the emphasis was finding employees with the right personal characteristics for the job. One participant with an ethnic restaurant stated that he employed migrant chefs. The workforce has changed over time for all participant firms, especially with regard to growth and seasonal fluctuations.

Three of the participants view themselves as operating in markets dominated by small firms and two operating in those dominated by large firms. Four also saw themselves as specialised operators.

Well the industry is dominated by large players. But the [their specialised product] hasn't got a dominant. If there is a dominant, in fact, it's probably us. But it's so niche that it's not [attractive to larger firms], if you see what I mean (P22).

All participants said they were competing in the national market, apart from one that believed they only faced local competition. The general view was that they faced competition from both local producers and national producers and distributors, with two participants also highlighting the competition from large international firms in their sector.

All five participants believe competition is intense and commented on the need to concentrate on aspects beyond 'price point' as they could not compete purely on price. They spoke of competitive advantage, such as specialised positioning, service orientation, and unique and changing menus.

It also happened that we, together with our unique recipes we have a huge brand name as well in Canterbury. We are also recognised as one of the top 10 restaurants which also gives advantage at the moment (P19).

One participant discussed the importance of price and point of difference:

I will change things around. The biggest thing I guess though, is that you've actually got to be competitive on a monetary thing, you know. People will still vote with their pockets. And that's got nothing to do with your real costs. It's more to do with their perceived value. On a number of levels. The service, you know, the way you answer the phone, the way you

respond to your emails, the way you encourage people to come back, and make it an enjoyable experience. Let's face it. At the end of the day, people who have this discretionary income aren't there just to spend their money. It's a form of escapism. It's providing a culture, I guess. Yeah, and this is why we focused fairly heavily over the years on being a 'New Zealand Restaurant' because I don't see the point in going all Tex Mex Indo Chinese when we come into a summer and we're talking about millions of tourists coming over here. They don't want to come here for Tex Mex Pacific Rim. They want to come here for a New Zealand experience. That's the way I see it (P23).

Participants believed their industry sector on-the-whole adhered to New Zealand's minimum wage legislation, and they did not seem to know or be overly engaged around any concerns over non-compliant firms in the lower end of the hospitality sector.

Well I think they're exploitative, but I think that they lose out on; I mean if you're working on that sort of money you're going to leave as soon as you can. The most expensive thing you can have in business is somebody leaving, especially if they're good (P22).

They viewed their main current issues as: retaining and recruiting skilled staff, growing market share, maintaining positive cash-flow (especially with sessional fluctuations), and growing capacity.

I have a two year plan to enable [wife] and I to reduce what we do. But to get there, it's the ability to build more people through the strong growth we are projecting for the next two years (P21).

III. PAY DETERMINATION: MW/NLW

All pay rates were determined by the owners. This was generally based on the owners' own subjective assessment of their businesses' capability to pay, treating staff fairly, and market expectation.

Table 6: Pay rates of participant hospitality firms.

Firm	Sector	Pay rates*			
		Lowest	Highest	Estimated average	
P19	Restaurant	\$16.75	\$23.00	\$17.50	Across all staff**
P21	Distribution	\$19.00	\$26.00	\$25.00	Across all staff
P22	Caterer/services	\$22.00	\$30.00	\$25.50	Across all staff
P23	Restaurant	\$16.00	\$25.00	\$20.00	Across all staff
P28	Convenience food Restaurant / Caterer	\$18.50	\$18.50***	\$18.50	Across all staff

* At the time of this study the NZ MW was \$15.75 and the advocated NLW was \$20.20
 ** Profit share after 3 years service
 *** Plus bonuses

All pay rates started above the MW and three participant starting rates were closer to the NLW. Although there is a trainee wage rate within the New Zealand MW legislation none of these firms used this. Participants preferred to deal with staff on an individual basis, paying based on their skill level and productivity.

Whether it's kitchen or front of house, you know, we pay them what we believe they're worth and it's a negotiation between them and us. Well this is why we don't have a collective contract, you see. I mean I don't see the value in it and I think everybody's got the right to negotiate their own terms. You know, let's face it, if somebody works harder than somebody else, why wouldn't you pay them more? (P23).

Well we don't have an expectation of a maximum wage, we have an expectation of maximum productivity. So if we're making money we're prepared to share it around. It is really that simple. So the only barrier to earning is the barrier to profit (P22).

One participant did, however, have a standard rate for all employees, which was supplemented with a bonus system based on performance.

All the staff start on \$18.50. It doesn't matter about the age. And then we do bonuses for going above and beyond and genuine hard work plus also customer feedback (P28).

Participants spoke of being aware of pay rates within their industry sectors, and that it was raised that these did influence their practices in one case.

Well, based around sales people, based around market place. We are probably at the lower end of what's out there. But I think it's reasonable. Market is \$25-\$30 an hour and we are in that. I wouldn't say we are at the bottom but at the lower end of that (P21).

But most participants paid above industry norms so were not concerned with what was being paid in general and said they were reaping the benefits of happier and stable staff. Although one participant suggested other employers were not impressed by their policy.

I know everyone else here pays minimum wage and they, dislike [company name] because they know we pay more and see us as like an insult because it's an industry norm in hospitality to pay minimum wage; and if you're paying higher it's sort of like you're paying profit. But you shouldn't have to and they're just making that expectation that the other companies should. So I get a lot of other companies are really angry at me for paying more because their staff now want more, so they sort of look down upon [company name]. But I'm trying to change the industry so that it becomes the standard and everyone pays \$17, \$18, like \$19 an hour as a minimum and makes their staff feel valued. Because I know how hard their staff are working and they're worth more than minimum wage and the staff turnover at [company name] is zero. Like no one has ever left in five years. But the staff turnover rate in the other restaurants, they're seeing one person leave every fortnight. Way better for me because I don't have to train new staff because they're not leaving all the time, but if your staff are leaving it's like filling up a bucket with a hole in it. You can bring in new staff but that's only filling up the bottom (P28).

Participants also suggest that remuneration was not the only contributing factor to a stable and committed workforce.

Give them better conditions. It's not always about the money, you know. People have hobbies or even a life I guess, outside of hospitality. So in order to allow them to function as people, you've got to give them the [time]. Like I've got staff who have kids, who have to have certain days off to look after their kids and all sorts of things. So that's totally

negotiable. And why would I jeopardise it? [work relationship] You know, you don't get the best out of people by ruling (P23).

Minimum Wage

Participants were in agreement that there was a need for a MW to protect employees in general.

Good thing to protect employees because you hear all sorts of stories. Especially some of the immigrants who come here and want to live here and are taken advantage of (P21).

They did not see any significant disadvantage in having a MW, but said it was not in their thinking for their own firms. *If I can't afford to pay someone, I'll do it myself (P22)*, as it would only get them a substandard employee; *I mean if you're paying the minimum wage, you're going to get the minimum person (P23)* and that was not acceptable as they were all conscious that they needed to compete on service and product quality. Not simply price.

One participant argued that paying below the MW was a false economy.

I think they get it confused with a profit maximization, but if we looked at everyone's books I'm sure that my profits would be larger than theirs even though I'm paying staff higher. Because staff are working harder with more purpose and then it turns into customers and so it brings in more revenue. So there would be a correlation between staff wages and profit, and the two don't go hand in hand. It's sort of like an inverse, kind of like when you charge a higher price it makes it more worthwhile, so when you pay your staff more, it makes them more valuable and they work harder (P28).

The only concern they had was if the MW was increased dramatically, or a LW was introduced. As one participant stated when asked how far his pay rates were influenced by the MW:

Not at all, but say if the minimum wage went to \$18.50, then I'd have to reassess. What we're doing and I do want to pay the staff as high as I can, but still keep it sustainable. So at the moment at \$18.50 the business is still making money and we've still got enough money for the growth and all our bills and cash flow. So say if the minimum wage did go up, I'd have to reassess things (P28).

All participants kept adequate wage records and in some cases used software packages or professional payroll services.

Yes, we do it ourselves, so we use the MYBO because my business partner also came from the accounting background so she looks after this (P19).

National Living Wage

Participants had heard of the NLW movement in New Zealand, but, at the time of this study, none of them knew that the current recommended rate was \$20.20. Guesses varied from eighteen to twenty dollars. When asked if the industry could pay the NLW as a minimum rate the responses were varied. One participant already paid all staff above the NLW and was disappointed others didn't do the same.

I just can't work it out. I just, I mean there's management people in the industry who do get well paid. You know, very well paid. But everybody else seems to be just treated like they're just inferior beings of some sort (laughs). Yeah. I think, and you know Kiwis are actually quite good at the service thing. I don't get it. I haven't studied it. We're quite busy just getting on with what we do, but no I don't understand it (P22).

The remaining participants were more dubious about enforcement of a NLW. Arguments against included: the industry not being able to afford it and it would be difficult to change a legacy of low paying jobs in the industry quickly. A further argument was that a higher wage bill overall translates to employers needing to do more with less staff to survive, as raising prices is not always an option in a very competitive market.

So what you're saying to me is how do we go about paying people more money. Well, we're going to charge more. So what's the, you know, it's going to stop people from going out. It's going to stop people from spending, as much as often. So you're [expletive]. Well, it's already been killed by the, the sheer amount of competition. All of a sudden they come in and we're all paying even people without any experience 20 bucks an hour. Well either you're going to put more pressure on the current staff to perform without any extra hands, which is going to create mistakes, or you're going to go bust! (P23).

There was also concern that a NLW may be an industry deterrent to employing inexperienced youth. Two participants preferred individual negotiation as a mean to higher pay rather than legislation,:

I think it's too harsh on employees. If people can't live on what they are being offered in a job, they have got to be accountable for thinking what am I going to do to make things better (P21).

However there's one thing, do they want to be employed or do they want to be unemployed? And where do you start? What's wrong with negotiating and say look, come in at \$18 and then in six months, I mean I quite often do that on my contracts. I'll say we'll review you in three months because that's the end of your three month trial period. What's wrong with that? And if they're performing well and they do well, well there's room to negotiate (P22).

Participants were asked what would persuade them to pay all staff at least a NLW. One response was, of course, already doing so, but the others would not consider it. One business owner inferred that the industry as a whole needed to shift to up-skilling and service professionalism before wages could increase to the NLW expectation.

That's a good question. So if they just increased their wage, that wouldn't be enough. I think the staff training and experience, so the staff know why they're getting paid more and in turn, if they're doing their job better, then they can justify getting that pay. In that way the cafes and restaurants here can afford to pay, because if we just made it a rule that they have to increase their pay, they might go under because they'd lose money. So we need the sort of staff training and everything put in place so that they could pay their staff that much (P28).

Additional benefits for staff

As with the food sector, none of the participants admitted to paying cash to employees, and there was no evidence of cash paying within the employee participant sample. Yet, off the record, some participants did infer that there is a level of informal economic activity in this sector, but that they were not part of it. Participants were keen to highlight the importance of the other benefits that they offer staff. Informal benefits they offered staff included: in-house functions such as Christmas parties, helping staff with personal problems, company outings, sports activities, individual gifts, and staff recognition.

Gifts: You've got to reward staff in other ways than just what they get in their pay packet, and sometimes it's just doing something different. Or a \$150 meal voucher or something like that. Things like that we have done in the past (P21).

Staff events: *I also take them, every ski season, I take them and we do things. And every year, we close our business for 26 until 31st of December. That time I take all my staff, maybe, one year we go to Queenstown, so we do things together, have fun (P19).*

Personal help: *We're a small family business so we have lots of staff parties for a start but more importantly, any one of my staff can come to me, sit down and say, we've got a problem and we can sort of it. You know, that's anything from immigration through to their family life, through to their relationships, money, you know. All sorts of things, or if they've got kids and they need specific rostered times off to spend with their children, yeah, I totally get that (P23).*

IV. ENFORCEMENT AND DETERRENCE

The participants were not vastly informed on the penalty regime for non-compliant employees. In fact, most only knew what was reported by the news media, and were not overly concerned about unscrupulous employers.

I can't worry about that. I really can't focus on what anybody else is doing. I've really just got to focus on my own game. Like, I know for a fact that there are companies in Christchurch now that are not opening one venue or two, but three or four. They've got huge staff pools or huge responsibilities to be open in certain areas at certain times. They cannot get staff. You know, and then the staff they do have are getting flogged. So they don't last. I mean there's got to be a balance here somewhere (P23).

Two participants thought penalties for MW non-compliant employers in New Zealand were adequate, while three did not know. There was, however, concern that the government did not have enough 'staff on the ground' monitoring the industry. A key issue that arose in the discussion was that any compliance with legislation came at a large cost with additional paperwork. Therefore, creating more administrative work for compliant employers without necessarily increasing the identification and prosecution of non-compliant employers. For example, when asked if there was a greater chance of non-compliant employers being caught, a participant said: *No, I don't. We're stricter in regards to getting the bits of paper but I think the enforcement's very poor (P22).*

Participants felt these non-compliant employers were generally competing on reducing their price point and that could be a downward spiral to failure or prosecution. As another participant said when asked if employers were being caught:

Yeah, I couldn't actually comment on that. But I think just from what you see in the news, yeah, I think because Masala [Restaurant chain prosecuted for underpaying immigrant workers] was doing \$10 curries for so many years and I think competitors had wondered how they could, how they did it because I actually went there quite a lot. I'd actually go there once a month when I was in Auckland and you kind of wonder how they do that so cheap and then finally, someone cracked on to it (P28).

A constant underlying theme, as we also found with the food industry participants, was of immigrant workers being exploited by some unscrupulous employers.

I think most that are getting under the minimum wage are people that just need money and can't get anything else. Too afraid to 'dob' [report] somebody in. And I know because the viticulture workers, Papa New Guineans and guys like that, their employers recently were caught and they got 'pinged' [prosecuted] for doing it (P21).

V. RECRUITMENT AND RETENTION

Participants referred to difficulties recruiting skilled and experienced staff. As one participant said about recruiting chefs.

You know in my experience, a chef is not the guy with the greatest technical ability. It's not the person that necessarily had the most experience. The chef is the person with the ability to make money for the company. If you can't make money, there's no point. You know, ooh, I'm a chef. I've worked with Gordon Ramsay. So what? [laughs] (P23).

And sometimes even with the best effort they can get recruitment wrong. *We go through all the screening processes but I guess you sometimes just get it wrong! (P21).*

Another participant referred to the challenges of finding good frontline local staff.

I think people don't want to work. Young people, because many young people don't want to work because, one of the biggest difficulties we go through, we maybe find two, three people, okay, then a couple of weeks they work really good and then suddenly Friday night, got a phone call. They're sick but find them having a party in the city. This is one of the biggest problems we are having at the local [level] at the moment (P19).

Another issue may be that hospitality is not viewed as a true profession, as it is viewed rather as a job that meets a current need. *I mean people don't see hospitality as a profession but it is (P23).* It can also be perceived as unsociable hours, although some participants do take this into consideration

And also, hours are important. You've got to have hours where people are having a life. So we don't open public holidays and we don't open Sundays. We don't open evenings. You know we said, and we've got very strict rules about life balance, yeah. Maybe too much, so (laughs), we think in some ways (P22).

There is also the sessional aspect of the hospitality industry so staff levels fluctuate. *Still seasonal. I mean yeah, in the summer the phones just keep ringing but, you know, through that end of financial year [March] rolling probably through to Show Week [November] it's survival (P23).*

Recruitment could be through websites such a Seek and Trade Me, personal contacts (such as customers), people applying for jobs and overseas recruitment. Reasons given for staff leaving included moving from Christchurch, only looking for temporary jobs, moving to other firms, or not fitting the role; but most participants commented that they had very good staff retention. As one participant stated, it's about treating people fairly and managing 'with' them not over them.

Well, it's a tough game. Pay people for what they're worth and you'll get it back in spades. Yeah, it's not always about the money. You've just got to talk to them. And understand what their needs are and get your head around that is a pretty good start. Yeah, I know what they had for breakfast. They're not numbers, not cogs in a wheel. They're very important to us (P23).

VI. SOURCES OF ADVICE

Participants spoke of receiving advice and support from mentors, business partners, family, networks of other small business owners, and professionals such as accountants. Two participants stated that their avid reading of business books was beneficial, and one was completing an MBA. None of the participants referred to seeking advice regarding MW

legislation.

Only one of the participants was a member of any association. Three participants said that they had been members of trade associations in the past but were no-longer involved. Reasons revolved around relevance, cost and time.

Relevance: *I used to be a member of the Employers Chambers of Commerce and found them very good, but because of one of my mentors being HR based he's negated me needing to be part of that (P21).*

Cost: *No, no, but I used to be part of the, what do you call it, restaurant association. But I have opted out from that because all the cost has gone up (P19).*

Time: *No not any more. Well, you know I really need to focus on my own game. Yeah, I just found that it just took so much of my time [was former president of a trade association] that, you know, I need to put 110 percent on my own game. It's all very well being on committees and sitting around, talking about the niceties of life and what we can do for our members but [expletive] man, if I don't keep my game running, then, what's the point? And I did it for years, you know, all sorts of things but now I need to concentrate (P23).*

VII. EMPLOYEE: INDUSTRY PROFILE

The employee sample was predominantly from the low paying segment of the hospitality sector, except for the last two participants who worked for firms paying two dollars and thirty-one cents respectively above the MW. The sample consisted of young staff who generally had already worked for a significant number of different firms. In terms of this sample it was a transient workforce, which tended to confirm the participant firms' view of the low paying hospitality segment having difficulty holding on to staff.

Table 7: Profile hospitality industry staff

Employee	Years employment with current employer	Number of previous employers	Pay rate	Employer type
R04	Less than 1 year	1	\$15.75	Café/Bar
R05	1 year	4	\$10.00	Restaurant/Bar
R06	Less than 1 year	3	\$15.75	Restaurant/Bar
R07	1 year	1	\$15.75	Café
R12	3 years	3	\$17.75	Restaurant
R26	1 year	2	\$16.06	Café

None of the respondents were union members. They had left previous jobs because of the poor quality of the employment, lack of personal development, and low wages: *They paid minimum wages and expected me to do a lot (R05); and not learning enough so wanted out (R04).*

Overall respondents were looking for a quality workplace, which was professional and offered an environment in which they could learn, as the interviewee from one of the study firms said:

It was completely different into the way it was run. It's a lot more organised. There was no like cash paid tips and stuff. Like everything is done by the book. You had to sign contracts

and every time you got a pay rise, you had to sign a new contract. It was all done in order. They had an accountant. She used to come down and give meetings and stuff. It's all very, it was run like clockwork really (R07).

So when the respondents were asked what were the attractions of their current job they referred to learning, flexibility and good customer and staff interaction.

So I had a job in between that where I worked at a little café in a container and they paid me more than what [current employer] could offer me but I took the job at [current employer] because I knew it was going to be better experience.Yeah. it is a higher scale of food. They do change their menu seasonally so it is every couple of months, four menus a year, so it's just a lot more experience. The head chef had been in the UK and had worked in a vast variety of restaurants so it was just, I could learn a lot from him (R12).

Respondents work hours varied from fulltime (up to 50 hours per week) to part-time 10 hours per week. Those on MW thought that their pay-rates was similar to what was commonly seen across the industry, although they did say that they had heard of some people being paid \$17 - \$18 per hour. Respondents stated that, in general, pay rates were not discussed by permanent staff, *I don't know what anyone got paid. I just know there is a difference (R12)*; although transient or new staff did talk about poor pay rates. *One of the new staff said 'the pay is shit' (R26).*

But again pay-rate was not the only contributing factor to working in the industry. Respondents spoke of their hours being changeable and one participant said they sometimes worked 50-plus hours. All said that they were paid through formalised payroll systems.

I haven't really worked in a lot of restaurants to know but one of the other girls that works here said the pay was a little bit less. But the feel of the place and the way we're treated is a lot better than some of the other places. The atmosphere and how everyone gets along and, it is just a nice place to work (R12).

Respondents on MW suggested there was no real pay 'incentives' to work harder or to stay long term, although one interviewee said *I work hard anyway (R26)*. There were no regular reviews and they felt they had no influence on their pay-rates. The overall view of their pay was that it was 'alright' for where they were currently in their lives: *If I was flatting I would need to talk about an increase, but living at home it's okay (R05)*; but most would like to work a greater number and more consistent hours.

All respondents knew what the MW rate was but did not know about the NLW. When it was explained what the advocates for a NLW were suggesting that this should be a minimum wage, respondents felt that employers would not be able to afford to do so and that it would not be expected within current business norms.

When asked why they and other staff were staying in their current employment the key reasons were the good relationships they had amongst the staff and that the job was serving their needs in the short term at least.

PART THREE: CLOTHING SECTOR

I. BACKGROUND

The third sector we profiled was the clothing industry, which included owner-operated niche retail stores and clothing manufacturers (See Table 8).

Table 8: Profile of clothing industry firms

Firm	Sector	Year Established	Current ownership	Employees 2017	MW Status	NLW Status
P17	Specialist retailer	2006	10 years	11	compliant	non-adopting
P18	Designer/retailer	2011	founder	9	compliant	non-adopting
P24	Specialist manufacture	1987	3 years	48	compliant	non-adopting
P29	Garment manufacture	2006	5 years	12	compliant	non-adopting
P34	Garment manufacture	1977	founder	70	compliant	non-adopting

Participants are all well-established firms ranging from 6-30 years in business. Three participants are B-B manufacturers, while the others are all B-C.

All firms are registered companies that are family owned and operated.

Yes, myself and my husband own the business. I work, more or less, full-time on it. He does a lot of background work. He may spend 10-20 hours a week on it, depending on what is going on at the time, what he's needed for. He's a big part of the financial management (P17).

Yeah [daughter's name] works in it now..... Because one of our strategies on the selling of the [special purpose apparel] is that you have [specific health condition] and you must be willing to give back to the community that you sell to (P24).

They view the benefit of operating in a family business context as trust, buy-in, togetherness, compatible skills, and flexibility to deny themselves wages in difficult business periods.

It's something we are doing together as a partnership I suppose. I mean it's been good for us to have a project to work on together. Also we have different skills between us. He has always been really interested in owning a business. Because he has a background in, well, engineering really, but also studied financial planning and economics. So he has a lot more financial knowledge than me, business planning type stuff. Whereas my background is in people related sociology, social work, stuff like that. So the type of business suited me. So our different skills worked well together (P17).

The main disadvantage being working and living together all the time.

Participants all employ full-time or part-time workers under employment contracts. This industry does appear to be dominated by female workers: *Probably ninety percent female*

(P34), and participants did not suggest the employment structure had changed dramatically over time except to adapt to the firms' growth. None of the participants spoke of using non-contracted labour such as helpers. *No, everyone gets paid (P24)*. Although family did help out on occasions.

Having said that, now and again my mum would still help or something. The earthquake obviously impacted on us, and you know my mum would come and stocktake, shifting, that kind of thing (P17).

II BUSINESS STRUCTURE AND PERFORMANCE

Four of the participants were self-classified small or medium niche operators in markets dominated by large firms and viewed themselves as facing local, national and international competition. *All of the above because online sales are significant (P17)*. Another participant was a niche operator but did not like to position herself in comparison with other firms in the sector. *I'm really funny. I like to just look at us. I don't compare us to anyone else (P18)*.

Most participants believe competition is intense and copying is rife in the designer clothing industry

There's a place called [competitor's company name] here in New Zealand and it's actually owned by [owner's name] but she is probably the most disliked person I've ever met in my life because she copies everybody. Like she's banned from all our stores. And it's just, you don't do that [frown]. Umm, we really just concentrate on us (P18).

But two participants believe that they have a very small but successful niche to themselves.

P24: *Whereas we are 100% focused on [specific product for a health condition].*

Interviewer: *So, you really don't have competition in New Zealand?*

P24: *Zero [pause]. There are [specific product] companies, and they do take some of our business. But when it comes to our type of people, once they find us they are basically life customers.*

The other viewed his company as essentially the 'last man standing' in their industry.

To be honest with you we don't have a lot of competition. Nationally we don't have a lot of competition. Particularly now that we are one of the last few left. Competition is really international. We would have been, 15-20 years ago, just another what they call CMT, cut-make-trim, operator with a small number of staff. Now all of a sudden we are one of the biggest left in the country. Not because we have grown but because the industry has gone (P34).

The other participants compete more on a combination of product differentiation and service quality rather than price. Although price competitiveness cannot be totally ignored. When one participant was asked about having price points for products they said,

Yes we do. We don't feel like we have to undercut other stores but we do feel that we have to remain competitive. They [customers] come for the extra service and customer experience, not just to buy stuff. But having said that we still have to remain competitive and comparable with comparable products (P17).

Participants believed their industry sector on-the-whole adhered to or paid above the New Zealand minimum wage requirements, and that they were not competing in markets that have firms paying less than the minimum wage. In fact, the participants expressed a belief that their competitive position was based on differentiation and service and they had high expectations

of what their staff could deliver. Therefore they felt a need to compensate appropriately. For example, when one participant was asked whether they were concerned about competitors paying less than the MW, she said:

No, I don't think we are competing because of wage issues like that. I guess because for our customers the price point is not the main thing.

Regarding quality of the service delivered by staff, a participant said:

So say you walk in the door and you want some new clothes. I'm not sure if you're the average guy or not, but my husband would be the average one. He will go and just grab a white shirt because that's what he always buys. Or he might just grab the same things but he doesn't really care if it's not fitting that well. It's just a jersey. We make sure that everything they buy is right. But then we show them how to wear it, how to put it together and say, well look, you know that looks okay but try this on because you know that's going to look better. They might have blue eyes so you put them in blue. Just little things, and if you do a really good job they come back to you every time and they tell ten people. We barely advertise and, our growth rate year-to-date is 40 percent, so it's high (P18).

They viewed challenges to their competitive position as new niche retailers, staying ahead of fashion changes, and a dominant theme revolved around resourcing issues such as exposure to new clients, capacity issues of stocking the right products in the right volumes and production capacity.

“Too many clients put pressure on everything. You know, quality control, raw material which is [named basic raw material]. If we, for instance, increased our market by 20%, once they [have one of their apparel items] the expectation of them getting another one is high, and we may not be able to find enough [named basic raw material] if we had that many clients. I know that is a weird sort of statement but we wouldn't want to get too big because we would also lose our customisation of our product (P24).

III. PAY DETERMINATION: MW/NLW

All pay rates were determined by the owners themselves. This was generally based on the owner's own subjective assessment of their businesses capability to pay, treating staff fairly, and compensating staff for a high level of service delivery and skills.

All pay rates started above the MW (table 9). There is a trainee wage rate within the New Zealand MW legislation, however, none of these firms used this. Participants had a pay scale which they loosely adhered to, because they preferred some flexibility in negotiating with staff on an individual basis. Therefore pay rates could be based on affordability and employee skills and service delivery.

Affordability: It's really hard because of course they all want to be paid more but that's the thing that we have to watch the most on pricing. Because our leather is so expensive. Like the slinky skins like one of those boxes out there is \$15 000. It's huge, so we do have to watch our costs. Because then when we wholesale it, we can't price ourselves out of the market. But no one out there [in the factory] is on the minimum wage (P29).

Skills: And then there will also be people who get slightly more because they are doing a fantastic job and their skillset is increasing quicker than expectations (P24).

One participant did say they did peg base rate against changes in the MW. *Whenever the minimum wage goes up we will put everyone's base hourly rate up that same amount. We want*

to make sure we are always ahead of the minimum wage by a certain amount (P34).

Table 9: Pay rates of participant clothing industry firms.

Firm	Sector	Pay rates*			
		Lowest	Highest	Estimated average	
P17	Specialty retailer	\$17.50	\$21.50	\$20.00	Across all staff
P18	Designer/retailer	\$18.00	\$100,000 Salary	\$21.00	Across all staff
P24	Specialty manufacture	\$16.75	\$34.00	\$20-22	Across all staff
P29	Garment manufacture	16.00	\$22.00		Across all factory staff
P34	Garment manufacture	\$16.50	\$21.00	\$18.00	Across all factory staff
* At the time of this study the NZ MW was \$15.75 and the advocated NLW was \$20.20					

One participant did, however, say in the past they had an unskilled shelving position at MW. They are considering replacing the position but if the rate moved to NLW level they could not do so. All participants kept adequate wage records and had employment contracts for all staff.

Participants spoke of not being overly concerned with what was occurring with pay rates within their industry sector. In fact two had no idea what others were paying. One participant regularly reviewed aggregate wage reports from the sector, stating: *We want to be sure we are paying at least what our competitors are paying (P17)*; and others referred to hearsay evidence: *I heard that [competitor] pay their manager well but all the rest are on minimum wage (P29)*. As stated previously, the key issue these participants constantly referred to was the importance of competent staff. To achieve this, they believed that any package they could offer employees needed to be more than simply monetary compensation.

It's key, absolutely crucial for use to have really good staff. And so having said that we consider what we have offered to be a package, you know, wage plus conditions, plus environment, other things. We provide flexibility, all those things in the workplace (P17).

Minimum Wage

With regard to MW legislation, the current rate of \$15.75 does not reflect the minimum they pay, as they are all above this rate. There were suggestions that MW legislation can be heavily influenced by political shifts in government's social philosophy, rather than being linked to increased productivity. One respondent lamented that any large reactive change to pay rates is just another cost to business, from which they will survive or not.

So you have businesses that go out of business and new ones starting up who do things differently, and things will go on. But there can be a lot of pain in the process having said that (P17).

Participants were in agreement that there was a need for a MW as not all employers were fair and equitable.

Yeah it's a funny one. In general my thoughts are probably that there needs to be a minimum wage. Because the way things are not all employers are fair and standards are really important. So yeah I think it probably does need to be there (P29).

Two respondents did say that a MW was acceptable, but were concerned that a NLW rate would push up inflation, and negatively impact on business and employment. Another felt that the MW was a fair wage for unskilled young people coming directly out of school; although one respondent did confess, *I understand that as you get older it's harder to live on!* (P18).

Overall they viewed the positive aspects of a MW as reducing exploitation, and giving opportunities to the unemployed, young and unskilled. They saw no downside to the current MW and one respondent went as far as saying that if a business could not afford to pay MW then *you obviously aren't ready to go to that next level of employing people* (P24).

National Living Wage

Participants were generally aware of the NLW movement in New Zealand, but only one knew what the current recommended rate is. *Yes, \$20.20. I googled when I arranged to meet you [laugh]* (P17).

None of the participants were currently paying the NLW as a minimum rate. They all believed that although higher wages may increase the status of the industry sector, they could not absorb such an upward shift in minimum pay rates. This being especially concerning for local clothing manufacturers. Already this industry has moved the bulk of clothing production off-shore to mass-production countries such as China and Bangladesh. Participants inferred that the small niche and designer manufacturers currently still surviving in New Zealand would close down or go the same way in out-sourcing internationally; thus reducing employment and consumer choice. For example when asked about the affordability of introducing a NLW, one participant said

No, no. It's going to be at the detriment of [local manufacturing], and then people won't have jobs and won't understand because they've [Government] tried to make it better for everybody (P29).

Another said of local employment under a NLW, *I think you would find that an employer would be very, very cautious, especially with the employment laws the way they are. Very, very cautious of taking people on. So therefore you would see less jobs available in certain areas. That unskilled labour* (P24).

Those that could survive such a significant change in minimum pay rates would need to operate different business models, which may not benefit all.

Our shop as a retail shop, compared to other retail stores, we have a high wage model. Now we get one [staff member] per customer, you know, the model we use is very high in staff. So we may be forced to change the way we did things. We would be forced to look at things differently, and you see, at the moment we like the way we do things. And actually I think our staff like the way we do things too. Our staff really like working for us and we value what they do, they are valued by customers, as well as job satisfaction in fitting people personally as well (P17).

Another concern of participants was that the flexibility to reward staff could be undermined by a higher minimum rate. One participant stated that the average length of service in their factory was 10-15 years. He felt that currently he had the ability to reward staff with pay increases

related to their work-skills development and long service. *But if the starting rate is too high you just can't do it. You have no working room to help staff feel good about their job (P24).*

A further complication from any introduction of a NLW, is that if these companies were not in a position to increase pay-rates 'across the board', resentment may also surface. *Those people who are experienced are sort of saying hey, I'm only earning two or three dollars more than this person [with no experience]. That's not fair either, is that? (P18).*

Additional benefits for staff

Again, as within the food and hospitality sectors, none of the participants acknowledged any cash payment practices, and there was no evidence of cash being paid within the employee participant sample. When asked, participants highlighted the importance of the other benefits. One prominent benefit, which was also consistently referred to by the employee sample, was the free and/or discounted clothing that they offered their staff. As one retail clothing employee said: *And also the discount [laugh]. Generally like 60-70% off. My family loves it as well (R27).* While another who received free clothing said: *So we can be brand ambassadors (R31).*

Other benefits include: training, social events, gifts, flexibility in work hours and employee involvement.

Events: We maybe go out four times a year – drinks and nibbles, as businesses do. Sometimes it's based on sales targets, if we reach our target. But we try to make it in a month where we think it is achievable. Sometimes we go out anyway (P17).

Employee involvement: Whenever I'm trying our samples out, I always go out and show the girls what we're doing because sometimes they're sewing them up and they're like, I just don't understand what this is. So I'll go and put the sweatshirt on together and, and style it all up how we're going to sell it and like, ohh, yeah. So we do try and involve them in that (P29).

IV. ENFORCEMENT AND DETERRENCE

The participants were not vastly informed on the penalty regime for non-compliant employees.

No, I don't think I was aware that there are penalties. But yeah okay, I guess it sounds logical otherwise there is no incentive to do the right thing [laugh] (P24).

Therefore they did not have strong opinions about any regime, but the manufacturers did raise concerns about competing with countries operating low wage economies.

There was, however, concern that the government did not have enough 'people on the ground' monitoring the industry. As one participant said of the likelihood of non-compliant employers being caught:

I guess it must be quite low, because typically in New Zealand you never have enough resources to find these people. And the ones that you do find, if it is happening, probably there are 20 or 30 underneath that in the smaller area that you would never know about (P24).

Another key issue that arose in the discussion was that any compliance with legislation came at a large cost in time and money to these compliant firms. For example, two participants who viewed referred to the employment legislative frameworks as being cumbersome and costly to administer, also said:

I would say that's why most of the manufacturing, [Renowned New Zealand designer] and

everybody went off-shore. But yeah, I just think it's hard on owner operators (P29).

So if we go down the compliance road, there's ah health and safety, there's filling out forms for the Government, doing Government surveys, etc., etc., etc. Where am I going to get some cost savings? I know, I'll put it on the workers and pay them less an hour. This is what happens (P24).

V. RECRUITMENT AND RETENTION

Participants did not indicate that they had major problems with staff turnover or recruiting when needed. Although participants did suggest that filling specialist skilled roles could be challenging. Those in clothing retail said that their industry as a whole had high turnover, but this was less problematic for them. They said getting the right balance of staff to fill all shifts and meet specialist customer needs was not always easy.

We can't have everyone doing mornings. So we have two staff with children at school which means they only want to do morning shifts. So that's okay but we can't employ anyone else that can only do morning shifts. So sometimes getting the right balance, and age balance. We sometimes have a little bit of trouble finding older, more mature [staff]. We do want balance. Finding someone that is good and earns well and uses computers competently and yet is over say 55 you know (P17).

Overall participants believed that paying above MW had a positive effect on recruitment. For example one participant said, *our rate is better than they might get elsewhere and I'm sure that does influence things*. But it was also important to be seen as offering a positive, friendly environment, and personal development opportunities.

But when probed as to whether she thought staff were attracted by the job or money an owner said:

I think it is the job, but I'm sure it would be [the money] if we would just be paying the MW. One of our staff said she had heard around that we were good employers, we were good to work for. So that's interesting that she had heard that, I don't know quite how or whatever. So yeah, [pause] I'm sure it does help that we pay more than minimum wage (P17).

Recruitment occurred through word-of-mouth, online advertising, people proactively walking off the street, and in one case, through government employment agencies.

Reasons given for staff leaving included moving away from Christchurch, and in the case of employing students there was an expectation they would 'move on' once study was completed.

For example when a respondent who was a university student and a part-time employee was asked how long they intended to stay with their employer, they said:

Well I don't know what's happening at the end of this year. I'm graduating at the end of this year, which is exciting. So hopefully not much longer. Get to December, January and hopefully find another job, that kind of thing (R27).

Overall participants did not find recruitment or retention to be a daunting prospect. But again, as stated in one of the previous hospitality case studies, sometimes in recruiting for a good fit with the organisation, they just 'get it wrong!'

VI. SOURCES OF ADVICE

Participants spoke of receiving advice and support from family members and professionals such as accountants. One participant stated that being an avid reader of business books was helpful. None of the participants indicated that they sought advice around the MW legislation. Three participants said they were members of the Employers Chamber of Commerce, but had no other affiliations. As one participant said about their specialist market and whether to belong to any industry association: *No [phase], they don't understand our type of business so it doesn't work!* (R24).

VII. EMPLOYEE: INDUSTRY PROFILE

The employees' sample was predominantly from the low paying mass-market retail segment of the clothing sector, except for one participant who worked for a participating designer retail firm. The sample consisted of predominantly young staff who had already worked for a significant number of different firms. The sample also encompassed a workforce with variable lengths of service, in an industry sector that is renowned for high staff turnover.

Table 10: Profile clothing industry staff

Employee	Years employment with current employer	Number of previous employers	Pay rate	Employer type
R03	3 years	None	\$18.00*	Clothing retailer
R20	4 years	1	\$16.75**	Clothing retailer
R25	1 year	2	\$15.75	Clothing retailer
R27	5 years	4	\$17:36	Clothing retailer
R31	Under 6 months	3	\$16.20	Clothing retailer
R32	1 year	4	\$16.00	Speciality retailer
R33	10 years	None	\$20.95***	Department store
Quotes * <i>"I started my first year at \$16:30 and then in 3 years it rose to \$18:00."</i> ** <i>"It's just gone up, so it's \$16.75 but I was on \$15.75 up until about a month ago."</i> *** <i>"It's just gone up. Thanks to the union."</i>				

Respondents gained employment in the clothing retail sector through various means, including social networks, cold-calling, applying to online advertisements, and in one case a progression from working after school to a permanent position. They did not refer to having many alternative job options at the time of taking up their current role. Three had moved from other clothing retailers and two had at the time just arrived in Christchurch. Only one respondent was

a union member and only one other had multiple jobs.

They had left previous jobs because of the poor quality of the employment, and moved for a better work environment as opposed to better pay rates.

Um, it's a lot better. In terms of they treat staff better, but I think that comes with being a New Zealand company rather than being an Australian company. There are little issues but I think it comes with retail, because it's the same issues [low wages] (R20).

This was confirmed when respondents were asked what the major attractions for working for their current employers were. They said access to free or heavily discounted clothing and the social aspect of engaging with staff and customers. As one respondent said: *I definitely don't do it for the pay! (R32)*. They all believed there were opportunities for continued advancement in these companies, but for most of the respondents this was not a consideration.

I've had opportunities to move up which I have done. But at the moment I'm sort of just sticking to where I'm am, which is noted as a supervisor role. I get paid that rate for everything I do. But yeah I don't want to advance anymore. I've got four children, so I can't really commit to any sort of management type roles at the moment (R33).

Not for me, but they do offer, you know, 2IC role kind of thing, or a couple of workmates have gone to the IT aspect of it. But for me it's just a job while I'm at uni (R27).

Respondents work hours varied from up to 44 hours per week (full-time) to 8 hours per week (part-time). They were all paid through formal payroll systems, with pay slips delivered on paper, via email or through a company app. In discussions with the respondents there was no obvious consternation with their respective pay rate.

R31: *It's a bit higher. Retail usually pays minimum wage.*

Interviewer: *How do you know?*

R31: *I always ask at interviews what the starting rate is. It's normally minimum wage but increases as you go higher in the company.*

But there was talk of pay disparities and the poor rates of pay in the clothing industry in general.

I don't know. Not high, I know that. [Respondent's company] is known to not pay a lot. But obviously I was on \$15.75 and I had to fight to get to \$16.75. Hey I think when it comes to [clothing] retail if you stay in the same place for a long time you get a lot more. I know that one of my [pause], the manager who has been with the company for 30 odd years is on upwards of 90 [thousand dollars/year], whereas a lady who is in the same position but has only been with the company for 10 years is on far less than that. So I don't know if that is fair (R20).

Four of the seven respondents said there were individual or storewide bonus payments for meeting targets, which were incentives to work harder. *Every sale over \$400 you get 10% as an incentive, but it caps at a \$100 bonus per month. If the store meets budget we all get 1% of sales (R32)*. But no pay incentives to stay with their firm. One respondent did infer that bonus targets were becoming harder to achieve.

Often there are targets the store has to make. But you know it's almost like they are making it harder and harder for us to achieve those. Ten years ago you got bonuses at least once a year but the incentives are not really giving us any of that any more. It just seems like they are making it harder and harder (R33)

There were mixed responses to the level of satisfaction with their pay rates and reference was made again to the poor pay rate in the retail industry as a whole. *For what I do I think it's fine.*

*I meant obviously I'd always want more but realistically like everyone in this retail sector it's just how it is (R33); Yes, quite happy, they treat staff well (R03); and another example, I mean it could be better [chuckle]. If I was on like a good \$17.25 I would be happy, for what I do. But I'm definitely not paid enough for what I do (R20). When asked the obvious, would they like a pay increase respondent R25 echoed other responses with *who wouldn't?**

Respondents thought that pay rates had not kept up with the cost of living and that there was a large disparity between front line staff on minimum wage and salaries paid to managers in many clothing retail chains. But overall there was no pattern or insistence of how and what employees were paid in the sample. Respondents stated that, in general, they are not allowed to talk about pay rates with each other, but in reality there is a level of discussion between staff.

We are not allowed to talk about our pay rates amongst our staff. But people do on the 'down low' [privately]. But certainly being in the union, that's talked about quite openly and sometimes talking around the table in our meetings (R33).

We are not supposed to [chuckle] but there are three other [supervisors] and we are all on the same. We used that [discussing pay rates] to get the same. (R20).

They do not feel they have a great deal of individual or collective power to improve pay rates

Because of the turnover of staff you don't get a real togetherness, so never get that solid group that would push for higher wages; which plays into the employer's hand, and besides, retail staff are seen as easily replaceable (R32).

But, as mentioned previously, pay rates were not the only contributing factor to working in clothing retail. Perks such as friendly environment, customer interaction, and quality workplace also played an important role

All respondents knew what the MW rate was but six did not know the NLW rate: *I know about it, but I don't know what it is (R20)*. When asked why they thought their employee didn't pay the NLW responses revolved around and fact that their employers were paying better than others, to the fact that their employers were profit driven, people are easily replaceable in retail, variances in pay rates should reflect levels of responsibility.

From an economic point of view it's an interesting question. Increase wages you increase prices. I agree with adjusting wages with inflation or above inflation. But living wage is too much and could cause other consequences. \$20.20 as the minimum is interesting but might be better at something like \$15.75 and move up. Your pay should reflect what you contribute (R32).

Participant said they were in no rush to leave their current employment but all except one respondent did not see their position as a step forward to any permanent career.

Well, I've recently been thinking about going back to study. I mean it's just my family at the moment means I'm doing what I'm doing. You know the hours are okay, and as I said before, if I look at changing jobs which would probably be in the same sort of area, without qualifications I'm sort of going to have to start at the bottom again. The company is quite supportive of study and working but I haven't looked too much into that yet. I've got such a young family still, so that might be a few years away (R33).

5. DISCUSSION

New Zealand has a small open economy, which since the 1980s, has operated on free market principles. It has sizable manufacturing and service industries complementing a highly efficient export-oriented agricultural segment (NZ Treasury, 2012; p. 9). The proportion of the labour force employed in services and manufacturing is 59.6% and 10.4% respectively and contributes to the national economy in accounting for 59% and 13% of GDP (MBIE, 2014; p. 44).

Food

The food manufacturing sector produces high-quality products for both the domestic and export market. This sector enjoys the advantages of a natural environment that is highly conducive to pastoral agriculture, an absence of major agricultural diseases, the potential for year-round production and an international reputation for excellence. The sector had sales of over \$40.2 billion in 2011, including more than \$27 billion for meat and dairy products (NZ Treasury, 2012; p. 21). Currently under the government classification of ‘food & beverage manufacture’ this sector contributes 4.5% of GDP (MBIE, 2014; p. 32). It also employs the highest level of workers without qualifications at 39% (Castalia, 2014; p. 8) whilst contributing 3.5% of total New Zealand employment (MBIE, 2014; p. 44). Evidence from small business owners and sector employees creates a picture of an industry dictated by large producers including those that traverse manufacturing, distribution and retail. None-the-less there are resilient and long standing small business sub-sectors within food manufacture/retail; such as localised and wholesale bakeries. These sub-sectors are notable contributors to the employment and productivity delivered by the small business community as a whole, but are driven by fierce price-based positioning in a very competitive environment.

Hospitality

Services make up a large proportion of the New Zealand economy and the sector recorded strong growth between 2000 and 2007, with annual growth averaging 3.8%. As the New Zealand economy entered recession in 2008, services grew slowed, but not to the same extent of other sectors. Within services, tourism and the hospitality industry that drives it, is one of the largest single sources of foreign-exchange revenue and a major growth industry in New Zealand (NZ Treasury, 2012; p. 24). Although there are some double counts in the reporting, accommodation & restaurants accounts for 2.4% and tourism 3.8% of GDP (MBIE, 2014; p. 32) and employs 6.6% and 4.7% of the country’s workforce respectively. Evidence from the sectors’ small business owners and employees is of an industry with a predominantly low paid and transient workforce. Of note is that a subsector of small business owners operate successfully in restaurants, bars and support service for the hospitality industry. These small businesses seek to compete on competitive pricing strategies, or by offering service differentiation whilst retaining comparative pricing with corporate hospitality providers.

Clothing

The clothing manufacturing industry has been reduced into a very small sector since New Zealand’s transition to a free market economy in the 1980s and 1990s. Indeed the mass-manufacture of clothing for the New Zealand market is now almost exclusively outsourced to low wage economies such as Fiji, Bangladesh and China. Furthermore, clothing retail in New Zealand is now dominated by national and global franchises and corporate chain stores. Therefore only a tiny sub-sector of ‘niche’ garment manufacturers or retailers have emerged as long term survivors. Government reports have grouped clothing in the ‘other manufacturing’ classification which only constitutes 1.6% of GDP and ‘retail trade’ which encompasses

clothing is 5% of GDP (MBIE, 2014; p. 32). These sectors employ 1.8% and 9.4% of the New Zealand workforce respectively. Evidence from the small business owners and sector employees points to a sub-sector which sets clear demarcation between small business niche operators and mass manufacture and retail. They concur that a very small group of owner-operator garment manufacturers, designers and retailers operate in highly specialised niche markets; whilst the bulk of the clothing industry is dominated by national and multinational retailers and imported product. These operators, although conscious of not pricing themselves out of their markets, compete through differentiation and servicing specialised markets.

Minimum Wage Legislation

Owner-operator participants all stated that they paid the minimum wage or above, and this was confirmed by employees in the sectors. Within our sample of small businesses, food manufacture was competing predominantly on price, and overall paid the lowest minimum and maximum wages. Hospitality and clothing prominently were competing through differentiation and servicing niche markets, and their minimum pay rates were above the legislated MW.

There is no doubt participant owner-operators believed higher quality staff could be attracted if their sectors paid more. But they argued that simply raising the minimum rate does not automatically improve the service level or productivity delivered by staff. In their views, there need to be financial incentives to deliver quality and be productive in their work. Therefore the base minimum rate must allow for a rising scale of pay rates which the sectors can afford.

Interviewed employees who were paid at or just above the MW in these sectors tended to see their job as a stop-gap to simply earn money for the present, rather than as a career option. Even employers admitted staff quality and commitment was a problem when paying at the MW end of pay scales. As one employer said of increased minimum rates in the clothing retail industry:

I suppose it is the status of the occupation as a whole will increase because the wages are increased, then it might be easier to find committed quality staff in retail as a career. Rather than just something I do to earn some money (P17).

Consistently, all employees spoke of wanting to be paid more, but also often being comfortable with a minimum rate for unskilled staff. They did raise concerns that individual pay rates do not necessarily reflect what they or their co-workers contribute with.

I have heard that the difference between say myself as a supervisor to the next step up would be like a team leader. And I believe they are on a salary, we are on a fortnightly pay. I don't believe they get much more and they are expected to do huge amounts of extra work and time that they don't get and obviously a lot of extra stuff. And for them the next jump is your store manager on quite good wages yeah or salary yeah (R33).

Retail employers referred to significant wage differentials between middle and senior managers and floor staff. It is also important to remember employees do not only just work for money, there are other aspects at play, such as the social context of work, advancement, flexibility, perks and in some cases, in low paid hospitality, their jobs simply met a current need.

In regard to compliance to MW within sectors, the clothing participants who employed niche or differentiation strategies, were not concerned or for that matter aware of non-compliant businesses. Participants from the food and hospitality sectors, which are very price sensitive businesses, were concerned that non-compliant firms exploited vulnerable elements of the labour force. They stated their concerns about the exploitation of immigrant workers by the food and hospitality sectors as a whole, but also specifically referenced examples of exploitation of immigrant works within their own ethnic communities.

I know for a fact the latest trick at the moment is they make their staff shareholders, and pay them a dividend instead of wages and there's no law on dividend and that's how some of them are getting [around paying less than MW] (P01).

In this debate on MW compliance, a key discussion surfaced with owner-operators' concerns that government policy came with a cost to business. They believed that existing practice created additional administrative work and cost for compliant employers, without necessarily increasing the identification and penalising of non-compliant employers. As one participant argued, increased compliance costs could be counter-productive to improving wage rates.

So if we go down the compliance road, there's ah health and safety, there's filling out forms for the Government, doing Government surveys, etc., etc., etc. Where am I going to get some cost savings? I know, I'll put it on the workers and pay them less an hour. This is what happens (P24).

National Living Wage

Although participants across all three sectors were very supportive of paying their staff a wage what would give them a better quality of life, there was concern that their sectors could not support such a proposition as a NLW. When a specialist clothing retailer was asked they said:

I think retail is a hard industry to make profit in actually. Certainly one of the reasons. Also staff are often not at a level of education or background required to work in retail. Possibly some people do have to have a qualification, maybe a lot of retail shops they are not considered a high status occupation necessarily. And maybe some employers don't consider terribly much on what their staff are like or what type of service they offer customers (P.17).

In discussing how to attain a NLW in these sectors, participants believed there would need to be a significant cultural shift in New Zealand, in terms of:

- (1) Customers supporting a service oriented value proposition ahead of a price driven expectation.

So there is a lot we can do [explained service offering], but it's hard to convince a customer that it is worthy of a higher price (P34).

I'd like to pay more. You know, all this talk about living wage, I mean that would be a perfect scenario for us, but it would have to have a flow on effect to the customer, unfortunately and are those customers, are they going to come in and buy something [at higher prices]? (P16).

- (2) Employer investment in productively efficiencies – with a subsequent reduction in employment.

Can't pay NLW. It's gut wrenching really and it just makes you question your sustainability of the business long term. So that's where we are internally looking at ourselves and saying, right, how do we make this business sustainable based on the expectations of everyone? Expectations of customers, expectations of our staff (P15).

- (3) A concerted national effort to grow an educated labour force with work ready skillsets.

So if they just increased their wage, that wouldn't be enough. I think it's staff training and experience, so the staff know why they're getting paid more and in turn, if they're doing their job better then they can justify getting that pay (P28).

- (4) Government policy and practice that supports a high wage economy across all sectors, such as supporting local business and incentivising industry training.

Government contracts: *Our main customer by far, which we sell the most to, is the [Government Agency] and the supply contract is up for renewal next year. I'm thinking seriously about putting two prices to them. One based on our current wage rate, another based on a minimum living wage rate, and saying here government you make a decision. You tell me what you think. If you are willing to pay that I'm very happy to pay staff [NLW]. But if you are not willing to pay that there is no way I can pay my staff [NLW] and stay in business (P34).*

Apprentices: *No we would rather have a qualified person who can do the work, and you expect more from those people, so it just goes smoother. You know they [trainees] make a mistake and say but I'm still learning, but then you just can't afford them making mistakes. But it is very hard because I look back 10 years ago we had three apprentices. Now we don't have any anymore because it would have cost us a lot to train them (P14).*

In New Zealand there is evidence of local the national government moving employees to a NLW minimum and some employers in high value industry sectors moving to NLW minimums. Although the support for NLW in New Zealand is gaining momentum, a blanket approach implementation across all sectors is complicated by mitigating factors.

And for me, you know when you look at the city council, well that's all very fine and dandy. You can pay them a living wage and let's just put it up every time the living wage goes up, but that just means that they'll put their fees up. You know that's fine. They can do that and get away with it. We can't get away with it (P16).

The dilemma that these low wage sectors are facing is that a large proportion of the people employed are transient, or transitional, or low skilled.

- (1) Transient in that employment is considered to be a short-term and variable necessity whilst pursuing lifestyle and sporting activities etc.

As one participant said of employing transient staff. Three weeks later they say, it's nice to go to Queenstown [ski resort] because the snow is coming (P08).

- (2) Transitional in that employment may be stable but only a short to medium term money generator whilst the employee is involved with study or awaiting other opportunities more akin to their skills.

Well I don't know what's happening at the end of this year. I'm graduating at the end of this year, which is exciting. So hopefully not much longer. Get to December, January and hopefully find another job, that kind of thing (R27).

- (3) Low skilled are the employees with little or no previous work experience and no relevant educational or industry qualifications.

So I found my love for food there. I gained more confidence with customer interaction and made some good friends there as well. Which I just think helped me in general because I was quite shy, yeah (R11).

Therefore jobs in these sectors, although low paying, may be considered a means by which the unskilled person can gain those initial work skills or upskill on existing capabilities. But also give them that needed initial earning power, or additional money to students as they navigate the opportunity and real costs of study, and some form of necessary income for transient people.

This is not to say employers wished to exploit these people for personal gain; and in fact most of the owner-operator participants pay above the current MW. Indeed our experience was that the participants were not openly wealthy people. In all our face-to-face interview at company premises we did not see any evidence of opulence and excessive lifestyle. No luxury cars in

the carpark and offices were modest and functional. As a clothing manufacturer said:

Most of us are really focused on staying afloat, getting by each month. You have those months that are a struggle and those months when you finally make a step ahead. But unfortunately for most of us the struggle months seem to be more common than the other ones [chuckle], so! (P34).

An employee observed of a café owner paying MW as his starting pay rate:

I mean he didn't even have a house. He had a caravan and was living in a caravan for a while. So if the employer can't afford to live in a house, he can't afford to pay his staff high wages either (R11).

Furthermore, participants agreed that setting a higher minimum wage at the advocated NLW, would not destroy their sector, as *business goes on (P17)*. But it may cause some casualties as the sectors' employment levels contract through the employment of different, less labour intensive, business models needed to survive. They suggest these new business models would strive to reduce costs through higher productivity and reduced staffing levels (as a major cost centre); and could preclude or at best reduce their willingness to employ unskilled, transient or transitional staff, whilst at the same time aggravating an already existing problem of a shortage of highly skilled staff in these sectors. Therefore a fundamental change in the structure of New Zealand's labour to a highly skilled workforce is needed as one of the essential building blocks for higher productivity and a NLW as a minimum rate.

Motivation and Wage Inflation

Another concern raised by many participants was staff motivation. Although employers did offer other incentive such as bonuses, gifts and social activities as part of a full employment package, they were conscious that pay rates were the driving motivation factor. They were also conscious that staff talked to each other about pay rates. One participant stated that the average length of service in their factory was 10-15 years. His current approach was to reward staff pay increases relative to their skill development and long service. *But if the starting rate is too high you just can't do it. You have no working room to help staff feel good about their job (P24)*. If these companies are not in a position to increase pay-rates 'across the board' resentment may also surface.

All of a sudden you get the young person going up to \$16 an hour or whatever it is, so the other person who's on \$18 an hour, it deflates their value and all of sudden they come back to us saying: well they're more than me and I'm way more expensive, so I need more money. Yes, they do, but it means our budget is blown right out of the water (P01).

On the other hand if they moved rates up 'across the board' from a base minimum of a NLW, this would ensure there was still the flexibility to reward performance. But most participants were concerned that there would be wage inflation which small businesses could not absorb and, in the absence of any significant productivity gains, that may well price them out of their markets.

6. CONCLUSION

Overall there is a strong appetite among small business owners in this study to give employees a worthy workplace experience and a base pay rate that offers them a good quality of life. However, what that base rate should be and whether a NLW is sustainable is open to much

debate. Within these low wage sectors there are many historical barriers that need to be worked through before raising the minimum pay rates. A transition to, rather than an imposition of any NLW may be the only scenario that small business owners could accept and still sustain viable sub-sectors within food, clothing and hospitality.

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