

Earnings Heterogeneity and Job Matching – Evidence from Linked Employer-Employee Data

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Abstract

This article uses data from Statistics New Zealand's Linked Employer-Employee Data (LEED) over the six year period April 1999-March 2005 in order to derive and analyse estimates of two-way worker and firm fixed effects components of job earnings rates. The fixed effects estimates reflect the portable earnings premium that each worker receives in whichever firm they work for, and the time-invariant premium that each firm pays to all the workers it employs. We focus on three issues. First, how much of the variation in job earnings rates is attributable to observable worker demographic factors (age and gender), unobserved worker effects and unobserved firm effects? Second, how much compositional change occurred during this period of substantial employment growth? Third, what is the aggregate pattern of sorting of workers and firms across jobs?

Introduction

Workers' earnings rates may vary because of systematic differences across workers and/or differences across the firms they work for. Disentangling the sources of variation in earnings is important for understanding in several areas, including earnings inequality, productivity differences across firms, the impacts of alternative remuneration policies, etc. In addition, if there are complementarities between workers and firms, then we would expect high-earning workers to be concentrated in high-paying firms. Assessing the relative importance of alternative sources of variation in job earnings, as well as the strength of the matching, requires the simultaneous estimation of unobserved worker and firm effects from longitudinal job-level data that allow workers and firms to be linked (Abowd and Kramarz, 1999).

Using Statistics New Zealand's Linked Employer-Employee Data (LEED) over the period 1999–2005, this article addresses these two sets of issues for the first time in New Zealand. In particular, the primary objective of the article is to estimate the regression-adjusted joint (two-way) worker and firm fixed effects associated with the full-time equivalent (FTE) annualised job earnings rate, controlling for worker observed (age and sex) demographic differences. We first document the cross-sectional variation in job-

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earnings rates over the sample, and then consider various econometric identification and estimation issues associated with estimating the worker and firm effects of interest.

Our second objective is to describe and analyse the patterns of interaction between these estimated components of the job earnings rate. In this analysis we focus on three broad issues: the degree of worker and firm earnings heterogeneity, compositional changes over the period, and the strength of assortative matching of workers and firms across jobs. In doing so, we first document the degree to which earnings variability across jobs reflects differences in workers' observed demographics, versus unobserved systematic worker effects, firm effects and/or idiosyncratic worker-firm job effects? Second, we describe the effects of compositional change over a period of strong employment growth, by focusing on changes in mean firm and person effects. Third, we document the degree of assortative matching between workers and firms, both across the full population and within various subgroups. Our main focus here is on the extent to which high-earning workers work for high-paying firms. A positive correlation between worker and firm effects can arise if there are sufficient complementarities in production.¹

The article is organised as follows. In the next section we provide a brief overview of the LEED and a discussion of the derivation of the variables we use in the analysis. In the following section, we outline the econometric framework adopted, and discuss various identification and estimation issues encountered. We then discuss key results on the questions of heterogeneity, matching, and compositional change, before concluding with a summary discussion and suggestions of future research directions.

Data

As stated earlier, the data used in this study was from Statistics New Zealand's Linked Employer-Employee Data (LEED), which uses information from tax and statistical sources to construct a record of paid jobs. Since April 1999, all employers in New Zealand are required to file a monthly record with Inland Revenue (IRD) called an Employer Monthly Schedule (EMS), which lists all paid employees at that firm during the month, the earnings they received and the amount of tax that was deducted at source. Two types of recipients are covered by EMS: those who have Pay-As-You-Earn (PAYE) tax deducted, who are employees; and those who pay withholding tax, who are a subset of the self-employed. Because the selection and coverage of which self-employed workers have tax withheld is unknown, we use only information on PAYE-deducted (employee) jobs.² We use all the available data on PAYE employee jobs in New Zealand during the six March-years from April 1999 to March 2005.

Firms (employers) and workers (employees) are identified by unique confidentialised identifiers based on their respective IRD tax numbers. For workers, this represents a single identifier over time, enabling workers to be tracked longitudinally and across the firms that they work for. Employers are identified as the administrative unit to which the EMS return relates, which may change for legal and/or other administrative reasons

without any change in the economic structure of the ‘firm’. We use a version of the LEED that has allocated EMS returns to geographic units, identified by a unique identifier (the Permanent Business Number, PBN) in Statistics New Zealand’s Longitudinal Business Frame (LBF) (Seyb, 2003), and adopt such geographic units as our concept of firms.

Conceptually, the LEED covers the universe of PAYE employment relationships and earnings in New Zealand over the period. In addition, there is limited information on the characteristics of workers and firms: age, sex, and location of workers; and industry and location of firms. Perhaps the main weakness of the LEED for the current analysis is that the EMS returns report only monthly earnings for each employee and contains no information on hours worked. As a result, we cannot accurately distinguish hourly wages versus hours worked variation on earnings – e.g. low monthly earnings may be due to either a low hourly wage and/or low hours worked.

In order to provide a partial adjustment for the lack information regarding the number of hours, we develop an algorithm to estimate each worker’s relative employment intensity. This algorithm takes into account both the worker’s monthly LEED employment earnings and any earnings-tested income they receive from other sources; the algorithm also allocates their total employment across their (multiple) jobs. We first assume that each worker can have up to one unit of employment intensity in any month, and their employment is zero in any month that they have no LEED earnings. We next scale down a worker’s monthly employment intensity if either their total monthly earnings are less than full-time minimum wage earnings, and/or they receive any earnings-tested LEED ‘non-work payments’ income. Specifically, we estimate individual-*i*’s employment intensity in month-*m*

$$e_{im} = \min \left\{ 1, \frac{earn_{im}}{(earn_{im} + non_earn_{im})}, \frac{earn_{im}}{FT_mw_earn_{im}} \right\} \quad (1)$$

where $earn_{im}$ is *i*’s total LEED employment earnings in month-*m*, non_earn_{im} is their total (earnings-tested) non-work income in month-*m*, and $FT_mw_earn_{im}$ is the full-time minimum wage earnings level applicable to them in month-*m*. As hourly wages generally exceed both minimum wages and non-work income rates, these adjustments likely overstate the employment intensity of part-time workers and those receiving non-work payments relative to full-time workers.³

For workers with multiple jobs in a month, their total monthly employment intensity (or “effective employment”) is allocated across the jobs they held in that month in proportion to the earnings from each job, to give their effective monthly employment in those jobs. Job earnings and effective employment can be aggregated over a year, and we estimate the full-time-equivalent (FTE) annual earnings rate as the relevant annual earnings divided by estimated annual effective employment.

TABLE 1: Sample Characteristics

	Pooled Years	1999/2000	2004/05	Percentage Change
No. Worker-yr Obs	11,716,402	1,825,411	2,110,895	15.6
No. of Firm-yr Obs	1,211,202	195,039	213,760	9.6
No. Job-yr Obs	18,676,324	2,920,760	3,334,000	14.1
No. FTE Job-yr Obs	8,018,349	1,239,560	1,452,851	17.2
FTE Employment	0.782	0.781	0.784	0.5
< FT Employment	0.451	0.459	0.457	-0.4
FTE Earnings	\$44,077	\$43,680	\$45,481	4.1
Age	38.0	37.2	38.6	3.9
Female	0.462	0.462	0.461	-0.1

Note: 2,776,361 workers, 322,713 firms and 9,729,904 jobs observed Years are April-March – e.g. 2000 refers to April 1999-March 2000. All income values are in December quarter 2005 \$ values, adjusted using the Consumers Price Index (CPI).

Table 1 provides a summary of the annual data: for all years pooled; the first year (1999/2000); the last year (2004/05); and the percentage change between the first and last years. Over the six-year period, there are 18,676,300 distinct job-year observations and 8,018,300 FTE job-years associated with 9,729,900 jobs, worked by 2,776,400 workers (employees) in 322,700 firms (PBNs). On average over the six-year period, workers have 3.5 jobs (different firms), firms employ about 30 different workers, and there are 1.9 annual observations per job. In addition, there are 11,716,400 worker-year observations (on average 4.2 per worker) and 1,211,202 firm-year observations (3.8 per firm). The sample period was one of strong employment growth. The number of annual job observations, annual job FTE, number of workers and number of firms increased 14, 17, 16 and 10 percent, respectively, between the first and last years.

The focus of our analysis is on FTE-weighted statistics. The average job-year FTE employment is 0.78, and 45 percent of job-year observations involve less than full-time employment during the year. The employment weighted average age of workers was 38 years (and increased 1.4 years or 4 percent over the period), and 46 percent were female. All earnings and incomes have been adjusted using the Consumers Price Index (CPI) and expressed in constant (December quarter 2005) dollar values. Average annual FTE job earnings are \$44,077.

Statistical Model Specification and Estimation Issues

In this section we outline the statistical framework adopted to analyse the contributions to the job-level earnings rate of a limited set of observable worker characteristics, and time-invariant (unobservable) worker and firm effects. Letting i , j and t index workers, firms, and time (year), and defining job- ij as the employment relationship between worker- i and firm- j , the unit of observation for this analysis is a unique (ijt) job-year combination. We estimate log-linear additive effects models of the following form:

$$y_{ijt} = \theta_i + \psi_j + x_{ijt}\beta + \tau_t + \varepsilon_{ijt} \quad (2)$$

where y_{ijt} is the log(annual FTE earnings rate) of the job- ij in year- t , which is associated with worker- i ($i = 1, \dots, N$) employed in firm- j ($j = 1, \dots, J$); θ_i is the time-invariant effect associated with worker- i , which represents their earnings premium across the firms they work for; similarly, ψ_j is the time-invariant effect associated with firm- j , which represents the earnings premium it pays to all its workers; x_{ijt} is a vector of observable worker and firm-level characteristics that affect earnings, and β is the associated parameter vector; τ_t are time effects; and ε_{ijt} is a residual that captures idiosyncratic job-match effects, measurement errors, etc.

In the presence of worker fixed effects, time and age are perfectly collinear in a balanced panel, so these effects are not identified in equation 2. Although we have an unbalanced panel, and also measure age on an employment-weighted basis within each year, which means age is not perfectly synchronised over time, we believe the resulting identification associated with estimating equation 2 is tenuous at best. Maré and Hyslop's (2006) paper contains a discussion of preliminary results from estimating equation 2 and problems associated with these.

Because of this identification problem, we adopt a two-step estimation procedure. In the first stage, we estimate unrestricted sex-age earnings profiles for each year by regressing job FTE annual earnings rate on a full set of worker sex-age dummies, allowing the coefficients to vary by year. Then, in the second stage, we use the first-stage residuals to estimate the (unobserved) worker and firm effects by projecting the residuals onto full sets of worker, firm and time dummy variables. That is, the estimating equations are:

$$y_{ijt} = \beta_{gAt} + \varepsilon_{ijt} \quad (3)$$

where β_{gAt} is a vector of

$$\hat{\varepsilon}_{ijt} = \theta_i + \psi_j + \tau_t + u_{ijt}$$

coefficients on a full set of sex * age * year dummy variables, and $\hat{\varepsilon}_{ijt}$ is the residual from the first-stage regression. This approach identifies the combined second stage dependent variable (i.e. the combined worker, firm, and idiosyncratic job-year effects) as orthogonal to the unrestricted sex-year age profiles estimated in the first-stage. The year dummy variables in the second stage regression (τ_t) are included to control for compositional changes over the period. We use information on all employment jobs observed in the LEED, and weight each job-year observation in the estimation by its estimated FTE employment.

There are three main statistical challenges in estimating the relationships in equation 3. First, not all worker and firm effects parameters can be identified. Abowd, Creedy and Kramarz (2002) (ACK) consider the identification of worker and firm effects that arise with the simultaneous estimation of worker and firm fixed effects models such as that shown in the second line of equation 3. As with standard fixed effects models, restrictions are required in order to identify the relevant effects of interest. The first step for estimation and identification is to allocate job-year observations into distinct ‘connected’ groups of firms and workers. A ‘connected’ group contains “all the workers who ever worked for any of the firms in the group and all the firms at which any of the workers were ever employed” (ACK, p. 3). Suppose there are G distinct non-overlapping groups of connected workers and firms. Within a group g containing N_g persons and J_g firms, it is possible to identify the group mean, $N_g - 1$ worker effects and $J_g - 1$ firm effects, yielding $N_g + J_g - 1$ identified effects. Across all G groups, there are $N + J - G$ estimable effects.

Second, the estimates obtained are not unique, and an explicit identification procedure must be imposed. The non-uniqueness of estimates arises because, within each group, some arbitrary normalisation is required – e.g. omitting the group mean, one of the worker effects or one of the firm effects. Our identification strategy is to restrict the overall mean firm effect to be zero, and the mean worker effect within each group to be zero. Given these restrictions, we can identify the overall mean of the dependent variable, and $N + J - G - 1$ worker and firm fixed effects.

Third, given the large number of person and firm fixed effects parameters in the model (more than 3 million), it is not feasible to use standard direct least squares estimation, which requires inversion of a very large sparse covariate matrix. Instead, we use a weighted variant of the exact solution for estimation of this model, as described in ACK. We adopt their approach of using a preconditioned conjugate-gradient algorithm developed by Dongarra, Duff, Sorensen and Van der Vorst (1991), and implemented in Fortran for this application by ACK. We apply the ACK grouping algorithm to data on all job-years observed during the six years of our data.

Results

Aggregate Contributions to Earnings Variation Across Jobs

Based on the grouping and the two-stage estimation approach described above, Table 2 contains a summary of the main estimation results from FTE-weighted regressions of job-year observations. The first row contains the main FTE-employment weighted estimation results of job-year FTE earnings. The logarithm of the FTE annual job earnings rate has a mean of 10.54 (geometric mean of \$37,800 per year), with a standard deviation of 0.34.

By construction, the first stage residuals have zero mean. The earnings component associated with the “first stage covariates” has a standard deviation of 0.17, while the worker and firm effects have standard deviations of 0.24 and 0.10, respectively. The variability in each of these components reflects the degree of heterogeneity across workers and firms, as measured across intensity-weighted job-years. These results suggest there is greater systematic variability in job earnings within observable age-sex worker demographic subgroups than there is across the groups – i.e. the standard deviation of worker effects (0.24) exceeds the variability of earnings accounted for by the sex-age profiles (0.17).

TABLE 2: Summary of Earnings Components

	Log(Earning Rate) (y_{ijt})	First-stage Covariates (β_{z4t})	Time Effects (τ_t)	Worker Effects (θ_i)	Firm Effects (ψ_f)	Residual (u_{ijt})
1. FTE Wgtd ($R^2=0.903$)	10.54 (0.34)	10.54 (0.17)	0.00 (0.01)	0.00 (0.24)	0.00 (0.10)	0.00 (0.10)
Simple R^2	...	0.26	...	0.49	0.25	...
Marginal R^2	...	0.24	...	0.49	0.09	...

Note: Numbers in parentheses are standard deviations

Overall, the model accounts for 90.3 percent of the variation in FTE annual job earnings rates. To gauge the importance of the various components to job earnings we measure how much each contributes to the total variation in job earnings. For each component, we have calculated both the “simple R^2 ” from the regression of log (job earnings rate) on that component and also the “marginal R^2 ”, which is the increase in R -squared associated with adding that component to the model that already includes all other components. The simple R^2 s associated with the observable variation across sex, age and/or years, worker effects and firm effects, respectively, are 0.26, 0.49 and 0.25, while the marginal R^2 s of each of these is 0.24, 0.49 and 0.09. Based on these estimates, the worker effects make the largest contribution, followed by the worker demographics. Given that we do not observe education levels (and other common worker characteristics) in our data, the worker effect component absorbs the impact of human capital variation that is included as part of observable interpersonal variation in some other studies. Also, the lower contribution of the firm effects reflects, in part, the greater clustering of jobs across firms, with an average of 58 job-year observations per firm, compared with only 7 job-year observations per person. As we will see subsequently, the similarity of the simple and marginal R^2 s for the worker effects and observable effects, and the substantial drop in marginal versus simple R^2 for the firm effects, is explained by the finding that these two effects are negatively correlated, while each is positively correlated with the firm effects.

Aggregate Correlations Across Earnings Components

In Table 3, we present the (FTE-weighted) estimated correlations between the various components described in Table 2 across job-year observations. Perhaps the main result of interest in this panel is the correlation between the estimated worker and firm effects. The correlation between the weighted estimates is 0.12. This correlation is greater than the 0.08 estimated by Abowd, Kramarz and Pérez-Duarte (2003) for seven US states, and -0.03 and -0.28 for Washington state and France, respectively, estimated by ACK, suggesting possibly greater positive assortative matching of workers and firms in New Zealand.

TABLE 3: Correlation Between Earnings Components

FTE Weighted	y_{ijt}	β_{zAt}	θ_i	ψ_j
Log(Earns) (y_{ijt})	1	0.507	0.697	0.495
1st stage Obs (β_{zAt})		1	-0.088	0.202
Worker effect (θ_i)			1	0.119
Firm effect (ψ_j)				1

In addition, the table shows that the worker effects are negatively correlated with the observed sex-age profiles, suggesting that (lower earning) females and non-prime-aged workers, on average, have positive effects, and males and prime-aged workers have negative effects. Counterbalancing this effect, there is a positive correlation between firm effects and worker demographics, which suggests that higher-paying firms predominantly employ males and prime-aged workers.

Employment Composition Effects over the Period

	Log(Earnings Rate) (y_{ijt})	First-stage Covariates (β_{zAt})	Time Effects (τ_t)	Worker Effects (θ_i)	Firm Effects (ψ_j)	Corr(θ_i, ψ_j)
Full sample	10.54	10.54	0.00	0.00	0.00	0.119
1999/2000	10.52	10.52	-0.03	0.02	0.01	0.123
2000/01	10.52	10.52	-0.02	0.02	0.00	0.125
2001/02	10.53	10.53	-0.01	0.01	0.00	0.127
2002/03	10.54	10.54	0.00	-0.00	-0.00	0.125
2003/04	10.57	10.57	0.02	-0.01	-0.00	0.113
2004/05	10.58	10.58	0.03	-0.03	-0.00	0.099

Between 1999/2000 and 2004/05 there was strong growth in the number of workers and effective annual employment over the sample period (16–17 percent), and in the number of active firms (10 percent). Against this backdrop, we describe the compositional changes associated with the workforce and firms over the sample period, summarised in Table 4. The first row of Table 3 reports the means and variability of the components of earnings variation for the full sample of job-years. The following rows describe the annual composition effects for each year over the period. Average FTE annual earnings rate increased about 6 percent (0.06 log-points) over the period, and this increase is attributed to the sex-age profiles and aggregate time dummies in the first-stage regression (first-stage covariates).⁴

The estimates of the second-stage components in the subsequent columns characterise the composition changes over the period, conditional on the observed year-specific sex-age profiles. Although the first-stage regression ensures that the mean of the dependent variable in the second stage (first-stage residual, $\hat{\varepsilon}_{ijt}$) is zero for each year, the composition of workers and firms is changing, as reflected in their (average) estimated effects. Annual mean worker effects decline from 2 percent above the 6-year mean in the first year (1999/2000) to 3 percent below in the last year (2004/05). There is a smaller decline in the average of firm effects by year from about 1 percent above average in 1999/2000 to marginally less than average in 2004/05. The second-stage estimated time effects act to balance out the impact of these declining average worker and firm effects over the sample, and show an increase from -3 percent in 1999/2000 to 3 percent in 2004/05.⁵ In terms of possible compositional changes over the sample period, the correlation between worker and firm effects across jobs is roughly constant over the period, although falls somewhat over the final two years.

These results are consistent with a simple hypothesis that, during a business cycle upswing, the composition of the workforce changes as it expands, and less productive workers and firms are drawn into employment.⁶ However, it should be noted that our analysis is based on earnings and potentially confounds labour productivity with labour supply effects.

Subgroup Analyses

Table 5 documents the variation in earnings rates, worker effects, firm effects, and the correlation between worker and firm effects across various worker and firm-level dimensions.⁷

We first describe the patterns across worker sex and age subgroups. The average job earnings rate of males is about 30 percent (27 log-points) higher than for females. Conditional on the respective estimated sex-age profiles, on average, males work in jobs with 2 percent higher firm effects than average. As a consequence of this and of the identification restrictions,⁸ females work in jobs with 2 percent lower firm effects, and the average worker effects of males and females are -2 and +2 percent, respectively.

The average job earnings rate across age groups describes a concave age earnings profile, with younger workers earning substantially less than, and older workers also earning less than, prime-aged workers. In addition, both young and old workers, on average, have jobs with low firm effects (7 percent lower than average for those aged under 20 years, and 2 percent lower for those aged 60–69 years).

TABLE 5: Subgroup Variation in Earning Components and Matching

	Log(Earning Rate) (y_{ijt})	First-stage Covariates ($\beta_{g,4t}$)	Worker Effects (θ_i)	Firm Effects (ψ_j)	Corr(θ_i, ψ_j)
Full sample	10.54	10.54	0.00	0.00	0.119
Male	10.67	10.67	-0.02	0.02	0.126
Female	10.40	10.40	0.02	-0.02	0.131
Aged (in years):					
Under 20	9.94	9.94	0.06	-0.07	0.036
20–29	10.42	10.42	0.00	-0.00	0.121
30–39	10.65	10.65	-0.02	0.02	0.186
40–49	10.66	10.66	-0.01	0.01	0.136
50–59	10.64	10.64	0.00	-0.00	0.097
60–69	10.54	10.54	0.04	-0.02	0.050
Location					
Auckland	10.62	10.55	0.04	0.04	0.129
Wellington	10.64	10.55	0.06	0.03	0.195
Christchurch	10.49	10.55	-0.03	-0.03	0.045
Other	10.46	10.54	-0.04	-0.03	0.044
Employment Intensity and Stability					
Firms:					
Part year, Parttime	10.44	10.51	-0.03	-0.04	0.110
Full year, Parttime	10.50	10.54	-0.00	-0.04	0.046
Part year, Fulltime	10.82	10.61	0.08	0.12	0.119
Full year, Fulltime	10.81	10.63	0.06	0.11	0.001
Workers:					
Part year, Parttime	10.14	10.42	-0.19	-0.05	-0.012
Full year, Parttime	10.18	10.45	-0.18	-0.06	-0.040
Part year, Fulltime	10.77	10.57	0.11	0.04	0.037
Full year, Fulltime	10.77	10.61	0.11	0.04	0.018

The estimated correlations for male and female workers are similar to the overall correlation. Over the age profile, the correlation is strong for prime-age workers (e.g. for 30–39 year olds, the correlation is 0.19), and weaker for young and old workers (correlations of 0.04 and 0.05 for workers aged under 20 years and 60–69 years, respectively). For young workers, the low correlation between worker and firm effects may be due to early labour market “job shopping”, which results in more “random” matching between workers and firms, and also associated with relatively more higher-ability workers spending time in non-career jobs (e.g. students) than later in life. For older workers, the lower correlation may be due to greater non-wage compensation associated with older cohorts and/or reflect that the earnings rate is a less important measure of the attractiveness of a job towards the later in the working life. Matching may

thus contribute to the shape of the age-earnings profile, with peak earnings levels partly reflecting better job matches.

The principal firm characteristic that we observe in the LEED is the industry the firm operates in, and we describe the pattern of results across 1-digit industries. Figure 1 summarises the between-industry variation. In this figure, industries are ordered from left to right by increasing average log (job earnings rates). Not surprisingly, there is substantial cross-industry variation in job earnings rates. For example, the average industry-level log (FTE annual job-earnings rate) varies 0.78 across industries from a low of 10.16 (\$25,800) in the Accommodation, Cafes and Restaurants industry to a high of 10.94 (\$56,400) in the Electricity, Gas and Water Supply industry.

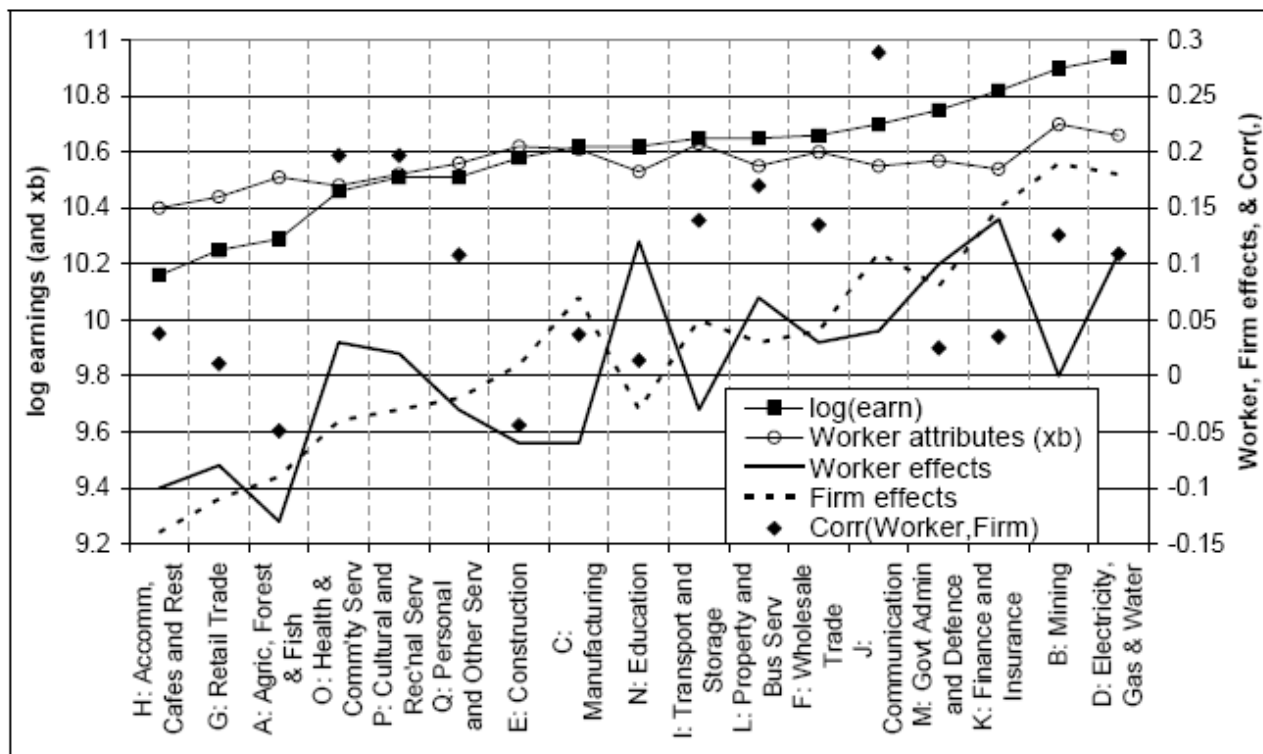
Although there is quite great deal of variation, the raw industry earnings differentials generally reflect all three of the demographic, worker and firm effects. That is, workers in industries with high raw earnings also tend to have demographics associated with higher than average earnings, although the cross-industry demographic relationship is weaker than the raw earnings pattern. Furthermore, the average worker effects and average firm effects tend to be higher in higher earning industries. For example, conditional on observable worker demographics, the average worker effect varies from a low of about 13 percent below the overall average in Agriculture, Forestry and Fishing to a high of 14 percent above the average in Finance and Insurance, while the average firm effect ranges from a low of 14 percent below the overall average in Accommodation, Cafes and Restaurants to a high of 19 percent above the average in Mining. There is also substantial variation in the dispersion of firm effects within industries. The standard deviation of firm effects (not shown) ranges from a low of 0.05 in Accommodation, Cafes and Restaurants, in Government Administration and Defence, and in Education to a high of 0.15 in Mining.

There is substantial variation in the worker and firm effect correlations across industries. The correlation is negative (about -0.05) in Agriculture, Forestry and Fishing, and in Construction, and quite low in several other industries, while there is a strong correlation (0.29) in Communication Services, and also quite high correlation in some other industries.

The next subgroup dimension we consider in Table 5 is based on the geographic location of the firms. Consistent with other research (e.g. Lewis and Stillman, 2005) this shows that jobs located in Auckland and Wellington have 8–10 percent higher earnings rates than the overall average. Our estimates attribute the differences almost entirely to (unobserved) worker and firm effects. In Auckland, both the average worker and the average firm effects are about 4 percent higher than their respective overall averages. In Wellington, the average worker and firm effect differences are 6 percent and 3 percent, respectively. Across regions, the worker-firm effect correlation is higher in Auckland (0.13) and Wellington (0.20) and relatively low in Christchurch (0.05) and “Other” (0.04) areas, providing some support for the hypothesis that labour market matching is more efficient in dense urban areas.

The final panel of Table 5 shows variation between groups defined by the stability of employment of workers and firms. For this purpose, in each year, we stratify workers by whether they worked full year and/or full-time in every month they worked; and somewhat analogously, we stratify firms by whether the annual employment in a firm consisted predominantly of full-time and/or full-year workers.⁹ For workers, the part-time characterisation appears to be the primary dimension along which job earnings rates differ. Part-time workers earn on the order of 40 percent (strictly, 40 log-points) lower job earnings than the overall worker average. The lower earnings are due to 9–12 percent lower earnings associated with observable demographics, 18–19 percent lower worker effects, and 5–6 percent lower firm effects. However, given that our measurement of effective employment is biased upwards (and FTE job earnings biased downwards) for part-time workers, these results should be interpreted with some caution.

FIGURE 1: Between-Industry Variation in Earnings Components and Matching



A similar, though more muted, pattern applies to firms' employment stability. For example, the job earnings in firms with predominantly "part-time" employment are 4–10 percent lower than the overall average, which is due to 0–3 percent lower earnings associated with worker demographics, 0–3 percent lower worker effects, and 4 percent lower firm effects. The latter suggests that firms that use a relatively large fraction of part-time employment pay lower earnings rates than other firms (who employ the same workers).

The correlation between worker and firm effects is negative for the subgroups of part-time workers (-0.01 and -0.04 for part-year and full-year subgroups, respectively). It is also relatively low for the subgroups of full-time workers (0.04 and 0.02 for the part-year and full-year subgroups). Thus, it appears, that much of the overall correlation between worker and firm effects is associated with the full-time/part-time dimension of employment stability, and that there's little evidence of matching within these groups. The correlation for the subgroups of "full-year" firms are also relatively low (0.05 for the "part-time" and 0.00 for the "full-time" firms).

Concluding Discussion

In this article we have documented the joint estimation of worker and firm effects, together with observable worker demographic effects, associated with the FTE annual earnings rate of jobs in Statistics New Zealand's LEED. The analysis of these factors has focused on three broad themes. First, we examine how much of the variation in job earnings rates is attributable to observable worker demographic factors (age and sex), unobserved worker effects and unobserved firm effects, and document the degree of heterogeneity in each factor across various dimensions. We find that the unobserved worker fixed effects account for about one-half of the variance in job earnings, while worker demographics account for one-quarter, and the firm fixed effects account for 10–25 percent of the variance.

Second, we explore the compositional changes in workers and firms over the period. Based on changes in the annual average of worker and firm effects over the period associated with such compositional changes, we estimate that worker and firm effects declined about 5 and 1 percent, respectively, over the period. The declining average worker effect is consistent with the hypothesis that there are compositional changes in employment and the labour force over the business cycle that lowers average worker productivity during booms compared to recessions, and suggests there has been about a 1 percent annual decline over the sample period.

Third, we document patterns of sorting of workers and firms across jobs over the sample period. The correlation between worker and firm effects is 0.12, which implies there is a tendency for high-earning workers to work for high-paying firms, suggesting positive complementarities between workers and firms. The 0.12 correlation between worker and firm effects is relatively higher than international estimates. We found quite strong between-group sorting along the full-time / part-time dimension of employment. Sorting appears to be stronger in Auckland and Wellington than other regions. Perhaps unsurprisingly, there is also substantial variation across industries. We find generally positive associations between industries' job earnings rates and each of the average earnings based on worker demographics, average worker effects and average firm effects, although there is also heterogeneity between different industries.

However, as this article is the first to estimate two-way worker and firm fixed effects models for New Zealand, the scope for future research is broad and a discussion of the research possibilities opened up by the availability of linked employer employee data can be found in Abowd and Kramarz (1999). Furthermore, there are two streams of potential research emerging from the current study. The first is methodological, and includes further analysis of the identification issues that led us to undertake two-stage estimation, the impact of the strength of connectedness between firms and workers, and the stability of fixed effects estimates over time. The second stream entails further investigation of some of our key findings: analysis of the contribution of firm and worker entry and exit to the reported composition changes over time, and analysis of the patterns of matching, which appear to be largely within rather than between full-time and part-time jobs.

The value of the LEED for further research would be enhanced by inclusion of additional worker and firm covariates, and by some measure of hours. In the absence of such information, the estimated fixed effects produced as part of the current project can serve as proxies for unobserved productive worker and firm attributes in other research projects examining outcomes for workers and firms.

It is worth noting that access to the LEED is restricted. Only researchers employed by Statistics New Zealand are able to access the data, and then only on Statistics New Zealand premises for approved projects. These restrictions reflect the sensitive nature of the data, and give effect to the protections in the Statistics Act and the Income Tax Administration Act.

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NOTES

1. The basic ideas are captured by Becker (1973), who highlights the central role of complementarity in household production as a basis for positive assortative matching of marriage partners.
2. In addition to regular firm-worker employment jobs being identified in the LEED, several other relationships involving PAYE tax deductions can also be identified by particular “employer” identifiers. These are working-age social welfare taxable benefits; earnings-related accident compensation payments from the Accident Compensation Corporation (ACC); Student Allowance payments (SA); Paid Parental Leave (PPL) payments; and New Zealand Superannuation (NZS) retirement pensions. In what follows, we make a distinction between LEED earnings from employment-jobs and other LEED income from these other (non-employment) sources.
3. We have compared the estimated average employment intensity and the fraction estimated to be full-time with analogous estimates using Household Labour Force Survey (HLFS) data for workers over the sample period (See Maré and Hyslop, 2006). The results confirm that, first, the LEED employment intensity construct has similar properties to analogous survey estimates and, second, in the absence of any direct hours measure, it provides a useful first-order adjustment for estimating differing levels of employment intensity across workers.
4. Most of this change appears to be due to aggregate time effects. For example, allowing unrestricted age earnings profiles by age and across males and females, but restricting these to be parallel in different years, we estimate the aggregate time effect to be 6 percent (0.06 log-points) between the first and last years. Relaxing these specification to allow separate sex-year dummy

variables, we estimate male aggregate (time) earnings growth of 4.4 percent, and female earnings growth of 7.9 percent.

5. The pattern of changing time effects reflects the dynamics of worker and firm inflows and outflows over the period. Maré and Hyslop (2006) contains a more detailed discussion, analysing patterns separately for entering, exiting, and continuing firms and workers.

6. Solon, Barsky and Parker (1994) show that the usual macroeconomic finding of weakly cyclical wages over the business cycle is substantially affected by composition bias: controlling for compositional changes in employment over the business cycle, real wages are strongly procyclical.

7. In considering the subgroup correlations it is important to realise that these are “within-group” correlations (i.e. the correlations are calculated relative to the subgroup worker and firm effect means), and exclude any between-group correlation effect that is included in the overall correlation estimate.

8. Literally, the symmetry is exact if we have equally balanced male and female subsamples.

9. More specifically, we classify a firm’s employment in a year as “full-time” if the number of observed worker-months in LEED is at least 75 percent of the potential number of months given the number of workers employed by the firm during the year, and we classify the firm as “full-time” if the level of FTE employment in the firm is at least 95 percent of the number of worker-months. See Hyslop and Maré (2006) for a more detailed description and discussion of these employment stability measures.

Through the Outdoor: Drivers of Training Supported by New Zealand Organisations

STEPHEN BLUMENFELD* and ASHISH MALIK**

Abstract

Factors affecting employer support for internal, external and industry training are assessed using data from the *Business New Zealand Skills and Training Survey 2003*. Explanatory factors considered in this analysis are the size, location and age of the organisation, the industry in which the organisation operates, the gender composition of the organisation's workforce, the extent of workforce casualisation, average employee skill level and qualifications earned, and the concentration of those skills and qualification within the organisation. Measures of these factors are specified in logistic regression models in which the likelihood the organisation invests in on-site (internal), off-site (external) and/or industry training is included as the dependent variable. Results from this analysis suggest that the industry in which a firm operates and use of casual and part-time staff are the most significant drivers of New Zealand employers' willingness to invest in on-site and industry training. Geographic location manifests a positive influence on firm investments in training provided off-site.

Introduction

Notwithstanding the focus over the past two decades on policy-level initiatives directed at training as a means of enhancing firm competitiveness, leading experts in the field have argued that global competitiveness can really only be achieved through initiatives developed at the enterprise level (Cappelli, 1995; Porter et al., 2004). That is, for firms to be competitive, they must demonstrate the flexibility to respond to frequent changes in their external environment (Storey, 1995). Such flexibility is often achieved through skill development and training. Yet, little is known about the factors that drive employer investment in such initiatives.

This study makes use of data from the *Business New Zealand Skills and Training Survey 2003*, conducted as a part of a joint study by Business New Zealand and the Industry Training Federation and supported by the New Zealand Department of Labour's Future of Work Contestable Fund. These data, which have been provided to the authors by Business New Zealand, are used here to assess the impact of various organisational characteristics and employee demographics on investments by New Zealand employers in both *internal* and *external* training programmes. The former encompass the activities of in-house training staff, training consultants and contractors, and modern apprenticeship

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coordinators. External training includes training offered by polytechnics, universities, and private training establishments (PTEs).

This analysis further distinguishes between internal and external training, as identified above, from industry training, which has elements of both internal and external training and includes training provided by Industry Training Organisations (ITOs), government-supported training, conference attendance, supplier-provided training, and Modern Apprenticeships. ITOs in New Zealand are similar to registered training organisations (RTOs) in Australia and offer nationally recognized training based on New Zealand's National Qualifications Framework (NQF). Moreover, since New Zealand's Modern Apprenticeships Programme is a work-based initiative coordinated at the industry level, it has elements of both in-house or internal training and industry training. As such, for purposes of this analysis, Modern Apprenticeships are encompassed in both the internal and industry training categories.

The analysis presented herein focuses on the following explanatory factors: *years of operation, enterprise size, industry sector, geographical location, casualisation of work, and the level and mix of qualifications and skills*. Logistic regression is used to predict the likelihood, or the odds given each of these explanatory factors, that an employer will invest in each of the three types of training considered: *internal, external and industry-level* training.

Key Drivers

Drivers of Employer-sponsored Training

Since mid 1980s, numerous attempts have been made to model the factors that drive investment in training at an enterprise level. Studies from the UK suggest that a firm's investment in training is influenced by a complex interaction of certain driving (*triggers*) and moderating (*stabilizers*) factors that are typical to an industry or an organisation (Sparrow & Pettigrew, 1985; Hendry & Pettigrew, 1989). In their study, Pettigrew and his colleagues found that, while training is *stabilized* by a combination of factors inside and outside the firm, *triggering* factors are closely linked to the firm's business strategy, which may have a profound impact on its skill requirements and, in turn, its investment in training.

More recently, studies in Australia have attempted to describe factors that influence the nature and extent of enterprise training (Hayton et al, 1996; Smith and Hayton, 1999; Ridoutt et al, 2002; Smith et al, 2002). Expanding on the earlier work conducted in the UK (Sparrow & Pettigrew, 1985; Hendry & Pettigrew, 1989), Hayton et al (1996) group factors influencing the nature (or various forms of training activities) and extent (or volume) of training under three headings: *training drivers, environmental factors* and *mediating factors*. The latter two factors are, respectively, influences that are external and internal to the firm.

As noted by Ridoutt et al. (2002), since one set of factors is not universally applicable or relevant to all industries, the Hayton et al model has the flexibility to accommodate certain training drivers and environmental and mediating factors to allow for industry-specific or organisation-specific modeling. Similarly the outputs of this model proposed by Hayton et al (1996), namely the *nature* and *extent* of training, can be modified to suit a specific context in which training is provided.

Drivers of International, External and Industry Training

Internal training has been found in other studies to be less prevalent in small and medium sized firms than it is in larger firms, which are more likely to have an integrated human resource strategy, base work around a team approach, link training to business strategy. Larger enterprises are also likely to have an established training infrastructure, such as a training department, a training manager and workplace trainers. Such workplaces are more likely to be unionised and be comprised of a more highly skilled workforce than are small- and medium-sized enterprises (SMEs). All of these attributes of larger organisations have been shown to be positively correlated with the provision of training by employers (Smith et al, 2002).

In addition to enterprise size, the extant literature points to a positive relationship between industry sector and internal training provision (Hayton et al, 1996; Ridoutt et al, 2002). No known studies, though, have considered the relationship between internal training and the number of years the organisation has been in operation, its geographical location, its use of a casual workforce, the qualification levels achieved by its workers or the concentration of skills and qualifications across its workforce.

One aspect of internal training that renders it difficult to distinguish from external training is that an employer may hire an external training provider to provide formal, structured training specifically to their employees. Unlike internal training, though, the nature of training provided through external training is not specific to that employer's needs but is, instead, more generally applicable across a broad range of employers. Also unlike the case of internal training, the impact of establishment size on the likely provision of external training is not clear (See, for instance, Hayton et al, 1996, and Ridoutt et al, 2002).

New Zealand's *Industry Training Act 1992* defines industry training as industry-specific employee learning or skills-upgrading that is supported by or on behalf of employers in an industry or combination of industries. As noted by Smith and Hayton (1999) with regard to Australia, some industries have long traditions of training that have developed over an extended period. In New Zealand, prior to 1992, employers and trade unions in many sectors, such as shipping, building trades, manufacturing and chartered accountancy, supported apprenticeship-based industry training. Subsequent to enactment of the *Industry Training Act 1992*, Industry Training Organisations (ITOs) were established in a range of sectors, however the need for and efficacy of that training likely varies from one sector to another (ITF 2006).

In addition to Industry Training Organisations (ITOs) recognised by the Associate Minister of Education (Tertiary Education) under the *Industry Training Act 1992*, there are other forms of training in New Zealand. Within the business and finance sector, for instance, some industry sub-sectors are served by ITOs with a well-established system of qualifications. This is the case, in real estate, where a formal qualification is required before one is permitted to work, and in call centres, where workers are typically encouraged to up-skill. In addition, chartered accountants are required to hold a qualification earned through what has been termed external training herein and approved by the New Zealand Institute of Chartered Accountants (NZICA). One would expect, nevertheless, that factors specific to the sector in which an organisation operates—be it competitive factors, changes in technology or merely the availability and accessibility of such training—are the primary driver of that organisation's support for industry training.

Data and Methods

This analysis makes use of data derived from the *Business New Zealand Skills and Training Survey 2003*. The population covered in this survey is the 2003 membership of Business New Zealand's regional associations. As such, the sample is not necessarily representative of all New Zealand employers. The survey sample was, nevertheless, stratified to ensure inclusion of a representative number of relatively small, medium and large size enterprises across all regions of the country. To this end, 15 percent of the respondents to the survey employ 5 or fewer people, while 21 percent employ 100 or more workers (Business NZ and ITF, 2003).

A demographic breakdown of the 467 establishments and the employees of those establishments that are covered in this analysis is provided in Table 1. As can be seen here, most of the organisations covered by this study are well established, having been in operation for at least five years. Most are in the tertiary sector, which has been subdivided, for purposes of this analysis into categories reflecting the wholesale and retail trade and accommodation, cafes and restaurants ("trade"); transport, storage and communication ("logistics"); finance and insurance; property and business services (business/finance"); government administration, defence and education ("government/education"); and health and community services; cultural, recreational, personal and other services ("service"). These data also reveal that, while more than half of the organisations in this study are located in Auckland or the Canterbury region, just over 10 percent operate on a national basis.

TABLE 1: Organisational Characteristics and Employee Demographics

Organisational Demographics			Employee Demographics			
Variable	Sample Proportion	N	Variable	Mean	Standard Deviation	N
>5 Yrs Operation	87.4%	408	Gender & Employment Status			
Sector			Female (%)	43.0%	28.1%	432
Primary	8.1%	38	Full-time (%)	78.7%	25.0%	452
Secondary	34.0%	159	Part-time (%)	15.3%	20.7%	452
Trade	15.4%	72	Casual (%)	7.0%	15.1%	452
Logistics	5.4%	25	Variable	Sample Proportion	N	
Business/Finance	10.7%	50				
Gov't/Education	9.6%	45				
Service	14.3%	67				
Location			Skill Level			
National	10.3%	48	Simple	16.8%	349	
Auckland	22.1%	103	Moderate	33.6%	352	
Canterbury	31.0%	145	Complex	31.5%	354	
Wellington	4.5%	21	Very high	18.6%	354	
Rural	32.1%	150	Qualification			
Training Supported			No qualification	18.2%	436	
			School	30.5%	436	
External	67.0%	313	Trade	16.4%	436	
Internal	62.0%	290	Certificate/Diploma	17.2%	436	
Industry	51.6%	241	Degree	17.2%	436	

Employees of the establishments encompassed in the study sample generally fall within the known demographics of the country's labour force. Forty-three percent of the workers covered in this analysis are female, and 78.6 percent work full-time. These numbers correspond with the 45.4 percent and 77.3 percent figures for the total working population in New Zealand derived from Statistics New Zealand's March 2003 *Household Labour Force Survey* (HLFS). In addition, the 18.2 percent share of those employed by establishments in the sample with no school qualification is not significantly different from the 18.7 percent figure for the New Zealand population as a whole reported by the New Zealand Department of Statistics for 2003 (Statistics New Zealand, 2003).

Of particular concern with regard to the generalisability of the findings from this survey as well as those from the present analysis, though, is the fact that 89 percent of the 479 New Zealand enterprises responding to the Business NZ survey indicated they support training for at least some of their employees (Business NZ and ITF, 2003). Nearly 50,000 workers were employed by these respondents at the time of this survey. Having noted this, however, while the Business New Zealand Skills and Training Survey 2003 likely under-represents organisations in New Zealand that do not provide support for training, the present analysis is concerned with factors that determine various types of training. Hence, the fact that the Business New Zealand Survey may have over-sampled organisations that support training does not necessarily bias results of this analysis.

Logistic Regression Analysis

Logistic regression (logit) is used to estimate the likelihood, after controlling for the organisational and employee factors described in Table 1, of an organisation supporting either internal, external or industry training. The dependent variable in these models is specific as the logarithm of the odds of that the specific type of training will be supported by the organisation. The odds ratio for each independent variable represents the *ceteris paribus* factor change in the odds of observing the dependent variable. Because of the difficulty inherent in interpreting logit coefficients, though, both the coefficient estimates and the odds ratios are reported. Odds ratios greater than 1 indicate an increase in the odds of Y occurring and odds ratios less than 1 represent a decrease in the odds of Y occurring.

In these regressions, average skill and average qualification are weighted measures of, respectively, skill levels and formal qualifications earned by employees of an organisation. The share of the organisation's employees with only a "simple" skill level is given a weight of 1; the shares of employees of the organisation with "moderate" and "complex/technical" skill level are provided a weight of 2 and 3, respectively; and the share of employees with a "very high" skill level is weighted by a factor of 4. Similarly, the share of the organisation's employees with only a school qualification is given a weight of 1; the share of employees of the organisation with a trade qualification and that with a certificate or diploma are given a weight of 2 and 3, respectively; and, the share of employees with a degree qualification is weighted by a factor of 4. The proportion of employees with no school qualification is not included in the calculation of this measure.

The variables S-concentration and Q-concentration are each specified as a Herfindahl-Hirschman Index (HHI), which is most commonly used as a measure of product market concentration. It is calculated, for purposes of this analysis, by squaring the share of each organisation's employees in each skill or qualification category, and then summing the squared values. The HHI can range from a minimum of 0.5 and 0.4, respectively, where one quarter of the employees of an organisation fall into each of the four skill and one fifth of the employees of an organisation fall into each of the five qualification categories, to a maximum of 1.0, where all employees fall into a single skill or qualification category. In this regard, then, higher values of S-concentration and Q-concentration reflect greater skill or qualification concentration – i.e., less spread or variation in skill or qualification levels – amongst the employees of the organisation. Alternatively, lower HHI values are an indicator of greater diversity of skill levels and qualifications within the organisation.

Empirical Results

Results of this analysis are presented in Table 2, however, one key finding from this study is that, as an organisation matures, it becomes less reliant on industry training as a means of developing its employees. This suggests that, over time, firms develop their own internal training infrastructures, but do not rely on internal training to the extent to which they previously relied on industry training. This later phenomenon might be explained by the fact that, in most sectors, once employees have received formal training, there is less of a need for further training. That is, concomitant with the maturation of an organisation, a larger proportion of those employees who remain with the organisation become sufficiently trained and, hence, a lesser share of those employees require training.

This same argument offers an explanation for our finding that the higher the average qualification earned by employees of an organisation, the less likely is the organisation to support both internal and industry training for its employees. That is, the saturation of formal qualifications may render it less likely that the organisation will support further training, especially that which is undertaken in an effort to earn formal qualifications. This, though, would seem to refute evidence from research conducted by OECD/CERI (1998), which found that skills and qualification possessed by current employees are significant drivers of internal training supported by firms undergoing technological change. One question which cannot be answered given the data employed in this analysis, however, is whether technological change has any impact on investment in training.

Additionally, as one would expect, and confirming findings from Hayton et al (1996), Ridoutt et al (2002) and Dawe (2003), results from our analysis point to the conclusion that the industry sector in which an enterprise operates is an important and statistically significant driver of industry training. However, the fact that employers in this sector typically rely on either external or, more likely, industry training explains why business and finance firms in New Zealand are not significantly more likely to provide internal training than their counterparts in the IT sector, the referent industry category in this analysis.

With regard to regional differences, the fact that Auckland is the commercial business hub for New Zealand and that the majority of external training providers are based in Auckland explains why organisations located in Auckland are more apt than their counterparts located elsewhere in New Zealand to support both external and industry training. Similarly, Canterbury being served by two universities and a range of polytechnics and private training establishments (PTEs) is a likely reason why results of this analysis suggest that organisations in Canterbury are significantly more likely to support external training of their employees than organisations in other regions of the country, including Auckland, where industry training uptake is also relatively high. It is also noteworthy that employer support for industry training is significantly greater in rural New Zealand, such as Bay of Plenty, Nelson and Marlborough, and South Otago, where ITOs count a substantial share of their student numbers than in most of the rest of the country (ITF 2006).

TABLE 2: Logistic Regression Results

Dependent Variable	Internal Training			External Training		Industry Training
Independent Variable	β (std err)	e^{β}	β (std err)	e^{β}	β (std err)	e^{β}
Constant	-4.72 (5.27)	0.01	-8.7(3.88)	0.00**	- 6.29(6.79)	0.00**
>5 Yrs Operation	0.09(1.06)	1.09	-0.26(0.78)	0.77	- 0.99(1.28)	0.37*
Sector						
Primary	4.95(2.04)	141.7**	2.31(2.15)	10.07	3.48(3.24)	32.60**
Secondary	3.81(1.56)	45.28**	0.29(1.93)	1.33	3.07(3.04)	21.44**
Trade	1.48(1.35)	4.38**	0.57(2.26)	1.76	3.75(3.30)	42.36**
Logistics	Predicts perfectly		1.51(2.87)	4.55	3.59(3.43)	36.13*
Business/Finance	3.23(2.10)	25.32	2.99(2.36)	19.97	4.24(3.09)	69.26**
Gov't/Education	2.63(1.19)	13.87**	-1.01(2.17)	0.36	1.75(2.89)	5.74
Service	3.01(1.75)	20.31	2.02(2.04)	7.57	3.22(3.11)	25.02
Location						
Auckland	-0.79(2.08)	0.45	1.97(1010)	7.20*	2.59(1.37)	13.35*
Canterbury	-1.29(2.01)	0.28	2.38(1.09)	10.85*	0.49(1.78)	1.63
Wellington	2.14(3.07)	8.52	2.27(1.55)	9.68	1.48(2.94)	4.39
Rural	-5.01(2.63)	.01*	1.12(1.01)	3.06	2.84(1.22)	17.12**
Employees						
No. of Employees	0.02(0.01)	1.02**	0.00(0.00)	1.00	0.00(0.00)	1.00
% Female	0.42(1.59)	1.53	-1.34(1.15)	0.26	- 0.29(1.57)	0.75
% Part-time	0.51(2.34)	1.67	2.37(1.34)	10.64*	- 0.90(2.02)	0.41
%Casual	2.22(1.47)	9.18*	2.01(0.91)	7.49**	1.19(2.95)	3.28
Average Skill	0.19(0.75)	1.21	-0.48(0.54)	0.62	1.32(0.74)	3.75**
S-Concentration	1.82(3.68)	6.15	2.41(2.37)	11.15	2.73(3.53)	15.36
Avg Qualification	-1.18(0.55)	0.31**	0.65(0.43)	1.92	- 1.20(0.54)	0.30**
Q-Concentration	-0.03(3.39)	0.97	2.23(2.24)	9.27	- 4.64(2.41)	0.01**
Other Training						
Internal	1.29(0.41)	3.7*			-2.22(1.24)	0.11***
External	-5.21(1.52)		0.01***	-1.80(1.12)		0.17***
Industry	-4.20(1.20)		0.01***	0.93(0.32)	2.5***	
Number of obs	300			306		306
Log Likelihood	-95.39				-141.67	181.15
LR X^2	d.f. = 21	86.36	d.f. = 22	87.41	d.f.=22	61.69
Prob > X^2	0.00				0.00	0.00
* Denotes significant at the 10% level. ** Denotes significant at the 5% level. *** Denotes significant at the 1% level.						

Finally, other research has found that part-time and casual employees are much less likely than permanent employees to participate in internal training and are more likely to engage in external training and education (Campbell, 2001; VandenHeuvel and Wooden, 1999; Wooden and Hawke, 1998). Our analysis of the *Business NZ Skills and Training Survey* data would seem to confirm this general finding with regard to external training. However, our findings point to the conclusion that workforce casualisation is positively associated with internal training. What we are not able to determine, though, is which employees of the firm are provided this support. It may, therefore, be the case that, in firms where a relatively large share of the workforce is employed on a casual basis, the employer is more willing to provide in-house training to their permanent staff but not to the casual workers it employs.

Conclusion

To summarise the findings from this analysis, factors related to the industry in which a firm operates appear to be the most significant drivers of New Zealand employers' willingness to invest in on-site and industry training. Somewhat unexpectedly, though, casualisation of work, including increased use of part-time employees, also appears to have a positive effect on employer support for both of these categories of training. This does not necessarily point to the conclusion that New Zealand employers who are adopting a core-peripheral strategy are targeting their peripheral workforces for training. Rather, it may be the case that these organisations are investing more in training than other New Zealand employers but supporting only their full-time permanent staff in that endeavour. Finally, geographic region in which the organisation is located manifests a positive influence on firm investments in training provided off-site, including that offered at the industry-level and general training offered through polytechnics, universities, and private training establishments (PTEs).

Notwithstanding these results, it's important to note that, due to the manner in which the source of data employed in this analysis, the *Business New Zealand Skills and Training Survey*, was designed, a number of key variables identified in the literature – for example, adoption of new management practices like total quality management, the learning organisation, team working, lean production, and business process restructuring, as well as regulatory factors and alignment of business strategy to the organisation's human resource management strategy (Smith et al, 2002) – are not considered in our analysis. An important consideration in this regard is that these omitted variables may bias findings from this study. This, in turn, suggests directions for future research into factors influencing enterprise training in New Zealand.

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The Gap Between Immigration And Employment: A Policy-Capturing Analysis of Ethnicity-Driven Selection Biases

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Abstract

Research over the past two decades has identified the impact of job irrelevant variables on selection decisions. Many of these variables reflect stereotypes associated with ethnicity, age or other factors. This study uses a short-listing simulation with 183 New Zealand managers to assess the impact of ethnicity, migration status on short-listing in a condition of labour scarcity. The policy-capturing approach was complemented by in-depth interviews. The findings include significant schema-driven, selection penalties for minority and migrant applicants that are moderated by worker scarcity. This supports new models of social categorisation that include employer motivation in selection decision-making. At a practical level, it suggests that a 'screen in' approach to short-listing may reduce employment discrimination.

Introduction

In recent years, New Zealand has witnessed an influx of immigration, broadening the ethnic diversity of the population and the workforce. Demographic projections indicate that an increasing number of ethnic minority groups will be strongly represented in the New Zealand population and labour market (Statistics New Zealand, 2006). However, despite current skill shortages (Department of Labour, 2006), indications are that ethnic¹ minorities remain a disadvantaged group in terms of employment outcomes (Ward and Masgoret, 2004; Wilson, Gahlout, Liu and Mouly, 2005). Thus, the question is, "How and why migrants and members of ethnic minority groups still face obstacles to full employment in New Zealand?"

In assessing the suitability of applicants, the 'reasonable' employer attempts to find the best fit between applicant skills and abilities and well-defined criteria for the job. However, employment decisions are not always rational processes, and may incorporate biases. Research over the last two decades has identified the impact of many job irrelevant variables on selection decisions: factors, such as age (Johnson and Neumark, 1997), accent (Kalin and Rayko, 1978), gender (Heilman and Martell, 1986; McDonald and Hakel, 1985), physical attractiveness (Dipboye, Fromkin and Wiback, 1975), disability and weight (Arvey and Faley, 1992), nationality (Hubbuck and Carter, 1985) and sexual orientation (Reza, Marin and Wadsworth, 2002). These variables have all been shown to result in stereotyping with negative consequences for selection. At the individual level, selection biases lower the probability of receiving a job offer and reduce expected returns to job search (Carmichael and Woods, 2000). At the organisational and societal level, these same biases distort labour markets and reduce the efficient and effective utilisation of talent (Watts and Trlin, 1999).

The purpose of this article, therefore, is to report on a study which investigated the effects of ethnicity and recent migration to New Zealand on the perceived suitability of applicants for early career ‘professional’ positions. Using models of social categorisation that include employer motivation in selection decision-making, the article presents findings from a structured survey questionnaire and interviews to assess hiring preferences of employers in the health sector. The article commences with a discussion of the process of discrimination and ethnicity and employment, followed by a conceptualisation of selection bias. The methods used in the study are presented, followed by the key findings of the study. The article concludes with a discussion and a summary of how the findings can be applied both theoretically and practically.

The Process of Discrimination

The term ‘discrimination’ is expressed negatively in the context of employment, though the term is defined – without negative or positive connotations – as judgment based on perception of differences. When these differences are salient and relevant to the job, we would see this as best practice in employment. It is only when discrimination is premised on factors that are not relevant to the job that good employment principles are violated. Kulik, Roberson and Perry (2007) have developed a model for the incorporation of potentially biasing factors into selection decisions, using a social categorisation approach, and incorporating elements of employer motivation, salience of cues, and enhancement or repression of stereotypes in employment decision-making.

The Kulik et al (2007) model builds on a stream of research that has emphasised the role of stereotypes in impression formation (Kulik, Roberson and Perry, 2007). This perspective highlights categorisation as a key process in impression formation, particularly in the context of employment (Brewer, 1988; Kulik, Roberson and Perry, 2007). Once an applicant has been identified as a member of a particular social category, stereotypes influence impressions formed by the potential employer, both directly and indirectly (Bodenhausen and Macrae, 1998). The general categorisation process has been supported in a large body of organisational research. Research suggests, for example, that organisational decision makers have stereotypes associated with applicants’ sex (Deaux, 1995; Eagly, Makhijani, and Klonsky, 1992), race and ethnicity, (Chang and Kleiner, 2003; Wilson, Gahlout, Liu and Mouly, 2005), age (Finkelstein, Burke, and Raju, 1995; Wilson, Parker and Kan, 2007), and other social categories. Activating these categories can influence a variety of organisational judgments about an applicant, including the decision about whether to hire them.

Ethnicity and Employment

Studies conducted in U.S and U.K have illustrated that Asian and other ethnic minority applicants remain disadvantaged when compared to non-minority “whites” in terms of job opportunities. Evidence from some of the earliest UK based studies conducted by Jowell and Prescott Clarke (1970), indicated that ethnicity of the applicant influenced the selection outcome. This finding has been consistently supported over the last three decades (Brown and Gay, 1985; Esmail and Everington,

1993; 1997; Firth, 1981; Hubbuck and Carter, 1980). These studies strongly support an “ethnic penalty” – based on stereotypes – that reduces search outcomes for job applicants from ethnic minorities. This disadvantage manifests itself in terms of higher unemployment, under-representation in professions, and lower earnings. Carmichael and Woods (2000) argued that the penalty is not uniform but varies considerably among minority groups. Asian migrants to Anglo-Saxon countries appear to face even larger employment hurdles than other groups (Blackaby, Leslie, Murphy and Leary, 1999).

Research on employment outcomes of ethnic minority groups in New Zealand mirrors the international pattern of reduced employment outcomes for migrants and members of ethnic minorities (Massey et al, 2005). A study conducted by Spoonley (1978) in New Zealand confirmed the existence of ethnic bias in selection of Pacific Islanders (comparing Pakeha, Maori and Niuean job applicants), and the prevalence of stereotypes in the selection process. Singer and Eder (1989) investigated the effects of ethnicity, accent and job status in the selection process in New Zealand and found that Maori and Chinese applicants were less likely to be short-listed than Dutch applicants. More recently, Wilson et al (2005) have demonstrated that ethnic penalties are associated with both migration status and ethnicity, with Chinese and Indian migrants experiencing significantly reduced opportunities for short-listing and access to employment. Mace et al (2005) have also found decreased employment opportunities for Asian migrants in New Zealand, with the development status of the host country effectively discounting by proxy the perceived human capital of the applicant.

Contextualising Selection Bias

While much of the extant research on employment discrimination adopts a policy-capturing approach, to profile the use and relative strength of decisional factors, Kulik, Roberson and Perry (2007) suggest that a more contextualised approach is appropriate. There are many categories that are called into play when managers are short-listing applicants – estimated or actual age, gender, inferred class distinctions, religious or other social categories, as well as ethnicity and migration status. The employer may also be motivated differentially, for both social and self-esteem reasons, as well as the practical aspects of filling an advertised vacancy in an increasingly tight labour market. The following authors note that:

“... the decision maker is not always a disinterested or passive ... The decision maker may operate as a “motivated tactician” who prefers certain decision outcomes over others (Fiske and Taylor, 1991) and who chooses among alternative categories based on his or her goals, motives, and needs (Macrae and Bodenhausen, 2001). The decision maker can suppress or inhibit one of the activated categories and amplify the other ... People often use categories and their associated stereotypes to support desired impressions ... and researchers have noted the extensive capacity of social perceivers to use categories and associated stereotypes to confirm preferred conclusions... these motivations can be so powerful that perceivers will exert considerable cognitive effort to activate categories (and their associated stereotypes) ... if the activated category can be used in the service of the perceiver’s personal goals...” (Kulik, Roberson and Perry, 2007: 533)

The “motivated tactician” in Kulik et al’s social categorisation model is influenced not only by stereotypes and their own beliefs and values; contextual factors may motivate decision structures, as well. In particular, the salience of person-job or person-organisation fit may increase in salience and decision impact when triggered by either well-crafted selection requirements, or when the need to find suitable candidates in a tight labour market is heightened. In New Zealand, policy analysts have often assumed that an employer with a critical talent requirement will overcome potential decision biases to hire skilled applicants who may not be similar (to the decision-maker or job stereotypes). Anecdotal evidence does not support this assumption, and there has been little empirical attention to the potential for “need to hire” to moderate biases in employment selection. This research sets out to test the interaction of perceptual biases within the labour market context. We reiterate earlier work on biases against ethnicity and migration status, both to establish a baseline for moderation and to continue to explore interaction effects. We have used ethnic Chinese applicants as a salient group of both migrant and non-migrant ethnic groupings.

Hypothesis 1. Ethnic Asian applicants of equal skill and ability will be less likely to be short-listed for employment than European/Pakeha applicants.

Hypothesis 2. Migration status will decrease the likelihood of short-listing for applicants who are recent migrants to New Zealand.

Hypothesis 3. The reduction in the likelihood of being short-listed for Asian and/or migrant applicants will be moderated in labour markets where demand for skilled applicants is high.

Method

This study is part of a five year study of candidate and contextual factors that influence the short-listing decision. In this part of the research programme, we focus on the impact of perceived labour shortages on ethnic penalties. This research design used a simulation and survey structure to assess hiring preferences, complemented by structured interviews. The simulation phase required respondents (all participants in executive education for healthcare management) to short-list candidates for two positions – an early career HRM advisor (low to moderate demand condition) and an early career nursing position (high demand condition). In both conditions, managers were told that they were receiving a ‘long short-list’ from which they were selecting candidates for interview.

Instrument. A standardised application form, modeled on that used by the district health boards, was used to permit direct comparability among applicants, making it easier for the respondent to evaluate and make selection decisions without presentation biases and information dissimilarities.

The simulation included a three-page, job description and person specification for each position, followed by 10 applications (8 active for the purposes of this research, with 2 ‘marginal’ cases), presented in alphabetical order. Each application included

the name and contact details of the applicant, details of a bachelor's degree in human resources (HR) or nursing, 16-19 months of relevant experience, a listing of competencies (that met the person specification), and statements of fluency in English and one other language. All of the active applications were independently judged to be of equal quality by a panel of HR raters (for the HR applications) and by a charge nurse panel (for the nursing applications). In each set of applications, two were of lower 'marginal' quality as judged by the expert panels. These were used to increase the variance in the applicant pool and increase the realism of the simulation.

The applicants were either Anglo-Saxon (Pakeha) or Chinese applicants. Cues for ethnicity included surname, country where the degree was gained (only the two highest ranked Universities in each country were used); country where experience was gained (with well-known international companies, such as Coca-Cola, Hilton Hotels, and KPMG for HR, and national teaching hospitals for nursing), additional languages spoken (Anglo-Saxon candidates spoke English and an additional European language, Chinese candidates listed English and a specific regional dialect consistent with their name). Names were deliberately gender-neutral (e.g. Robin, Terrie) to attempt to limit gender interaction effects, and first names of Chinese applicants were anglicised to reduce additional assimilationist stereotyping noted in other New Zealand research (Wilson et al, 2005).

The eight active applications included two each: Chinese migrant; Chinese non-migrant; Anglo-Saxon migrant; Anglo-Saxon non-migrant. The final two "extra" candidates were both non-migrants, that is, one Chinese and one Anglo-Saxon, each with lower level degrees or diplomas that barely met the expressed job requirements.

Decision Variables. Research participants were asked to evaluate each candidate on suitability for the job (7 point Likert scale; 1= unsuitable for the job; 7= very suitable for the job). Studies examining selection decisions have traditionally assessed the applicants' suitability for the position (e.g. Hakel, Ohnesorge and Dunnette, 1970; Landy and Bates, 1973; Dipboye, Fromkin and Wiback, 1975). The final measure was a short-list, compiled by the participant, across all applicants. A demographic profile of the respondent (ethnicity, years of management experience – including prior short-listing and hiring experience – and gender) was also gathered through self-reporting.

The design used in the study parallels real-world selection practices where employers typically evaluate more than one candidate. Moreover, the design was analogous to a hiring situation where decision-makers often have limited information, typically in the form of a brief resume, in order to screen applicants (Bendick, Jackson and Reinoso, 1991; Stewart and Perlow, 2001). The respondents took on average 20 minutes to complete the short-listing of 10 applicants for a given position.

Manipulation checks. As a check on perception of social categories, 12 managers were selected at random, and asked to dictate a summary of the characteristics of the applicant pool for the "hiring manager" to use in combination with the short-list they had generated. All 12 of the managers noted that there were Chinese applicants and migrant applicants in the pool (most also made stereotypical assumptions about gender, despite the lack of cues). As a manipulation check on the high and low demand characteristics, all participants were asked to evaluate hiring difficulties for 10 positions in the district health boards using a 7 point Likert scale: 1= very easy to

hire for this type of position; 7= very difficult to hire for this type of position. The positions evaluated included psychiatrist (uniform rating of 7); orderly (mean rating 1.7); receptionist (mean rating of 2.1); ward nurse (mean rating of 6.7) and HR advisor (mean rating of 3.2).

Qualitative Policy-Capture. While the majority of ‘policy-capturing’ research relies on regression modeling of quantitative variables, this can reduce rather than increase our understanding of contextuality. In this research, we complemented the quantitative policy-capture (through the simulations) with in depth-interviews of 12 randomly selected participants who, again working with a set of applications, discussed their rationales for judgment and selection decision-making. The interviews were transcribed and returned to the interviewees for correction and clarification. We then performed a configurational analysis, by looking for a cluster of rationales and statements that were attached to each of the different types of applicants, and to the process overall.

Results

The survey was administered to 183 practicing managers enrolled in an executive development programme in the management of healthcare organisations. The sample demographics were heterogeneous in terms of ethnicity, gender, and managerial experience, and statistically similar to the metropolitan population of working age. The respondent managers had, on average, over ten years of supervisory experience and had all been involved in short-listing and hiring decisions in the past.

A multivariate analysis was conducted to evaluate the hypotheses. Independent variables were ethnicity of the applicant (Anglo-Saxon and Chinese); migration status of the applicant (migrant or non-migrant); and perceived difficulty in hiring based on talent shortages in the labour market (Low demand-HR, High demand-nursing). The dependent variables included perceived suitability for the position. A multivariate analysis of variance (MANOVA), with repeated measures, was performed to test the hypotheses.

Effect of Ethnicity on Selection Outcomes

The MANOVA shows a significant effect for ethnicity of applicant by migration status ($F = 9.46$, $\eta^2 = .36$, $p < .05$). This supports hypotheses one and two. As summarised in Table 1, the 2x2x2 ANOVA shows a significant main effect for ethnicity on assessed suitability for the position ($\eta^2 = .48$, $p < .01$). The MANOVA results demonstrate migration status modestly increases the impact of ethnicity on evaluations of suitability, but that, consistent with recent research, this is a migration effect that is moderated by ethnicity rather than directly interacting with it. Specifically, Anglo-Saxon migrants are rated more highly and Chinese migrants less highly, than their local, non-migrant counterparts.

Table 1: MANOVA: Ethnicity, Migration and Demand on Suitability

Effects/ Variables		
	Multivariate F	Univariate F
Within-Subject Factors		
APPL ETHNICITY	9.177*	10.015**
APPL MIGRATION	2.879 ^{NS}	2.731 ^{NS}
APPL ETHNICITY x MIGRATION	6.384*	7.09*
DEMAND X APPL ETHNIC	4.278**	12.291**

** p < .01, *p < .05; For multivariate statistics, $df = (10, 756)$.

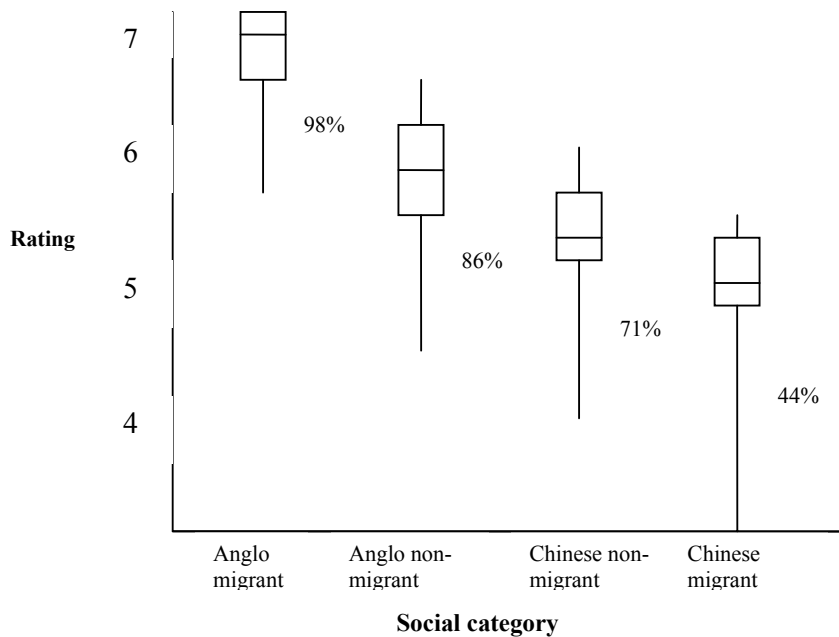
In addition to suitability ratings, dependent variables in the simulation included the final short-listing decision. After rating all candidates, respondents were asked to construct an actual final short-list. We did not constrain the number who could be short-listed, but most managers assumed that it would be a smaller subset of the 'long short-list' with which they were provided. The applicant pool presented was evenly divided among qualified candidates from each ethnic and migration group: Anglo-Saxon and Chinese; migrant and non-migrant. Given that all had equivalent experience and qualifications, it is reasonable to expect that these types of candidates would be equally represented in the final short-lists. However, the cumulative short-lists included far fewer ethnic candidates than would be expected based on the representation in the applicant pool and the short-listing prevalence of non-Chinese candidates (as shown in Table 2 and Figure 1).

Given that all had equivalent experience and qualifications, it is reasonable to expect that each type of candidate would be equally represented in the final short-lists. However, the cumulative short-lists included far fewer ethnic candidates than would be expected based on the representation in the applicant pool, and Chinese migrants appear far less frequently than Anglo-Saxon migrants (as shown in Table 2).

Table 2: Percentage of Times Short-Listed

	Anglo-Saxon Migrant	Anglo-Saxon Non-migrant	Chinese Non-migrant	Chinese Migrant
Across conditions	98	86	71	44
- Low demand	96	72	54	13
- High demand	100	100	88	75

Figure 1. Average rating of applicant suitability by social category with range and quartiles (rating) and percentage short-listed.

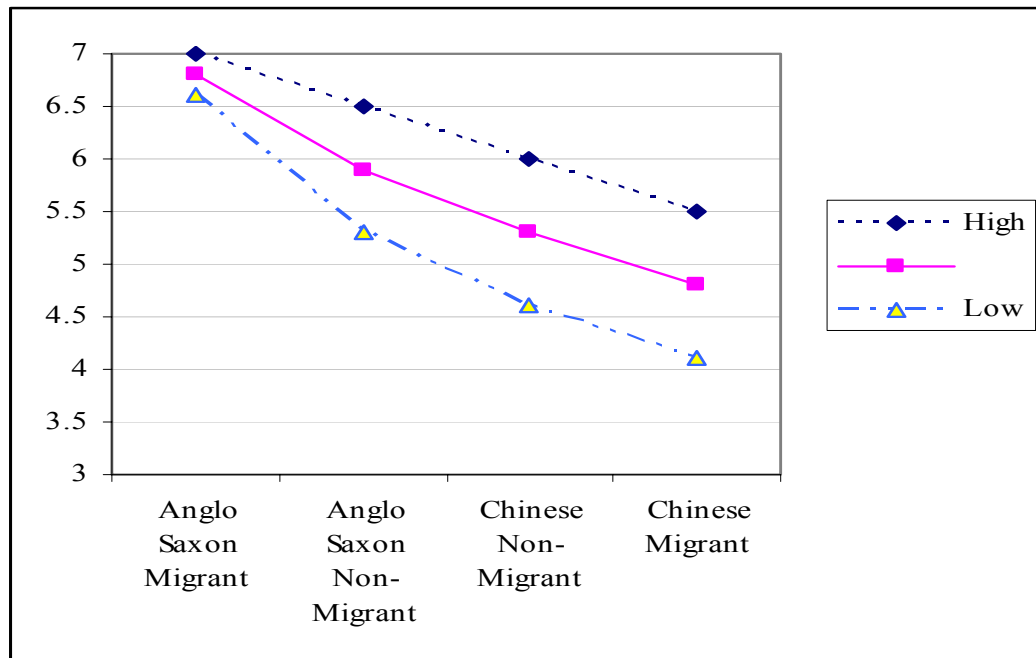


Effect of Demand on Selection Outcomes

As noted in the MANOVA, the demand for certain types of workers impacts on the selection process as well. Perceived demand increases the perceived suitability of all applicants, but has more pronounced impact in reducing the negative effects of ethnicity and migration penalties for Chinese applicants. High demand conditions significantly increased the likelihood of being short-listed for an interview for all candidates, but again had particularly positive impacts on Chinese and Chinese migrant applicants (see Figure 2).

The under-representation of ethnic applicants in the final short-list was highly significant in the low demand condition (Pearson χ^2 (3, N = 183) = 334.6, $p < .001$), but not in the high demand condition. In the high demand conditions, participants constructed longer short-lists (usually 6-8 candidates) which facilitated inclusion of greater numbers of Chinese and other candidates rated as 'less suitable', compared to the low-demand conditions (2-4 candidates), (see Table 2).

To summarise, the findings point towards a significant impact of Chinese ethnicity in both assessed suitability and probability of being short-listed for positions. This 'ethnic penalty' is heightened for recent migrants. The penalty is, however, moderated, by high levels of demand for qualified applicants, which increases both perceived suitability and likelihood of being short-listed. The latter is at least partially the result of larger, more inclusive short-lists which tend to include all, or almost all, candidates who meet job requirements.

Figure 2. Average Rating of Applicant Suitability by Social Category and Demand Condition***Rater Rationales: Qualitative Policy Capturing***

The selected participants began their interview on the short-listing process by talking about the employment market; in particular how difficult it was to recruit good staff, and how they struggled to compete in the health sector labour market against the backdrop of demands for high quality outcomes and staff shortages. Their characterisation of the general labour market, however, was highly stereotypical including references to ‘migrants who can’t speak English’, ‘Islanders who don’t want to work hard’, ‘women who are too [expletive deleted] to work in teams’, and ‘Asians who were only good with technology’. These characterisations reflect well-articulated stereotypes, but in and of themselves, does not mean that decision-making is biased.

As the participants began to focus on the short-listing process and applications, their comments became significantly less global, and more directed toward the organisation, its culture and priorities. While their comments still retained stereotypical aspects, and obvious social categories (women, “Asians”, “Kiwis”, “Brits”, etc, their comments were increasingly focused on the person-organisation fit rather than global labour market characteristics or person-job fit. They spoke of having a ‘United Nations of employees’ in their workplace, with ‘lots of workers from overseas’. Their conversations in this regard were about fitting the person into the ‘public service’ culture of the organisation, and in particular the need for the prospective employee to ‘fit into the culture and systems of the health board’. In looking over the applicant pool, the interviewees remarked on the ‘high’ proportion of Chinese applicants (but not the high proportion of migrants). Interviewees suggested

that they would normally see a much more diverse applicant pool, with candidates from the EU, the former Soviet republics, and Southeast Asia, as well as China. In discussing migrants, or 'overseas applicants' as they were most often termed, the applicants were characterised generally (and stereotypically) as "unaware of local requirements", and having difficulties 'fitting in' because of issues as simple as food preferences and hygiene, to 'being part of the team'. Chinese were singled out as 'very different', 'shy', 'quiet', 'hierarchical' and 'not interested in fitting the New Zealand culture'. With the exception of the last characteristic (not fitting in), Chinese applicants were stereotyped whether they were born in New Zealand or were recent migrants. Their discussions, rationales and actions were consistent with stereotype activation and were used to reduce person-organisation fit, which in turn reduced the hiring probability. As the participants focused on the actual short-listing task, they were much more attuned to person-job fit requirements, and made more extensive use of the selection criteria. However, this was significantly pronounced and frequent in the high demand (nursing) situations, which is consistent with perceived demand, thus increasing the "motivation to hire" and increasing vigilance for matches between stereotype-driven candidate characterisations and position requirements.

In considering the applications for the HR (lower demand) position, participants quickly moved to 'screen out' diverse candidates, stating the need for 'New Zealand experience' (though this was not a stated job requirement) with a clear preference for Anglo-Saxon candidates, both local and migrant (from Canada and the UK), even though the latter contravened their suggested "local experience" requirement, and the less preferred Chinese non-migrant applicants did not. The participants were generally dismissive of the Chinese candidates for HR positions, particularly Chinese migrants, expressing 'common problems' in the equivalence of qualifications, the standard of English spoken, knowledge of Treaty requirements (without any relevant evidence with regard to these in the applications of any candidates). In these situations, there were no contextual signals that would cause decision-makers to moderate their hiring stance, or support negative stereotypes, despite clear job criteria. Decision-makers who had "suitable", that is, ethnically similar candidates at hand, created additional job requirements that contravened Chinese candidate stereotypes and discounted their organisational and job fit.

While similar issues arose occasionally in the context of the high demand (nursing) position, they appeared in a distinct minority of cases, and reflected more job relevant concerns about 'understanding common standards and protocols for medical procedures', and comparability of client and system knowledge. This suggests, consistent with Kulik's social categorisation model, that stereotypes were not broadly invoked for person-organisation fit considerations in the high-demand condition, and where concerns were expressed, this was more consistent with pre-specified selection requirements. Several participants noted that there were increased Chinese and other Asian patients and this would make Chinese nurses more valuable. In addition, the participant's statements about the short-listing process for nurses focused on 'dire need', and 'chronic shortages', which required 'screening in' candidates, consistent with "motivated decision-making" as 'even if they aren't hired for this position, if they are good we'll place them anyway'.

Overall, the interviews reinforced the dominance of stereotyping and social categories in the decision process. Consistent with the simulation results, however, ethnicity

driven employment disadvantage was moderated by perceived labour market scarcity and thus, employer need. That is, the ‘motivated’ decision-maker was more likely to “screen-in” minority candidates and to use job requirements to increase the “match” with ethnically diverse candidates. In low demand contexts, the converse occurred, decision-makers involved stereotypes to provide rationales for reduced person-organisation and person-job fit (even though the client demographic rationale, for example, is equally applicable to both the HR and nursing positions).

The interviews were also interesting in their lack of internal logic; ‘kiwi experience’ was preferred but so were UK migrants; migrants brought interesting experience and the ability to connect with patients, but not if they were from China, despite Chinese patients and job applicants outnumbering those from the UK in the healthcare system; and skills-based assessment only dominated when the situation was ‘dire’, but even then Chinese candidates – with equivalent objective skills (in qualifications, certifications and experience) – were less preferred.

Discussion

The purpose of this study was to investigate the effect of ethnicity and migration of applicants on selection decisions, in a context of high and low labour market demand. It is clear from the results that ethnicity of the applicants reduces preliminary selection outcomes at the screening stage. The findings indicate that applicants with Anglo-Saxon/European ethnicity have a higher perceived “fit” for the position, and organisation, and a higher probability of being short-listed, based on social categorisation, stereotyping, and resultant selection biases. On the other hand, Chinese applicants, particularly new migrants, are impacted by selection bias through stereotyping and social categorisation processes. These selection biases are moderated, but not completely eliminated, by labour market demand. This latter finding is one of the first demonstrations of the Kulik, Roberson and Perry (2007) model regarding social categorisation process in employment discrimination. The approach taken here is slightly different than Kulik et al.’s emphasis on internal sources of motivation for the decision-maker; in this research we have operationalised motivation as the result of external pressures on the selection decision, through perceived labour market shortages which result in ‘screening in’ of applicants rather than screening out, a differentiated approach with significant impact on selection outcomes.

Overall, these findings are consistent with the extant literature on influence of ethnicity on selection decisions, and in differing levels of “ethnic penalty” (Mace et al, 2005; Carmichael and Wood, 2000, Wilson et al, 2005). In particular, this research reinforces previous findings that Asian (particularly Chinese) applicants are penalised in Anglo-Saxon/European work settings (Ward and Masgoret, 2004; Wilson et al 2005) particularly when they are not engaged in ethnically-stereotypical jobs or industries. The lower perceived suitability of ethnic applicants may be explained by the concept of ethnic stereotyping which emphasises discriminatory or negative biasing effects of ethnicity (Taylor, 1981). Given that all applicants in the pool actually possessed more than the stated qualifications and experience for the job, average ratings for ethnic applicants that place them well below “suitable” (5-6 on the

7 point scale) suggests that the raters' bias is driven by ethnic schema rather than by objective differences in applicant or job characteristics.

More importantly, Kulik, Roberson and Perry's model and this research, begin the process of contextualising the process and outcomes of selection bias. Context is critical to understanding how stereotypes are both invoked and suppressed in employment decisions. While Kulik et al. (2007) focus on micro-level motivators, e.g. decision-maker attitudes, we have taken this to a higher level by looking at objective causes of differential framing and motivational orientation. This higher level of analysis is also important as the linear, rational decision-maker in the social categorisation model is focused primarily on engaging stereotypes in person-job fit, while we have demonstrated that decision-makers may also call upon person-organisation fit to differentiate candidates who are objectively equivalent in their fit to the job requirements.

We can also see partial multiplier effects in the interaction of migration and ethnicity. As Kulik and other authors have noted, while 'double jeopardy' is intuitively appealing, it is less commonly evidenced. Our findings give some insight into why this may be the case. First, the impact of migration is paradoxical, enhancing the human capital of those from the developed world, and reducing that of migrants from the developing world. Secondly, while theories of social categorisation assume that each category is considered consistently and independently, our research suggests that some categories are commingled, in particular with ethnicity and migration. For example, our interviewees had somewhat pejorative single labels for migrants from the UK ('poms') and for New Zealand-born Chinese ('bananas'). Where categories are commingled, they may not be easily disaggregated and singularly invoked as the categorisation model predicts. This is a gap in the model; while Kulik et al specifically theorise the potential for sub-categories, meta-categories which cannot be easily disaggregated are not incorporated in this theorising, but emerge anecdotally from this research programme.

Finally, while most models focus primarily on attitudes and judgment, we have extended this to areas of action, and demonstrated that external labour market pressures may reduce active discrimination in employment access, even though attitudinal barriers remain.

Conclusion

This study investigated the effects of ethnicity and recent migration to New Zealand on the perceived suitability of applicants for early career 'professional' positions in New Zealand, a country that is becoming increasingly ethnically diverse. The major finding is that the ethnicity of the applicant plays an important role in hiring decisions, and that this decisional bias involves a social categorisation process of stereotyping and stereotype-driven decision-making. Across ethnic groupings, penalties appear to apply to immigrants, with non-Anglo-Saxon applicants being penalised for recent migration, and Anglo-Saxon migrants being advantaged. The findings show that ethnic minority applicants, particularly migrants, have reduced access to the labour market and are less likely to advance to the next stage of the selection process. Consistent with policy statements, however, tight labour markets,

characterised by widely acknowledged talent scarcity, do reduce barriers to employment entry. This reinforces the importance of contextual factors, and employer “motivation” in selection bias, and supports the theoretical importance of social categorisation models in understanding selection biases and stereotype drive decisional biases.

This study, however, has several research limitations. As part of a larger, longitudinal research programme, we have focused on a single aspect of the research – namely ethnic penalty and perceived talent shortages. We are assessing only one non-majority ethnicity, and Asian migrants, particularly those from China and Southeast Asia have experienced demonstrable labour market disadvantage in most OECD countries, including New Zealand (Massey et al, 1998; Wilson et al 2005). This is a compromise occasioned by limited access to relevant managers, and the need to constrain the research parameters to ensure the ability to test the hypothesised relationships. We have attempted to address the normal limitations of survey-based research, by using a quasi-experimental simulation approach, combined with an in-depth interview to balance policy-capturing approaches. This is still dealing with only a limited number of managers, albeit that these are representative decision-makers who are ‘gate-keepers’ in the larger national labour market. The research programme considers many other moderating factors, including rater ethnicity, and organisational demography, but these are not reported here.

Nonetheless, this study has implications for both managers and professional leaders in healthcare. In particular, this research suggests that employment discrimination persists, potentially overwhelming our ability to accurately perceive the talent and skills presented by diverse applicants. As the workforce becomes more ethnically diverse, issues of relative discrimination and opportunities for injustice persist and may increase. Apart from increased awareness to combat stereotyping and focus selection on clearly written skill-based criteria, the findings of this research suggest that raising awareness of skill shortages and encouraging a ‘screen in’ rather than ‘screen out’ orientation to short-listing may improve the diversity of the labour pool. For job seekers, in many cases it is too late to switch careers to an area of skill shortage (though this would be a potentially effective strategy), but in light of the findings, reduction of ethnicity cues, and increased visibility and salience of job skills that meet stated criteria may enhance employability.

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¹ Rather than skin colour or race, which are common categorizations in US and UK research, this research focuses on ethnic groupings. While acknowledging that there are many Asian and Commonwealth ethnicities and identities, we have adopted the meta-terms, Anglo-Saxon and Chinese to refer to large ethnic groupings. The term Anglo-Saxon is closely aligned with the 'Pakeha' label in New Zealand to denote those of Anglo-Saxon heritage, primarily light-skinned, English speaking peoples. Chinese is used as an encompassing terms for the multiple ethnicities in the PRC and related economic zones, with a heritage that includes identification with the majority and minority ethnicities and language groups of these regions

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Turnover and Retention in a Tight Labour Market: Reflecting on New Zealand Research

VIVIENNE HUNT* and ERLING RASMUSSEN**

Abstract

In recent years, New Zealand has experienced a dramatic drop in unemployment and the overall unemployment rate is amongst the lowest in the OECD. The resultant tight labour market has made skills shortages, staff turnover and retention the topic of widespread media reports. Staff turnover and retention has also become a key focus of employers, managers and HRM specialists. This has prompted, as detailed in the article, renewed research interest in staff turnover and retention in New Zealand. Key findings of turnover and retention research are discussed and it is emphasised how age, income levels and (industry and geographical) location are major explanatory factors. It appears less clear how generational differences impact on job attitudes and behaviours. Using case study evidence from New Zealand call centres, it is detailed how employers have reacted to a tighter labour market and a relative small pool of suitable labour. In contrast to the prevailing picture of 'sacrificial' human resource management in international research on call centres, our case study research shows a 'mixed picture'. In some of the organisations researched, managers have experimented with various approaches, including new human resource development strategies, in order to attract and retain skilled and experienced staff.

Introduction

In the 'War for Talent' book (Michaels et al., 2001), it is suggested that in the current service and knowledge society, the power has shifted from the organisation to employees, who have a growing propensity to shift from job to job. In similar vein, staff retention and turnover have become a major public policy and employer concern in New Zealand in the last five years. This article explores why this is the case, what New Zealand research has found about retention and turnover, and what the reactions of employers have been. Overall, the article points out that the increased managerial interest in employee concerns, employee-focused flexibility and improved pay and employment conditions is in sharp contrast to previous management approaches.

To develop our understanding of staff retention and turnover in New Zealand, we draw on publicly available literature and statistics and in particular, we apply insights obtained through research projects on employment relations changes, adjustments to workplace relationships and organisational performance, gender and call centre employment, and two projects on retention and turnover. While the significant changes to employment relations legislation in the post-1999 period have influenced employer

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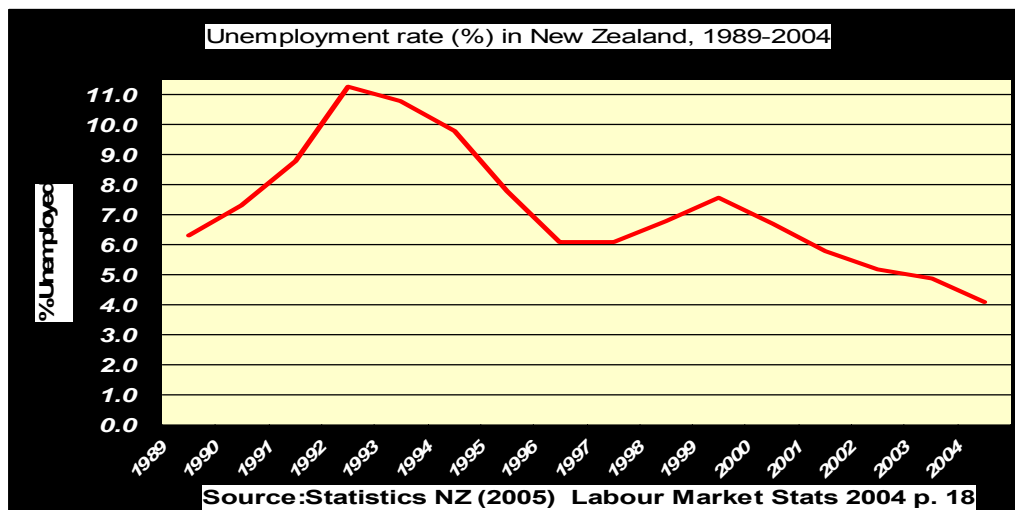
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and employee approaches (see Haworth et al., 2006; Rasmussen, 2004; Waldegrave, et al., 2003), we have focused more on labour market trends and specific changes related to retention and turnover in this article.

As we show, employees have started to vote with their feet and the higher level of turnover is fuelled by both 'push' and 'pull' factors. The 'push' factors are related to the search for more interesting work, more training and development, appreciative managers and, sometimes, more money while skills shortages and a strong labour demand provide many 'pull' factors. This retention and turnover scenario is illustrated by our discussion of nursing in the health sector and, in particular, our analysis of employment practices in call centres. The health sector has experienced growing skill shortages since the mid 1990s and this has prompted more aggressive employee reactions, a comprehensive change to bargaining arrangements, processes and outcomes, and re-thinking of managerial strategies (Powell, 2005; North et al., 2005; Rasmussen et al., 2005). In call centres, renowned for their high levels of turnover, we are focussing on emerging employment practices which try to attract and retain experienced staff. As we suggest, New Zealand call centre experiences have always been somewhat at odds with the prevailing image found in the international literature (Hunt, 2004a and 2004b) and this disparity has been further accentuated by the recent tight labour market.

Changing Concerns: from high unemployment to skill shortages

In the early 1990s, after nearly a decade of neo-liberal public policy experiments, the New Zealand government and the public were concerned about unemployment; the level of unemployment (peaking at 11.1% in 1992), its ethnic and geographical distribution and the persistence of long-term unemployment. It prompted the establishment of a Prime Ministerial Task Force on Employment which concluded that strong economic growth was necessary to overcome ingrained long-term unemployment. "The link between an improved economic environment and a skilled, adaptable labour force was another point stressed by the Task Force." (Deeks and Rasmussen, 2004: 373).



Since 1993, New Zealand has experienced very strong growth in employment and labour market participation and a remarkable fall in unemployment (see Figure 1 below). As can be seen from the unemployment graph, unemployment fell sharply in the 1992-1996 period and then again in the post 1999 period.

In the late 1990s, when unemployment was hovering around 6%-7%, several researchers began to express concerns that skill shortages would become a major problem (Fallow, 1998; Rasmussen, et al. 1996). These predictions more than came true as recorded by an overview of media reports:

Since the introduction of the Employment Relations Act, the media have focused on two labour market themes: skill shortages and falling unemployment. This followed the strong employment growth that occurred well before the introduction of the Employment Relations Act. The reporting on skill shortages initially focused on the health sector, where the media painted a gloomy picture: overwork and poor pay were driving staff overseas to jobs with higher wages and better conditions, and this created a vicious cycle of staff shortages which placed more stress on those staff left. /.../ A similar picture of critical staff shortages was being painted for other essential public services such as police and education during 2000-2001. Since then, reporting of shortages has extended to just about every other industry sector, with many reports of regional shortages. (Rasmussen and Ross, 2004: 32-33).

Why was New Zealand ‘suddenly’ faced with skill shortages? The short answer is that this was a return to the normal state of affairs as New Zealand had experienced skills shortages in most of the post 1945 period and importing skilled labour had become a way of life. Additionally, skills shortages in other English-speaking countries made ‘brain drain’ a common media theme from the late 1990s onwards.

However, skills shortages were also associated with public policy and employer approaches. The skill shortages can be linked to radical reforms in the public sector in the 1980s – previously a major training ground – and a sharp decline in employer investments in training and education during the high unemployment years. There was an overall decline in apprenticeship numbers by over 50% in the March 1998 to June 1993 period (Statistics NZ, 1995: 109) and the new industry training system, introduced in 1992, did not gather sufficient steam before 1998 (for an evaluation, see Deeks and Rasmussen, 2004: 384-390). Finally, the exceptional high level of employment creation was also part of the problem since it co-existed with relatively low productivity. This ‘cheap labour’ growth model made it difficult to afford internationally competitive wages. In fact, wages were so slow to react to a tighter labour market that one high-profile bank chief economist suggested in the media that the ‘market wasn’t functioning properly’ (Rasmussen and Ross, 2004: 26-27).

In the last five years, the continuous strong economic growth, including considerable infrastructure investments, has resulted in a very tight labour market. This has made the Government, employer organisations and unions focus on the availability of skilled employees; skill shortages are now a major public policy issue. Just as importantly, it has prompted a change in the approaches of individual employers, managers and employees. It has certainly improved ‘market functioning’ – with some help from the

unions – as average wages have outpaced inflation. In particular, it has made staff retention and turnover a burning employment relations issue.

Findings From New Zealand Turnover Research

In this article, we will mainly draw on insights from three pieces of research: a telephone survey of employees, an analysis of employment and retention issues in the health sector and, in particular, case study research conducted in the call centre industry. It is important to stress, however, that retention and turnover concerns cut right across the New Zealand economy and there have been a variety of management approaches in dealing with these concerns.

In late 2000, as retention and turnover started to appear as a major issue, a telephone survey of employees found that there were multi-dimensional reasons for people ‘moving’ (see Boxall et al., 2003). This was the first major survey of staff turnover in New Zealand for over 15 years and it established that turnover was rife amongst young people and amongst low income employees. Staff turnover was often driven by the search for: interesting work, more training and development, and career opportunities. These are not exactly startling findings and many employers appear to be aware of these issues.

In particular, many employers appear to understand, at least in principle, that staff turnover is costly and that lower turnover rates can improve productivity and service quality. For example, the Department of Labour’s Productivity Task Force has touted lower staff turnover as a major contributor to higher labour productivity. One of its case studies stresses that “A Napier piemaker has reduced staff turnover from 180% (1998) to 14% (2003) through better work practices.” (Dept. of Labour, 2006: 1). Likewise, Telecom has used low staff turnover as one of its arguments in its effort to encourage overseas companies to outsource their support services to New Zealand: “A highly educated, English-speaking workforce with low staff turnover (typically between 5% to 25%).” (Telecom NZ, 2006: 1). This is in line with well-established research findings. For example, a 2001 Otago University study, in which 400 firms were surveyed and in-depth interviews of managers were conducted, found branding and staff retention to be key competitive factors. In their retention approach, these firms “... aimed to reduce staff turnover by promoting staff internally, providing career opportunities and a career path and often mentoring junior staff. These firms also encouraged staff to become multi-skilled; rather than just having professional skills, and rewarded them according to the competencies they had developed.” (University of Otago, 2001: 1).

However, there is some disagreement in the research literature of how to tackle retention issues. Currently, there is a great deal of focus on generational differences¹ and it is often suggested that different management approaches are necessary to limit turnover levels. However, there are also analyses how challenge the idea of generational differences and suggest that an adaptation of management practices would be a failure

¹ This was, for example, the major theme at the 2006 conference of the HR Institute of New Zealand (for an overview of different research findings, see HRINZ 2006. *Human Resources*, August/September 2006).

(Bland, 2006a and 2006b; Hudson 2006). There is also the important question of how much *context* determines the management retention approaches. This may explain the findings of considerable variation in management practices: many New Zealand employers appear to have decided just to contain the problem or they have made it part of their business model.

The latter approach is when the employing organisation has geared its HRM practices to high turnover levels. This approach is related to the famous 'McJobs' which are often characterised by low pay, Taylorist work practices and limited career options. As recently acknowledged by New Zealand Tourism Online: "Historically high staff turnover or the difficulty attracting locals has been due to low remuneration rates, season job prospects and possibly the lack of a clear career path." (NZ Tourism Online, 2004: 1). Thus, high staff turnover levels spill into recruitment difficulties as the Hospitality Association (HANZ) reminded its members in November 2004: "The hospitality sector is facing increasing difficulties in recruiting trained staff. This is significantly exacerbated by the high level of staff turnover estimated at 30%, which magnifies significantly the staff shortages." (HANZ 2004: 1). While the 30% probably is a gross under-estimation, there is no doubt that the hospitality industry, (together with retail, fast food and the call centre industries), has faced more staffing problems than other industries.

As shown in the 2000 telephone survey mentioned above, important reasons for staying are: staff relationships, interesting work, job security and relationship with supervisors (Boxall et al.; 2003: 206-7). In other words, important retention factors are the work itself and the workplace culture. Additionally, commuting, work-life balance, and satisfactory pay levels are other important factors. These results suggest that retention can be improved if employers target the work environment and particular employment conditions. As shown below, these suggestions have been headed to some degree by employers in the health and call centre industries.

The health sector and in particular nursing have also faced major retention problems for some time. This has prompted considerable re-adjustment in employment relations and employment conditions. Fragmented bargaining arrangements have given way, after fierce union pressure, to a national collective agreement and there have been significant pay rises as well as increased targeting of work practices (for an overview, see Rasmussen et al., 2005). As part of these adjustments, the Ministry of Health has promoted the 'magnet hospital' idea and launched the Magnet Network to counter retention issues and thereby contain health spending:

Costs are reduced because of lower staff turnover and shorter length of stay. Research has demonstrated a positive impact on organisational culture and increased institution stability. In terms of nursing outcomes, magnet hospitals have demonstrated enhanced recruitment and retention of highly qualified nurses. /.../ Turnover of nurses in New Zealand is approximately 19 percent across DHBs [District Health Boards] and 45 percent for new graduate nurses. In 2002 a pilot study to establish the cost of nursing turnover found that identifiable turnover costs were \$50,000 over a six-month period for a surgical and medical hospital units. Lower turnover results in substantial savings. (Ministry of Health, 2004: 1).

The pilot study mentioned above is an in-depth study trying to estimate both the direct and the indirect costs associated with turnover amongst hospital nurses (see North et al., 2005).² By establishing the level, costs and consequences associated with nursing turnover, the basis for developing considered staff policies is established. While it has been found that turnover costs are very high – at least above \$20,000 on average – and have a major influence on patient care and staff morale, it was also found that some regional hospitals had limited or no turnover issues. This was especially so in sought-after and rural areas (remember, that workplace culture, commuting and work-life balance were found to align with staff retention). Furthermore, considerable variation between hospital units within the same hospital could also be detected. This suggests that the type of nursing work, the working environment and managerial approaches can all have an impact on the level of turnover (again, this aligns with survey results).

Clearly, hospitals are trying to target work and employment conditions which may reduce retention. The ‘threshold factor’ of pay has been targeted through significant across-the-board pay rises and specific workplace payments, the magnet hospital idea and considerable attention to management practices and the working environment. Additionally, the limited retention issues in certain hospital units indicate that the emphasis on work-life balance and commuting could be increased. The well-established research findings of a high level of leaving intentions amongst nurses (Cobden-Grainge and Walker, 2002, Gower and Finlayson, 2002) as well as an aging nursing workforce (currently, nearly half of all nurses are aged 45 years and over), indicate that it was high time to react to retention and turnover issues.

Research on Employment Practices in New Zealand Call Centres

There has been much attention in academic research to call centres and the work carried out in them. The majority of this research has been derogative about the labour process used to provide the personal customer interaction via the telephone, a customer service operators represent the ‘voice’ of a ‘face-less’ organisation. Many researchers decry the conditions in which these operators have to respond to a stream of telephone calls, answer customer queries, provide information or sell products (Hannif and Lamm, 2005; Holman, 2002; Holtgrewe and Kerst, 2002; Taylor and Bain, 1999; Taylor, Hyman, Mulvey, and Bain, 2002a, 2002b; van der Broek, 2004; Wilk and Moynihan, 2005). The labour process in call centres is facilitated by Integrated Communications Technology (ICT) which provides a seamless operation so that each caller can be dealt with quickly and efficiently. The technology allows too the continuous monitoring, recording of calls and provides statistical measurements to assess the performance of each operator. Average handling time (AHT), adherence to schedule, (ATS), wrap time and call resolution are just some of the measures taken to determine how responsive and efficient the call centre operator has been.

² The Cost of Nursing Turnover Study has been funded by the Ministry of Health and the Health Research Council. It is part of an international project to examine the cost of nurse turnover and the impact of turnover on patient safety and nurse health and safety outcomes. Team members represent five countries and co-principal investigators are Dr Linda O’Brien-Pallas (Toronto University, Canada) and Dr Judith Shamian (Office of Nursing Policy, Health Canada). For further information, please contact A/Prof Nicola North, University of Auckland (n.north@auckland.ac.nz).

Overall, these features are criticised widely in the research for contributing to the stress associated with call centre work. It is claimed that this stress leads to the high turnover or ‘churn’ as commonly reported in the call centre industry sector with attrition rates of 50 to 100 per cent reported in the US (Srivastava and Theodore, 2006). Some call centres have tolerated high turnover by adopting a sacrificial HR policy (van der Broek, 2004; Wallace, Eagleson, and Waldersee, 2000) and they simply replace their frontline staff as they burn out. Such call centres have large recruitment drives and take in ‘batches’ of call centre operators for mass induction and training which may only last one day before the call centre representatives (CSRs) ‘go live’ on the telephones. Although widely acknowledged that turnover is a problem in call centres, the international research on the retention of staff in the call centre environment has been limited to studies focussed on why staff absences occur or how call centre work could benefit from providing more flexible work practices (Deery, Iverson, and Walsh, 2002; Knowles, O’Cathain, Morrell, Munro, and Nicholl, 2002; Pearson and Thewlis, 2002). In New Zealand, annual benchmarking surveys of call centres indicate that the mean turnover rates in call centres has ranged from 1999 to 2003 from 18 to 21% (see Figure 2). These figures have to be read in conjunction with the knowledge that the literature has found that turnover is typically under-reported by companies.

Figure 2: Mean Staff Turnover Rates in NZ Call Centres

Year	Mean Percentage FT Agent Turnover	% of Call Centres with no Agent Turnover, (n=161 call centres)
1999	18%	5%
2001	21%	2%
2002	18%	12%
2003	21%	15%

Source: (ACA Research Pty Ltd., 2002, 2003)

Another criticism of the international research on call centres is that they have limited or non-existent career opportunities and a ‘glass ceiling’ is still evident despite women’s numerical dominance of the sector (Belt, 2002; Belt, Richardson, and Webster, 2000; Belt, Richardson, and Webster, 2002; Belt, Richardson, Webster, Tijdens, and Klaveren, 2000; Deery and Kinnie, 2004; Durbin, 2006). Research in New Zealand suggests, however, a contrasting situation with women developing distinctive career paths and often managing the call centre operation even in traditionally male dominated sectors such as banks (Hunt, 2004, 2004 (b)). The findings discussed below suggest that different HR practices are being used in the New Zealand call centres, to retain women call centre workers, to encourage them to develop new skills and to accommodate their different labour market needs.

In order to determine whether women were developing career paths in their call centre jobs, our research interviewed 32 women who had experienced some career progression. Due to the widespread application of call centres across a diverse range of industries, case studies from six different sectors were chosen. The sample included inbound and outbound call centres - an outsourcer, bank and food manufacturer; inbound only call centres a government public service organisation and an exporter of primary produce, and an outbound-only call centre, a market research company. In order to investigate Human Resource practices and to triangulate data, six managers

from each case study were also interviewed (bar one, these were all male). Data was also collected from a total of 40 Customer Service Representatives (CSR's) via focus groups, informal group interviews or via written surveys.

The case study research has found a number of *positive findings*. It is evident from the research that many of the interviewed women were passionate about their call centre jobs and that they got a 'buzz' out of this particular kind of work. These women provide a different perspective on call centre employment to that predominantly found in the literature (Hunt and Rasmussen 2006; Hunt, Rasmussen and Lamm 2006). In this article, we focus on changing management practices. These practices go beyond the traditional token 'fun days' to relieve stress and boredom. Instead we found creative recruitment practices, the use of pilot studies and trying out new ideas, climate surveys to proactively develop a supportive culture, continuous management-staff discussion to empower staff and the encouragement of workforce diversity. Some of these management practices are illustrated below.

There's an opportunity to be a little bit creative in the market as well – to source the candidate we need. Our busy time is 9 to 2 so being able to recruit part timers is one thing. We have to be able to respond to the changes in the market very quickly and tailor our intakes with this. We don't have a stable resource base by any means in our workforce. It goes like this (up and down) constantly (Female call centre manager, Case Study One 2004)

We have a group of CSR's called our synergy group and they come up with ideas themselves. For example we are going to introduce a Trolley run where we are going to have scones and jam and with the Olympics coming up we will encourage teams to pick a country. We have various theme days and have monthly and quarterly awards – that's recognizing your top performing staff members, recognizing those who have made the most improvements and rewards for quality (Female HR Manager, case study one, 2004)

Recognition is really important and that's one of things that came through very clearly through the climate survey, and we do well at that certainly the messages have been keep doing what you have been doing and doing more of it. Particularly me, emails from me make a real difference ...even if it's just 'thanks for your help, I know it's been a bit tough lately' (Female Call Centre Manager, Case Study one 2004)

We have two career paths, which starts to split of between those that are interested in people, those that are interested in process (Female Call Centre HR Manager Case Study one, 2004).

It's a lot more than a job, I don't even see it as a job, leaving it is never an option that occurs to me, I am so passionate about it....The great part of our business is that we have those people who are really prepared to give everything and equally no one has kept them down. No one has said you are only a 21 year old, you don't know anything, we just like them to get on with it and have structures where they can do it. We encourage them to make the changes happen so they start doing it... that's pretty much the philosophy we have here (Female Operations Manager, Case Study two 2005).

Some of the case studies demonstrate too that employers are providing family friendly practices to keep their female staff. At one case study, this includes switching rosters for mothers with students during the school holidays while another actively targeted return-to-work mothers. Work life balance was a theme that recurred across the case studies and staff at both entry level and management felt they had a degree of flexibility in their call centre work. Some of this was around their ability to have control over the hours or days that they worked.

We recruit specifically for return to work mothers...it might be somewhere at the Crèches, where might put some advertising in to get people or have open days to get them to come in and see what a call centre is all about (Call Centre Manager, case study one)

Yes, they always very flexible when I started, I couldn't start till 9.00 I would drop my son off at 8.30 and I would walk out the door at 4.30. The manager accepted that I was family focused and my main priority was my child (Female Call Centre Manager case study four 2005)

Women are developing roles as leaders in the call centre environment and many women are learning the technical skills as well as getting opportunities to take part in management training. Two of the women interviewed (from different case studies) had been chosen to take part in University-level leadership development programmes. Some of the women had experienced rapid career progress partly because of the maturity of the industry but overall there is clear evidence that the skills these women bring to their call centre work are appreciated and in demand. Some call centre managers reported having no problems with retaining staff, mainly because of the way the call centre was run.

I have no issues with retaining staff and it is the same in Australia. I have used TAFE for training and it's neat as these people have chosen to study and you know they have the commitment, and they've got passion. Sometimes they just need a chance, they are the most loyal employees I've ever seen, and you know wonderful people (Customer Service Manager, Case Study 4, 2004).

Some call centre managers are people managers, but are not so good at understanding the technology or the IT they are using. This is something I have excelled at. and now I am directly responsible for 9 call centres, and I have some as small as 6 – 90 to 95. There are three geographically diverse call centres (Female Call Centre Manager, Case Study 6, 2006).

A lot of managers generally believe their career is the responsibility of their employer I say to my leadership teams that their career is their career but we will help them achieve their goals (Call Centre Manager, case study 6, 2006)

The Call centre was opened in October 2001 and I started in April in 2002 – it was brand new, when I started the majority of the workers were females. There was only 4 guys so it wasn't hard for us to progress It was pretty easy, I was promoted within six months (Female Project Manager Case study 5, 2006)

I don't work for the money, I come to work because I am *passionate* about what I do, because I can see me doing something good every day, I get results and that's a good thing, the money is great, it provides roof, shelter, food, shoes and handbags (*laughs*) (Female Call Centre Manager, case study 1, 2003)

The overall picture is one of *widespread change and experimentation*. Individual managers experiment with different management practices and they often listen and follow suggestions from their staff. This is clearly a learning process where managers and staff are trying to accommodate the needs of both the organisation and the individual employee. As we have stressed previously (Hunt, 2004a and 2004b), context is important as some types of call centres – for example, outbound market research companies – and some types of call centre work – for example, low-skill, scripted questions and answers – leave less scope for a stable and pleasant work environment. It is also necessary to stress that the evidence of changing management practices are mixed (Hunt, Rasmussen and Lamm 2006).

Conclusion

It is surprising that there was such a limited research interest in retention and turnover in New Zealand in 1980s and 1990s. It indicates that there were other labour market concerns and that the much talked about management saying that 'employees are our most important asset' was just that – talk! While there appears to be widespread understanding, at least in principle, that turnover can be costly and can damage production and service quality, research has shown that the gathering and the use of retention and turnover information have been insufficient or, in many cases, non-existent.

Still, the recent focus on retention and turnover has prompted more research and these research projects have re-confirmed the importance of interesting work, career opportunities and satisfactory employment conditions. This article has highlighted that the government, employers and employees have started to re-access their priorities. In particular, our case study research in call centres have found interesting examples of individual managers experimenting with new management approaches and practices. However, as we have emphasised elsewhere (Hunt and Rasmussen, 2006; Hunt, Rasmussen and Lamm, 2006), *context* is important and the findings on management practices are normally *mixed*. While individual managerial experiments have started to surface in more generalised changes across occupations and industries there are still a large number of jobs where interesting work, career opportunities and satisfactory employment conditions are just not part of the deal.

Although this article has emphasised how current attempts to contain turnover look spectacular when compared to the labour market of the 'New Zealand experiment' from mid 1980s to mid-1990s, this may be overstating the problem and focusing on the negative. Current recent retention and turnover levels fall way short of the higher turnover levels of the labour market in the 1960s (Dept of Labour, 1972). The 1960s were seldom seen as 'crisis years' and a great deal of progress, that is, equality, reduced working time, improved work environments, coincided with the tight labour market conditions at that time. It is necessary to remember that, amongst economists, high

labour mobility has commonly been seen as a positive indication that the 'market' is working. The recent changes to public policies and management approaches have benefited many New Zealand employees and these changes may also move the economy some way towards the elusive 'knowledge economy'.

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Exploring the Congruence between Job Perception and Job Reality in the Cosmetic Sales Industry

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Abstract

This research examines the relationship between job satisfaction, recruitment processes and organisational culture in a work environment in the cosmetic retail industry which is characterized by a high rate of voluntary turnover among its employees. Eleven participants, who had previously worked or were currently working for a variety of cosmetic firms in one particular organisational setting (a department store), were surveyed using a qualitative method of questionnaire and, where appropriate, follow-up interviews to elicit their perceptions of what their cosmetic firms projected as an organisational image and career prospects during the recruitment and induction process. Implications of the findings to recruitment and induction processes, and employee job satisfaction and retention are suggested.

Introduction

Many organisations in the cosmetic sales industry experience the problem of high employee turnover. Although high turnover rates may be attributable to a variety of factors, anecdotal comments made to the researchers from those within the cosmetic retail industry (including employees and supervisors) would suggest that the primary factor influencing voluntary turnover is job satisfaction. Job satisfaction may influence turnover rate in all employment settings, however, the issue seems to be pronounced in retail sales jobs. New employees, even those with recent business degrees, appear to enter cosmetic sales jobs with high aspiration for career advancement, including management positions in the national or even international arena. As an example, a sales position with an elite cosmetic company is envisaged to be a possible career path to a prestigious management position in Auckland, Wellington, or even Paris. Although this aspiration would appear to be unlikely at face value, experiences in the industry would suggest that this is how positions in cosmetic sales are sometimes advertised and projected during the recruitment process.

The purpose of this research was to gather information from current and past employees in the retail cosmetic industry to see if there was an incongruence between the way the organisational culture is perceived or advertised and the reality of the organisational culture experienced when the employee has completed the induction phase of employment and is working within the routines of the position. Further, the research examined this incongruence to see how this impacted job satisfaction and motivation.

We begin with a review of the relevant literature, examining the role of employee fit, turnover and the recruitment process with regards to employee satisfaction. From the literature review,

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a number of hypotheses emerged, namely considering how individual employees conceptualise their job trajectories, and how this in turn influences their job satisfaction and career decisions. Then the article reports on an empirical study of employee experiences. The information was gathered using a qualitative methodology and the results suggest that cosmetic industries should re-examine the role of career 'promises' in their recruitment practices as it appears to have some impact on the (dis)satisfaction of employees, and, therefore, the level of voluntary staff turnover.

Review of the Literature

There is a substantial amount of literature that examines the role of job satisfaction and work. For the purposes of this article, we will draw only on themes and results which can cast light on our examination of the relationship between job satisfaction, recruitment processes and organizational culture.

The literature review finds that employee fit becomes a significant factor influencing an employee's level of satisfaction with a company and, consequently, an employee's decision to remain with a company. In particular, two theoretical perspectives that have their origin in social development theory are likely to assist in understanding the factors that influence job satisfaction and employee retention.

Social Development Theory

The first theoretical framework that potentially helps to understand the interplay between personal motivations and environmental factors and how they influence personal trajectories is proposed by Rutter (1977, 1987). Rutter suggests that individuals have varying degrees of resilience, a concept he defines as a capacity for successful adaptation in face of challenging circumstances. A variety of personal attribute dispositions influence the varying degree of resilience, including motivation, outlook and resolve. These attribute dispositions are also influenced by a variety of personal factors such as an individual's age, gender, self-esteem, education and social status.

Rutter's work has been applied to social settings such as the family, school and community and the factors that contribute to or impede an individual's success in areas such as staying at school, not committing crime or refraining from taking drugs. However, it potentially can be applied to the human resource management context. Within an organisation, an individual's motivation to leave a job may be heightened by their motivation and self-confidence to pursue a more challenging job that provides more opportunities for professional advancement. Ticehurst and Veal (2000) outline many of the personal attribute and environmental risk and protective factors that are likely to contribute to employee turnover. They identify self-esteem, gender, age, housing tenure, education, social status, life satisfaction and marital status as significant personal characteristics influencing employee turnover. They identify salary, social interactions, organisational size, job uncertainty, type of industry, job level and involvement in decisions as significant work characteristics influencing employee turnover.

Labour Turnover

The literature regarding job turnover is significant in both its scope and size. It is worth noting for this research that it is a consistent finding that job dissatisfaction is an antecedent to forming the intention to quit (Harter, Schmidt and Hayes 2002). Incongruence between perceived and actual job prospects in the cosmetic industry, it is hypothesized, may lead to job dissatisfaction, and therefore increased turnover. A comprehensive study into labour turnover in New Zealand (Boxall, Macky, and Rasmussen, 2003), suggested that while motivation of job change was found to be multidimensional, the surveyed employees held strong expectations regarding promotion, pay and job security that effected their retention decisions.

Organisational Culture

The social phenomenon of organisational culture is a complex one. Essentially, it refers to 'the way things are' in an organisation (Dalin, 1993). It not only describes the organisation's physical environment, but also the psycho-social aspects of the environment (Fraser, 1994). These dimensions are dynamically interrelated and largely are controlled or strongly influenced by an organisation's administration. In effect, the environment includes both intangible and tangible aspects that silently and powerfully shape the experience and behaviour of a people (Owens, 1995). According to Ivancevich, Olekahns, and Matteson (2000), organisational culture is what the employees perceive and how this perception creates a pattern of beliefs, values, and expectations. As suggested by Schein (1985), organisational culture involves assumptions about what a company is like. This assumption is largely based on the company's brand image. Brand image is the company identity portrayed to the public through marketing strategies (Schein, 1985). As an example, a cosmetic company may market itself as a prestigious, luxury cosmetic brand. This is marketed through a variety of strategies including the clothing that their cosmetic retail staff are expected to wear.

In the context of this inquiry, organisational culture is important, as a new employee to the cosmetic sales industry is likely to hold a perception of what a company is like, but, in reality, the organisational culture may differ markedly from that which is projected by the company in the recruitment and selection process. A job advertisement and recruiting manager may project an image of what the organisation's beliefs, values and expectations may be but these may be incongruent with the reality of the work setting. The socialisation process, as Schein (1985) suggests, is that time during the employment phase when an employee is introduced to and is adopting the culture of an organisation. This would likely be the time in which an employer would become aware of this incongruence.

Job Satisfaction

Robbins, Millet, Cacioppe, and Waters-Marsh (1998) state that job satisfaction can be identified as an individual's general attitude towards their job. This definition is developed by Ivancevich, Olekahns, and Matteson (2000) who state that job satisfaction results from an individual's perception of their job and the degree to which there is a good fit between the individual and the organisation. An employee's assessment of how satisfied or dissatisfied they are with their job is a complex summation of a number of discrete job elements. As stressed by Firth, Mellor and Moore (2003) these elements may have both extrinsic and intrinsic sources. For example, these might include external attributes or aspects such as pay, promotion opportunities, and relationships with supervisors and co-workers. It also includes further factors of the work environment such as the supervisor's style; employment policies and procedures; work group affiliation; working conditions; and fringe benefits. As well, an individual's sense of self-worth and ability to cope with change are often cited intrinsic or

personal factors which may influence job satisfaction (Firth, Mellor and Moore, 2003). In this research inquiry, factors contributing to job satisfaction and dissatisfaction will be identified. In settings where employees experience congruency between the reality of the organisational culture and a positive employment aspiration, job satisfaction would be expected to be quite high. A retail cosmetic employee who has started out as an ambitious, happy motivated employee excited about their new job as a cosmetics counter manager, who is driven to succeed and do their best, comes to realise that there may be not the job prospects or promising career path that they had hoped would come to fruition. This realization may lead to the fact that they become disillusioned about their future with the company, or even let down and bored by their position and they may soon feel that it is time to 'move on'. As Nicholson (2003, p. 26) notes, the effect of these 'broken promises' at work, is to transform a person's positive energy into negative.

The Recruitment Process

The third component relevant to this research inquiry is job recruitment. One of the aspects in job recruitment most important to this inquiry is the consideration of how the organisation's image comes across in the job advertisement and the recruitment and selection process as the degree of organisational fit has an important role in influencing job satisfaction. Since recruitment programs are directed toward new employees, (i.e., those not now in the organisation, it is desirable to give prospective employees information about not only the job but also about those aspects of the organisation that affect the individual. As Ivancevich et al. (2000) have stressed, the recruiter should, to the extent possible, convey factual information about such matters as pay and promotion policies and practices, objective characteristics of the work group the recruit is likely to join, and other relevant information about work policies and practices.

Hypotheses

This study is focused on understanding the relationship between individual employees and their career trajectories and how the environment in which they work influences their job satisfaction and career decisions. Further, it is suggested that job satisfaction may be associated with the degree to which the image of the work setting, either as projected by the employer or as idealised by the employee, corresponds to the reality of the setting experienced as an employee (Harter, Schmidt, and Hayes 2002).

Method

The paper uses data from a study that was conducted between May and July 2005 in a large retail store where eight cosmetic companies currently have individual retail counters staffed by a company sales representative. The sales staff have been recruited by the cosmetic company to serve the sales requirements of that company. In addition, the sales staff are under the direct supervision of the retail store management. All departments within the retail store, including the cosmetic sales staff, report to the store management on a day-to-day basis. It is the store managers that monitor employee sales and performance. Although all cosmetics are sold and allocated to the store from the cosmetic house head office (usually in Auckland), the profit from sales actually goes to the department store. Simply put, both the cosmetic sales company and the retail store management want the sales staff to be successful in their sales volume. It is also important to note that the sales consultants have minimal contact with their

cosmetic company. They have infrequent contact with company representatives and have opportunity for national professional development opportunities (single or multiple day events) with other company sales representatives, on average, once every six months.

Participants

- All of the eleven respondents were female.
- They ranged in age from 21 to 51, with a median age of 26.
- There was considerable variability in participant educational background, ranging from School Certificate to Post-Graduate qualifications such as Marketing Diplomas and Masters Degrees.
- The eleven respondents worked for a total of six cosmetic houses. The cosmetic houses ranged considerably in image and customer clientele, two would be commonly perceived as high-end, two medium-range and two lower-end cosmetic firms.
- Five respondents were previous employees, and six were currently employed.
- The past employees worked for a range of one to five years for their cosmetic house. The median time was two years.
- None of the current employees had worked longer than four years, with a median term of employment of just over one year.

Each cosmetic company is unique in terms of how they advertise, recruit, select and train their sales representatives. As well, each company has a particular brand image and their own organisational culture. Despite these differences, each sales representative often operates in the same physical work environment when, as in our research, several cosmetic companies have sales counters within larger department stores. The sales consultants for these companies have been recruited and trained by representatives from company head office which is usually based in Auckland. Employees both past and present were approached to participate in the research inquiry.

The method used to collect the data was a combination of preparatory questionnaire followed by a semi-structured interview. All contact with the sales staff were on a strictly confidential manner. They were informed that their responses would not be released in any form to management. Staff were surveyed through questionnaire, using a series of open and closed-ended questions, seeking biographical information and information pertaining to their jobs and the three constructs in the inquiry, such as factors relating to job satisfaction and motivation, and what information was given to them about their jobs in advertisements and interview stages of recruitment. This information was then analysed to identify common themes in order to help identify whether an incongruence existed between the perception and reality of the job. As well, the analysis focused on determining the influence of congruency on job satisfaction and turnover. Follow-up interviews were also carried out to elucidate any queries that emanated from the questionnaires. Furthermore, the researcher works in an indirect role with the cosmetic sales participants and was able to make field observations pertaining to the context and focus of study.

The focus of this research inquiry was to identify whether individual employee personal aspirations of their employment are congruent with organisational culture and the reality of their job experience and by so doing determine whether the degree of congruency between aspiration and culture influences job satisfaction. The focus of the inquiry is to uncover meanings and understanding of the issues associated with social phenomena and, thus, the research is qualitative in nature (Ticehurst and Veal, 2000). Since the focus is on cultural

aspects of their personal experience, the specific qualitative interpretivist research methodology used in this research project was ethnography.

Eleven sales representatives participated in the study. The information from the questionnaires was processed according to the suggestions made by Ticehurst and Veal (2000). Emerging patterns, relationships and recurring themes were identified as the researcher read and re-read the participant responses. These patterns and trends, once identified, became tentative hypotheses that were then refuted or affirmed through the follow-up interviews. Seven of the eleven people that returned the questionnaires were interviewed. Four participants were not available because of work, family and travel commitments for follow-up interview during the time interviews were being conducted.

Results and Discussion

The Sample

Prior work experiences were quite variable. Younger employees typically had had retail sales experience, but not necessarily in the cosmetic sales industry. As well, the younger employees (under 24) had just completed their tertiary qualification and this appointment was an entry-level position in the cosmetic and beauty industry. More mature respondents (25 to 30), as might be expected, had considerably more experience and education. Most of the respondents had worked in the cosmetic, health and beauty industry, but in smaller companies. These respondents had been in the company the longest, but still held no position of authority within the organisation. There was consistency in the professional aspirations held by the respondents. Five of the interviewees wanted to, in the future, be travelling area managers for their cosmetic companies; two wanted to be cosmetic training and development managers; three ultimately wanted to manage or own their own cosmetic businesses; and one was uncertain about the future career path. Thus, their appointment to this position was accompanied by an aspiration to succeed within the industry.

The Recruitment Process

The majority of respondents found out about the cosmetic sales job through personal contacts. Three reasons were identified for applying for the job.

1. Four identified it as a means of putting recent training to work.
2. Three suggested that the company was a good brand with good career opportunity.
3. Four suggested they were looking for a change from their previous position.

During the interview process, few could recall if there was any suggestion that there was a possible career path with the cosmetic company. Two of the respondents, again working for the more prestigious companies, were informed that supervisory and leadership opportunities were available further on in their career with these cosmetic companies. In reference to the actual pharmacy as a work environment, based on the interviewers' comments respondents recall being under the impression that the work environment was competitive, but a fun place to work. They were under the impression they would be highly rewarded for their efforts. In general, the respondents stated that both the pharmacy and the cosmetic company projected a brand image that was very similar. As well, the advertised position and interview corresponded to most of the respondents' professional desires. As 'Karen' suggested:

“I thought that the job as a cosmetic consultant tied in well with my recent education and that I could utilise my education to move into a manager role in the company within two years. I was told this by the current area manager.”

Furthermore Kate stated:

“I really wanted to be a manager within a cosmetic company and really believed that this was a good job to accept as it gave me this possibility. It was just what I wanted.”

Interestingly, two respondents clearly had an idealised perception of the position and what it might offer as a career path. This perception was influenced largely by media imaging. For example, Sylvia stated:

“I was really excited about the prospects. For as long as I can remember I have wanted to work for a prestigious company like this and travel. I know they have these counters everywhere and I’d love to work for this company in Europe or something.”

In conclusion, anticipation of an exciting, challenging career path was a common perspective presented or at least perceived to be presented to the respondents when they were going through the recruitment process of their employment. As well, some respondents’ views were largely constructed from their own perception of what the job would entail. As Eckman suggested (1980) good recruitment processes should work towards establishing congruence between perspective employee aspiration and what the organisation itself can offer. This congruence or fit is imperative because prospective employees can see themselves fitting in with the company objectives.

Actual Work Experiences and Perceptions

During the first month of employment, two common perceptions of the cosmetic house were identified by respondents.

1. Working relationships with colleagues
2. Competitive work and sales environment.

The first perception pertained to working relationships with colleagues. Most of the respondents stated that the collegial relationships among the sales consultants were very positive. The sales consultants commonly mentioned that their colleagues assisted them and helped them understand some of the protocols, in particular performing the accounting and sales documentation and identifying the fairest bosses and who to watch out for. One respondent (Sylvia) mentioned that although the collegial relationships were overall quite positive, interpersonal relationships with colleagues could be strained:

“Some of the people I work with have really bad mood swings which I find hard to deal with. I don’t like the way people talk about others behind their back. There can be a lot of cattiness at our workplace and some people can back-stab quite a bit.”

Second, there was a very competitive, goal-oriented, high management expectation projected by the direct work environment. This was accompanied by little support from the direct work management. These experiences were shared especially by the younger employees on the less prestigious counters. As an example, Stella said:

“I had a lot to learn and was not given much help or support. I knew I had lots of learning to do and I was told that there was a company representative who would support me – I was wrong. Instead, I was sent a photocopied booklet on the products I was to sell, with a questionnaire at the end which I was to send back once I had sold a certain number of products and stuck the price stickers on and then they sent me a company badge and that was it – I was in charge of the counter and expected to achieve ridiculous sales targets straight away.”

This comment was similar to that suggested by Kylie:

“It was really obvious that this company was all about making money and they don’t really look after their consultants...their targets are really high and I was given no support.”

Conversely, some employees had very positive induction processes. As an example, Kate said:

“As soon as I was offered the job the company flew me to Auckland, put me up in a flash hotel, and did a one-on-one intensive crash course in selling. Then when I had my first day at work I was shown the ropes by a senior employee on a similar counter to mine and she was really supportive and helpful about everything from selling to make up and using the computer to do paperwork. Then on the second week I was there, the area manager came down and spent a day with me going over details, and then after a few weeks, I was flown back to Auckland and put up in the flash hotel again for a three-day basic training with all the other new consultants. I then came home with hundreds of dollars worth of fine French perfume and cosmetics. It made me feel really special and confident about my new job.”

Despite Kate’s positive experience with her cosmetic house, her experiences with the direct managers in her work environment were negative. She stated:

“I didn’t think that we would be monitored every day on how many customers we served and how many items we sold per transaction, and being spoken to by management sternly if it wasn’t high enough. I was under constant watch and pressure which was horrible. The management was really horrible, not at all friendly.”

Despite the positive induction processes that most received from their cosmetic company, as illustrated by Kate’s example, the actual in-house managers were seen to display little personal concern for the new employees. In general, most respondents recognised that the in-house business managers were not very personable or approachable; didn’t take an active interest in the new employees; and only seemed to be interested in the sales figures that they generated each day. Stella mentioned that:

“On my first or second day on the job, my direct manager told me that the store manager/owner would look at the sales figures on the computer numerous times a day to see how much everyone is selling, and if you are at the bottom he will come ask the manager “what is wrong with her today, she hasn’t sold very much” that would make me feel stink like I have let everyone down.”

In general, many of the respondents experienced a dichotomy of responses from management as employees. On the one hand, the management of the cosmetic house that they worked for

was very positive towards the employees. They wanted the employee to feel part of the family of both the international and organisational culture. Most employees were given the opportunity to attend prestigious overseas or national conferences in places like Singapore, Fiji, or Rotorua, but then others, normally those associated with less prestigious companies, were not given these opportunities. As suggested by Ivancevich et al. (2000), the cosmetic organisation's primary activities during the first stage of socialisation are that recruitment, selection and placement were effective, in allowing new employees to experience positive feelings congruent with their aspirations. In contrast, the management of the direct work environment was not seen by any respondents to be respectful of or value employees. They felt that they were just shop workers that are only seen to be generators of income for the company directors. This dichotomy of response suggests that employees were experiencing opposing organisational cultures. Even though during the recruitment process, they were seen to be very similar. On one hand, the cosmetic house culture was congruent with their pre-employment perceptions. In contrast, the culture of the pharmacy was incongruent with their pre-employment perceptions. The direct work environment was being influenced negatively by the direct management.

Job Satisfaction

Of the eleven respondents surveyed and interviewed, nine respondents were generally satisfied with their job.

The most commonly cited aspects of the job that were enjoyed were:

- the positive collegial relationships,
- company rewards such as product allocation and travel opportunities to training/development workshops,
- positive customer relations, and
- the image of working for a prestigious place and company of work.

Respondents did not like:

- the competitive environment of sales,
- the ambivalence and rudeness of the owner/manager,
- the rudeness of customers, and
- the low pay.

Kate's comments clearly capture the mixture of likes and dislikes about the job:

"I enjoy working with the other girls, but I don't enjoy working in this business. There is so much pressure to sell-sell-sell, and the pay and benefits are shit. It was good for a bit but now its so boring. I hate having to lay low when the boss is grumpy – I think that's pathetic. Rude customers just make it even worse."

Half the respondents are no longer in the industry. Of those, two left because of negative, unsupportive management, and two mentioned that they were seeking new opportunities elsewhere. Five of the six remaining respondents currently working with the company were not content to stay in their current position. Two found their work environment stressful, and three were looking for jobs that better utilised their capabilities. These current employees continued to display an aspiration to fulfil their career trajectories.

As Stella mentioned:

“It became a boring job because I had gone as far as I could. It was clear if I was going to continue on I would have to leave. For the most part I enjoyed it here, but I just needed a new environment where I could develop more.”

It was clear that self-determination and goal orientation were strong personal factors that contributed to motivating individuals to either stay in a job or pursue new jobs. As stressed by Robbins et al. (1998), job satisfaction is an individual's general attitude towards their work. As suggested by Firth, Mellor and Moore, (2003) a variety of extrinsic and intrinsic sources contribute to job satisfaction. They suggest that satisfaction is primarily fostered by a good fit between an individual's needs and what the organisation has to offer.

Company Culture

All respondents perceived that they ‘fitted’ with the culture of the cosmetic company. Aside from two of the younger respondents working for the less prestigious companies, they all felt that they were made to feel welcome by the cosmetic companies during their induction phase. As stated by Kate:

“They are very encouraging and supportive and you are made to feel like you belong. There is a strong emphasis on appearance – they want you to be classy and elegant, and you are made to feel that when you are recruited, you have those qualities and the potential to fit the company image.”

Respondents also perceived that they fit the direct environment (the chemist shop) image, but not necessarily the culture. As stated by Kate:

“I thought this place had the image of being an efficient, supportive and highly professional environment; at least that's what I thought. But the culture is different than that – it is really competitive and sales-driven.”

Most of the respondents suggested that the culture of the direct work environment was largely incongruent with the actual culture advocated by the cosmetic sales company. The former was seen as competitive, goal-oriented, influenced by the shop's bosses' personal moods that tended to be very unsupportive and discouraging. The latter was the opposite. Employees were made to feel a sense of belonging and contribution to team goals, respected, valued, and able to contribute ideas to the overall national strategies.

Sylvia's comments captured this dichotomy:

“The training is full-on, and there's much info to absorb properly on the days that you were away, but you feel really appreciated and acknowledged for your efforts. And then I get back here and I work hard and don't get a pat on the back at all, just negative feedback.”

In summary, most respondents suggested that their fit with the cosmetic company contributed to positive job satisfaction. However, although they perceived that they fit with the image, they did not feel that they fit in with the organisational culture.

False Expectations

The final section of the questionnaire and interviews gave the respondents an opportunity to again identify the factors contributing to them either staying in their current position or leaving. As well, they were asked to clarify whether job satisfaction was influencing their decision. In many ways, this section of the questionnaire and interview served to confirm the accuracy of the data collected in the previous data collection sections. Although the majority of applicants displayed an adequate level of satisfaction with their employment, it was quite apparent that various factors were contributing to their job dissatisfaction and this was motivating or had motivated them to seek alternative employment.

As indicated in the previous sections of this report, two general themes were evident. First, the direct work environment, especially the organisational culture being strongly dictated by the management, was contributing to their negative job satisfaction. Factors such as the strong emphasis on sales; the unsupportive management, the moody boss, and repetitive and competitive nature of the work were commonly mentioned aspects. Second, respondents saw little opportunity for advancement for career trajectory within this particular setting. Sylvia's comment seemed to summarise this interplay:

“It all boils down to working here. I thought it would be more than just standing here looking pretty – I have had a good education and I want to put it to use, and here you are not really encouraged to use your potential and there is really no opportunity to use it either.”

Conclusions

This study found that, in general, respondents anticipated an exciting, challenging career path with their cosmetic company. This common perception was presented or at least perceived to be presented to the respondents when they were going through the recruitment process of their employment. Some respondents' views were largely constructed from their own perception of what the job would entail. In summary, most respondents had clear aspiration for success within the beauty and cosmetic industry, albeit potentially quite idealised. They also expected that the position being sought would provide the vehicle for achieving these goals.

Within the first month of their employment, the jobs the respondents secured seemed to be congruent with the professional goals of what they had in mind for their career paths. This was particularly true for the more educated respondents that had recently completed their education and were looking quite specifically for a job that provided challenge and opportunity in pursuing a career trajectory. Thereafter, incongruence between expectation and reality became more evident. In general, most respondents suggested that their fit with the cosmetic company contributed to positive job satisfaction. Most respondents also perceived that they fit with the organisational image (what the organisation was perceived to be) of the direct work environment. In contrast, most respondents felt they did not fit with the organisational culture (what the organisation was really like) experienced in their direct work environment. This culture was strongly influenced by the direct work environment management.

Interestingly, despite the dissatisfaction most of the employees experienced, employees continued to have high resiliency in terms of career aspiration. For the most part, the retail cosmetic employees who started out as ambitious, happy, motivated employees excited about their new job as a cosmetics counter manager and motivated to succeed and do their best,

often came to realise that there may not be the job prospects or promising career path that they had hoped would come to fruition. This contributed significantly to job dissatisfaction but did not deter employees from considering other employment options.

Clearly, it is important that an employee experiences congruency between what is conveyed about an organisation during recruitment and induction and what they experience in reality during the socialisation process. As well, if the actual organisational culture is quite different in a negative way from what was conveyed, job dissatisfaction is most likely to occur. It is likely that this dissatisfaction contributes to high employee turnover. In the context of this study, employees that are working in environments that are congruent to and foster their professional aspirations are likely to experience more job satisfaction and are likely to stay within their current work environment.

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Is there a link between Workplace Health and Safety and Firm Performance and Productivity?

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Abstract

Research on the connection between occupational health and safety (OHS) and increasing employee productivity and performance has become topical as a result of increased interest in ways to improve 'performance' in the workplace. Occupational health and safety academics have also recognised the social benefits of introducing improved health and safety standards. However, there is debate as to whether or not introducing improvements can actually increase measurable economic benefits. While most of the research has been located overseas, there is, unfortunately, little empirical New Zealand-based research in this area. Recently efforts have been made by the New Zealand Government and in particular the Department of Labour to remedy this situation and to fund research that examines the possible links between OHS interventions and firm performance and productivity as well as understand why firms implemented OHS practices within the New Zealand context. As part of this research, a comprehensive literature review on the topic was undertaken and it is this review that is the focus of the article.

Introduction

There is increasing and compelling overseas evidence that providing a healthy and safe working environment has the potential to increase labour productivity and in turn increase company profits. However, the New Zealand research on the links between OHS interventions and firm performance and productivity (and the subsequent tangible gains) is still largely undeveloped. In an attempt to redress this situation, the Department of Labour sponsored a study in which the aims were to: a) investigate the possible links between OHS interventions and firm performance and productivity; and b) understand why firms implemented OHS practices within the New Zealand context. The starting point for the project was a literature search to identify the most relevant material on the links between workplace health and safety and firm performance and productivity. It is the highlights of this extensive literature review that will be the focus of the article.

The literature specific to the topic, however, is not easy to locate and is difficult to draw upon. Instead, it is dispersed among multiple disciplines, such as ergonomics (e.g.

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Oxenburgh, 1991; MacLeod, 1995), health economics (e.g. Grozdanovic, 2001; Lofland, Pizzi & Frick, 2004), environmental medicine (e.g. Burton, et al, 1999; Goetzel, et al, 2001), sociology (e.g. Green, 1994; Hopkins, 1994) and law and economics (e.g. Hawkins, 1989; Gunningham & Johnstone, 1999; Dorman, 2000; Viscusi, 2004). In addition, the empirical research is often restricted by a predilection for a particular discipline. There is little interface between these disciplines, and differences also exist between methods and endpoints of research that draws upon a singular (rather than a multi-disciplinary) approach. The more advanced literature, however, acknowledges not only the complexities of trying to establish a connection between OHS and increasing productivity and performance but also stresses the point that it is more useful to adopt a multidisciplinary approach to the topic (e.g. Bohle & Quinlan, 2000; Shearn, 2003; De Greef & Van den Broek, 2004; Frick, et al, 2000, 2004).

Investigating this area is also not a straightforward task as the relationship between business performance and productivity and OHS interventions aimed at reducing illness and injury is strongly contested. On one side, there is the view that good health and safety practices are good for business and productivity, while on the other side, there is the view that OHS interventions are costly and interrupt the flow of work activity, and that regulations impose a non-productive investment (Shearn, 2003; De Greef & Van den Broek, 2004).

The central purpose of the literature review is to critique the extant overseas and New Zealand research on the links between workplace health and safety and business performance and productivity. Key themes that underpin the literature review are:

1. What does the current literature say about the links between workplace health and safety and company performance and productivity?
2. What are the key issues surrounding implementing OHS measures to increase productivity? In particular, who benefits from increases in productivity; how to evaluate OHS measures and economic benefits; and increased productivity?

The Literature on Links between Workplace OHS and Company Performance and Productivity

Attempts to link improved OHS practices and policies with improved firm productivity and performance have been driven not only by state agencies,¹ but also trade unions and the more enlightened employers. Increasingly enlightened employers, together with trade unions, are striving to provide safer and healthier workplaces which can translate into increased productivity, more job satisfaction, and stronger bottom-line results (Brandt-Rauf, 2001; Occupational & Environmental Health Foundation (OEHF), 2004; Boles, et al., 2004; De Greef & Van den Broek, 2004²).

Those concerned with workplace illness and injury are also endeavouring to *quantify* how the overall health and safety of an employee affects their ability to work productively (Goetzel & Ozminkowski, 2000; Bunn, et. al. 2001; OEHF, 2004). More precisely, the drive to link productivity with OHS outcomes is underpinned by four core reasons:

1. The need to find more innovative ways to reduce the high rates of workplace injury and illness than has previously been the case.
2. The pressure to reduce the social and economic costs of injury and illness, particularly compensation costs.
3. The need to improve labour productivity which does not result in employees working longer hours and taking on more work.
4. The need to provide good working conditions as a way of recruiting and retaining skilled workers in a tight labour market.

This drive to link OHS and company productivity has in the past decade stimulated academic research where rigorous, empirical evidence had previously been slow to materialise. The most sustained and notable examples in this area have taken place within the discipline of *ergonomics* (e.g. Sanders & McCormick; 1987; Simpson, 1990; Oxenburgh, 1991; MacLeod 1995; Frick, 1997; Shikdar & Sawaqed, 2003; Lahiri, et al 2005). MacLeod (1995:19) provides some insight into the reasons why ergonomists have been more active in this area and why they have been more successful in engaging with the business community over the links between OHS and productivity than professionals in other fields of OHS:

‘Improving the fit between humans and tools inherently means a more effective match. Good ergonomic improvements often result in better ways of performing a task. An ergonomically designed workplace (or product) is a more productive workplace (or product). Not exceeding human capabilities does not mean reducing output or doing less. On the contrary, good design permits more output with less human effort.’

The other discipline that dominates the research on the links between OHS and workplace productivity is *occupational medicine/health promotion*³. In particular, many of the studies on OHS and productivity have been generated by the following organisations within this discipline:

- *The Occupational & Environmental Health Foundation (OEHF)*, which was established in 2002 by members of the American College of Occupational and Environmental Medicine as an independent entity to promote and protect the health of workers through preventive services, clinical care, research and educational programs (<http://www.oehf.org>).
- *The Institute for Health and Productivity Management*, which is an American-based Institute created in 1997 with the sole purpose of investigating the link between employee health and enhanced business performance (<http://www.ihpm.org>)
- *Health Enhancement Research Organisation (HERO)*, which is a national, research oriented, not-for-profit, coalition of organisations with common interests in health promotion, disease management, and health-related productivity research. Established in 1996, its primary concern is on

prevention and a more healthy and productive population (<http://www.the-hero.org>).

- *Cochrane Collaboration*⁴ is an international organisation of academics that provide current reviews on OHS research as well as fostering investigations into prevention and intervention programmes that will enhance the well-being of workers and assist employers to provide good working environments (Verbeek, Hale & Ker, 2006).

The central tenet that runs through almost all of the occupational medicine/health promotion literature is that:

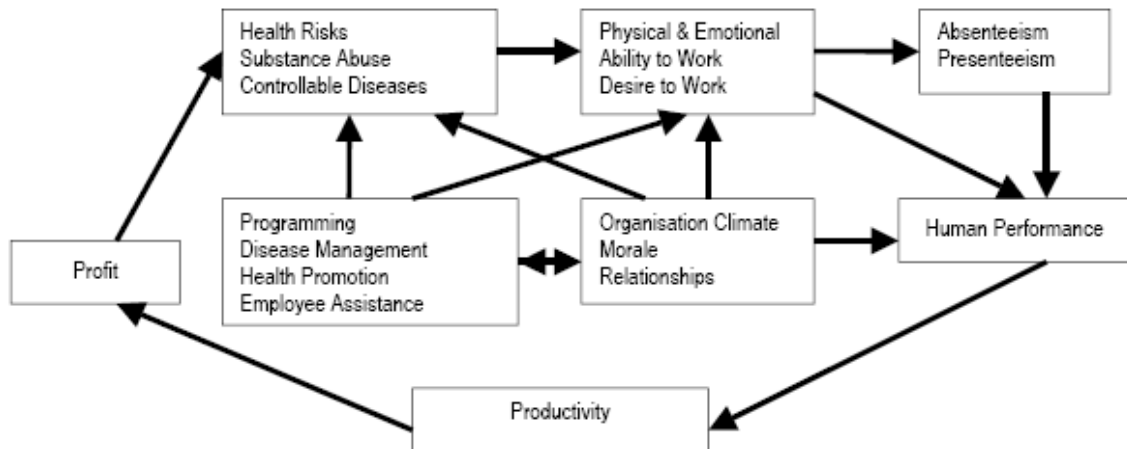
‘...human performance is higher when people are physically and emotionally able to work and have a desire to work. Higher levels of human performance lead to higher levels of productivity, which in turn can lead to higher profits.’
(O’Donnell, 2000: 215)

Located within the occupational medicine/health promotion discipline, O’Donnell’s (2000) conceptual model of human performance exemplifies this belief in which he attempts to illustrate the linkages between health and safety, productivity and profits, as outlined in Figure 1. Health and safety prevention and intervention programmes play a critical role in his model as these types of programmes can improve the physical and psychological well-being of the workforce which in turn reduces absenteeism and presenteeism. He also argues that such programmes improve the organisational climate, which enhances employees’ desire to work and directly raises human performance. He asserts that improved organisational climate, morale, and employment relationships as well as higher profits have the potential to reduce the health and safety risks – in essence it is a ‘*catch-22*’ situation. However, as laudable as O’Donnell’s (2000) sentiments are, others argue that the research on the relationship between safety climate and organisational climate is still in its infancy and will require a thorough investigation of the relationship between safety climate and safety culture (Guldenmund, 2000; Glendon & Stanton, 2000; Neal, et al, 2000; Smallman & John, 2001; Silva, 2004⁵).

Taking O’Donnell’s (2000) premise one step further, Riedel et al (2001), argue that reducing health and safety compensation costs has traditionally been the sole focus of employers. Riedel et al (2001), however, note that employers are beginning to recognise that employee wellbeing and corporate high performance ‘...emphatically go together’. They continue:

‘Greater gains may be experienced through the direct influence of positive worker health on individual or group productivity, improved quality of goods and services, greater creativity and innovation, enhanced resilience and increased intelligent capacity.’ Riedel et al (2001:167)

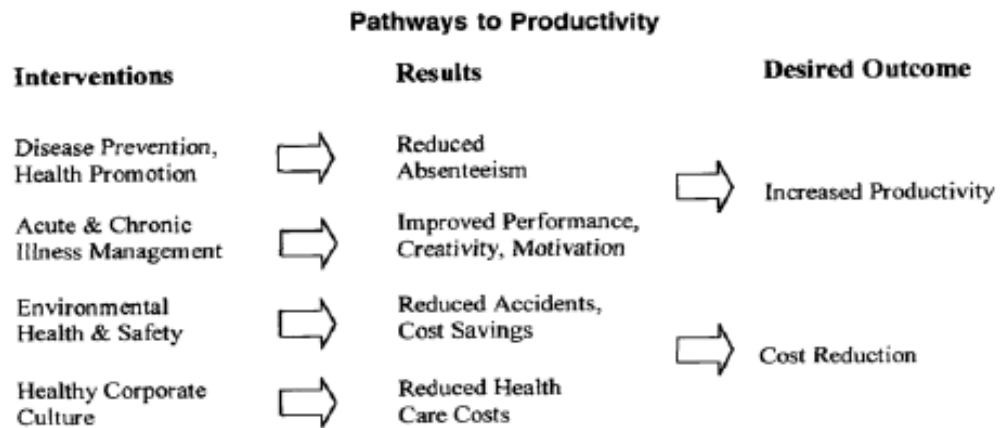
FIGURE 1: Linking Health, Productivity & Profit



Source: O'Donnell, (2000)

The model developed by Riedel et al (2001:168) outlined in Figure 2, illustrates how improved worker health and safety has the potential to increased performance with resulting effects on short-term and long-term productivity for the company, although they also acknowledge that there is a need for more empirical evidence.

FIGURE 2: Pathways to productivity



Source: Riedel, et al. (2001)

Issues Surrounding Implementing OHS Measures to Increase Productivity

As stated earlier, the topic on OHS relationship between business performance and productivity and OHS interventions aimed at reducing illness and injury is strongly contested. At the heart of this debate are three main issues, namely:

1. Who benefits from increases in productivity?
2. How to evaluate OHS measures and increased productivity?
3. How to evaluate the economic benefits?

Who benefits from productivity gains?

There is an inherent tension within this literature that cannot easily be resolved. Some commentators argue that productivity gains are often at the expense of workers' health and safety. Businesses typically strive to become more productive whereby workers are often driven to work longer, harder and more efficiently, and in some cases are required to work in extremely hazardous conditions, (Mayhew & Quinlan, 1999; Dorman, 2000; Quinlan, 2001). In many instances, OHS measures are implemented only to keep compensation costs down. Working longer and harder has become a growing phenomenon and over the past decade, New Zealanders are spending more time at work than many other industrialised countries (Callister, 2005; Rasmussen and Burgess; Stock, 2007). As a result, work-related stress and fatigue have become major issues. In short, implementing measures, including OHS, to increase productivity may create the opposite affect, as Goetzel, et al (2001:211) notes:

‘Instead of feeling empowered, [workers] may feel ... uncomfortable about their new job demands...They may experience increased stress, more worry about their job tenure, heightened feelings of detachment, and diminishing motivation to perform at peak performance...Low morale and poor attitudes about work can become contagious and infect fellow workers, further exacerbating individual productivity and bring about increased turnover and general organisational malaise.’

Based on his recent study James (2006) also observes that while exposure to hazards associated with machinery and manual handling are being reduced, other risks associated with increases in labour productivity are on the rise. He continues:

‘The fact that over half of these new cases of work-related ill-health stem from ... stress, depression and anxiety, and musculoskeletal disorders, also raises an important issue of policy, particularly when account is taken of the further fact that, against a background of increasing work intensity and declining worker discretion, the prevalence rate for stress and related conditions has recently grown substantially... It also further suggests, given the way in which these conditions

are intimately connected to workload levels and the nature of work tasks, that the achievement of reductions of this type will require employers to be placed under much greater pressure to design work tasks and establish workloads that are not detrimental to worker health.’ (James, 2006:11)

Thus, it would appear that efforts to increase productivity through OHS can have contradictory results.

How to evaluate OHS measures to increase productivity?

There is a plethora of OHS articles (both popular and scientific) spanning decades which are almost entirely concerned with inventing and promulgating OHS prevention and intervention programmes, *with little scrutiny of the efficacy of such programmes* (Smallman and John, 2001). As Shannon, et al. (1999:161) rightly notes: ‘...many interventions in occupational safety are implemented with the sincere hope that they will work, but with a lack of solid evidence of their effectiveness [and] can sometimes make the situation worse’. They argue that before we can properly assess the impact of health and safety preventions/interventions on workplace productivity, it is necessary to first judge each prevention or intervention programme against a set of criteria (Shannon, et al. 1999: 163).

Further, as more attention is given to scrutinising the efficacy of health and safety programmes, more substantial links are being made between the implementation of health and safety programmes and their beneficial impact on a firm’s productivity. To date the research leans towards the acceptance that introducing health and safety measures will have both direct (e.g. reduced insurance and workers’ compensation premiums) and indirect benefits (e.g., reduced staff turnover) including raising the level of productivity (Oxenburgh, 1991; Bottomley, 1994; Archer, 1994; Frick et al, 2000; Goetzel, 2001; Shearn, 2003; De Greef & Van den Broek 2004).

However, it is important to understand the various means in which data can be collected – namely: self-reporting, archival sources, or mixed methods. Evans (2004) warns that measuring increases in productivity is demanding and fraught with difficulties. In particular, while self-reporting may be valuable when there is no other suitable source of data or when the data is too costly to obtain, it is nonetheless based on the subjective reporting of the employer or employee. In terms of validity, archival data is the preferred source, however, not all employers collect archival data and frequently the data is limited to a sample (Evans, 2004).

There is also a need to clarify the various measurement tools available to assess the impact of health and safety on productivity, including absenteeism, presenteeism, short- or long-term disability, as well as defining the increments and gains in health and safety related productivity interventions (OEHF, 2004). As Goetzel, et al (2001:15) states:

‘A first step in establishing the link between health [and safety] and productivity is determining which baseline measures are central, germane, and likely to be broadly accepted by the employer community.’

At the heart of this discourse is the identification of basic metrics that can be used as national and international benchmarks for assessing health and safety related productivity (HSRP) and for the quantification of the fiscal impact of health and safety on the firms bottom line (OEHF, 2004; Ozminkowski, et al, 2004; Lofland, et al, 2004). One of the beneficial outcomes of this research is to provide senior managers with measurement tools to better understand the full costs of illness and injury within their own firms and to better understand the value of health and safety prevention/intervention strategies.

In addition, each method of measurement has its strengths and its limitations and there have been a number of useful critiques in this area undertaken by Riedel, et al. (2001); Lofland, et al. (2004), Ozminkowski, et al. (2004) and Evans, (2004). The criteria used by these authors to critique the various methods were: their reliability, validity, productivity metrics, instrument scoring technique, suitability for direct translation into a monetary figure, number of items, modes of administration and the disease states in which it had been tested. Also Riedel, et al.’s (2001) study organised and synthesised the literature on disease prevention and health promotion with reference to increasing business productivity into three categories:

- early detection of a condition;
- behaviour change programmes to reduce the risk; and
- care-seeking support to reduce the unnecessary use of care.

Although these attempts to scrutinize how best to evaluate OHS measures to increase productivity are useful, this inquiry is still evolving and requires more attention.

How to evaluate the economic benefits?

One of the primary drivers for introducing OHS interventions is the resultant economic benefits. More specifically, there is recognition that *productivity drives economic growth and profits*. Better management of worker health and safety and related productivity outcomes may create a competitive business advantage (Sullivan 2004:S56). The literature also suggests that managers are more likely to make a decision to implement health and safety measures in order to increase productivity based on the knowledge that there are economic benefits (Dorman, 2000; Grozdanović, 2001; Koningsveld, 2005).

However, Amador-Rodezno (2005) cautions, that it is not easy to convince employers of the economic benefits of OHS as typically they will underestimate the cost of the OHS problem while overestimating the costs associated with its remedy. Also establishing the cause-effect relation is not straightforward (William, et. al., 1997; Amador-Rodezno, 2005). This difficulty is complicated by the fact that in many instances several initiatives will be implemented at the same time (not only health and safety actions but also human

resource actions), which makes it difficult to link a specific initiative to a specific outcome(s) (i.e. increased productivity = profits) (Bergström, 2005).

Nonetheless, there are a number of ways to estimate the cost of an OHS intervention⁶. The two most prominent ones are: the insurance model and the cost benefit analysis model.

The insurance model uses workers' compensation insurance information to provide an estimate of the costs of OHS interventions. Although this approach has the advantage of simplicity in that it is reliant on only one source of information, it is also limited (Cutler & James, 1994). As Oxenburgh and Marlow (2005:210) note:

'It does not measure, for example, productivity losses and employee turnover and thus may seriously underestimate the total costs of injury absence. As it may underestimate the total injury costs it will likewise underestimate the potential savings from investment in avoidance of these costs...[It] will not provide an incentive for small organisations with no history of injuries to implement occupational health and safety improvements.'

The cost benefit analysis model requires more data than the insurance model in that it measures all significant employment and production factors and therefore, it provides a more comprehensive picture. That is, it assesses the *total costs* of employment and the losses due to workplace injury or illness (Oxenburgh & Marlow, 2005). Because it is specific to the organisation, it is a better reflection of the actual economic benefits. According to Lahiri, et. al. (2005: 242) there are four elements within the framework:

1. The cost of the equipment and labour of the intervention enters the cost equation as a positive component;
2. The degree of effectiveness of the interventions essentially determines the value of the avoidable costs of injuries and illnesses;
3. The increase in productivity results principally from the technological design of the equipment; and
4. The displacement of workers that might result from an increase in productivity of the intervention.

Lahiri, et al. (2005: 242) continue:

'While both the second and third component enter the accounting equation as negative expressions and help to reduce the real cost of the intervention, the cost of retraining for displaced workers enters the equation as a positive cost from the societal point of view'.

Oxenburgh & Marlow (2005:211)⁷ add that in order to determine whether or not there have been economic benefits as a result of an OHS intervention, it is necessary to gather data on the direct and indirect costs from a range of sources – namely:

- *Employee Data*: this includes the number of employees, their working time and wages, overtime, training and production costs;
- *Workplace Data*: this includes supervisory costs, recruitment, insurance, and other general overheads, maintenance, waste, and energy use; and
- *Intervention Data*: this relates to the costs associated with the intervention, for example, consultants' fees, disruptions, errors, etc.

The data categories are intended to answer the question: 'has optimal productivity been achieved?' If the answer is 'no', then the next questions are asked: 'why' and 'what can be done?' Oxenburgh and Marlow (2005) suggest that there may be a number of reasons for a lower than optimum productivity, for example, an ill-conceived timeframe. Oxenburgh & Marlow (2005:3) also argue that it is important to ensure that productivity data is relevant to the OHS intervention and include both quantitative and qualitative data. They warn, however, that ascertaining the economic and productivity gains as a result of an OHS intervention can be difficult and necessitates resources being allocated. For small businesses, in particular, undertaking this exercise could be problematic as there may be a lack of resources and expertise as well as poor record keeping.

Conclusions

There is increasing and compelling evidence that providing a healthy and safe working environment has the potential to increase labour productivity and in turn increase business profits. There are, however, a number of issues that cannot be overlooked, for example, what are the negative outcomes, how best to evaluate OHS measures in terms of increased productivity and are there economic benefits? It is also evident that there are certain necessary ingredients required, such as a good level of cooperation between the management and employees, to ensure the success of an OHS intervention and the subsequent increases in productivity.

However, the review of the literature has revealed a number of key gaps:

1. First, while there are a growing number of studies indicating the benefits of providing a healthy and safe working environment, the evidence is still tenuous and difficult to quantify. In particular, it is not known if the benefits are short-term or long-term. Also, while there is evidence that occupational injuries and illnesses impact on *productivity losses*, it is not clear whether or not reducing injuries and illnesses will automatically influence *productivity gains*. Therefore, as the literature suggests, getting employers, particularly those operating in the small business sector, to link health and safety measures with tangible increases in productivity and profits could be difficult.
2. Second, the extant research is biased towards *large organisations*, frequently situated in *North America*. This does not reflect the New Zealand business demographics (refer to Lamm & Walters, 2004). However, there is scant New Zealand research on the topic to rectify this imbalance.

3. Third, the literature on linking OHS with productivity is predominately concentrated in *two disciplines* – namely ergonomics and occupational medicine/health promotion. Indeed there is a danger that the topic will be entirely captured by the health promoters with little or no acknowledgement of how *safety* fits into the equation. Moreover, many of the OHS productivity methods and measurements are almost entirely *health-based*. Linking safety improvements (unless ergonomic) has been largely omitted from the discourse. Thus, given the complex nature of OHS and productivity, it is more useful to adopt a multidisciplinary approach (refer to Bohle and Quinlan, 2001).
4. Finally, there are also few references that make the connection between OHS and the sociology and organisation of work and productivity. It is imperative that OHS policy and practice and productivity gains are placed within the context of changes in the business environment – the changes to the way we work, changes to the legal framework, demographic changes; the impact of globalisation, etc. *That is, what is occurring in the business community is inextricably linked to productivity and the status of occupational health and safety.*

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Notes

¹ Recently the Department of Labour, for example, has been actively supporting collaborative research to improving New Zealand's productivity (www.dol.govt.nz).

² As part of the European Agency for Safety and Health at Work, (2004) mandate, Marc De Greef and Karla Van den Broek (2004) were engaged to undertake a comprehensive investigation into the link between a good working environment and productivity across the European States. The aim of the study was to gain a better understanding of positive effects of a good working environment that would support the implementation of effective health and safety policy at company level.

³ The level of attention in this area by medicine/health promotion researchers can be seen in the January, 2001, 43(1) special issue of the *Journal of Environmental Medicine*.

⁴ The Cochrane Collaboration project also investigates the prevention and treatment of occupational injuries (see www.cochrane-injuries.lshtm.ac.uk).

⁵ Refer to Silva, et al, (2004) for an extensive comparative discussion on the differences and similarities between the concepts of organisational climate and safety climate.

⁶ For a comprehensive overview of six different tools to evaluate the economic benefits of OHS interventions refer to Biddle, et. al. (2005) 'Synthesis and Recommendations of the Economic Evaluation of OHS Interventions at the Company Level Conference'. *Journal of Safety Research* 36: 261-267.

⁷ Oxenburgh (1991) and Oxenburgh & Marlow (2005) elaborate further on assessing the productivity increases as a result of OHS interventions in their software *Increasing Productivity & Profit through Health & Safety* (Product Ability, 2004).

Research Note: The Impact of Good Faith Principles on Communication Issues in Collective Bargaining

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Abstract

During the recent dispute between distribution workers and Progressive Enterprises Ltd (a subsidiary of Woolworths Australia Ltd), pay offers were communicated directly to locked out employees, despite their union representation. These actions are reminiscent of issues litigated under the Employment Contracts Act 1991 in a line of “communication cases” which developed the jurisprudence around the statutory requirement under this legislation to “recognize the bargaining agent” [s12(2)]. Under the Employment Relations Act 2000, general “good faith” principles and specific provisions relating to communication during collective bargaining provide the governing requirements for the behaviour of the parties. This paper examines the extent of curial acknowledgement of the radical shift in legislative policy underlying the Employment Relations Act 2000 in its application of the statutory provisions to communication issues.

Introduction

Communication issues are integral to any consideration of collective bargaining parameters. The nature and extent of employer communication with employees may substantially affect negotiation outcomes – an essential element of Boulwarism”, after all, was the strategy of effectively merchandising the employer’s offer to employees (Gross, Cullen & Hanslowe, 1968). Taken with other bargaining conduct, communication behaviour may also provide an indicator of harsh and oppressive dealings and unconscionable behaviour (refer to *Transportation Auckland Corporation Ltd v Marsh*).

During the recent dispute between New Zealand distribution workers and Progressive Enterprises Ltd (a subsidiary of Woolworths Australia Ltd), pay offers were communicated directly in order to locked out employees, despite their union representation. The behaviour was reminiscent of situations litigated during the 1990s under the Employment Contracts Act 1991 (ECA), but although the relevant unions sought the intervention of the Employment Court, the settlement of the dispute precluded any eventual judicial ruling on the conduct of the parties.

This paper considers the impact of the good faith requirements under the Employment Relations Act 2000 (ERA) on the jurisprudence developed in the line of “communication cases” and interpreting the statutory requirement under the ECA to “recognise the

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bargaining agent”. It would appear that in this context, as with other examples that giving meaning to the provisions of the ERA, the Courts require specific legislative wording to implement the radical policy intentions of the statutory objective to promote good faith in the employment relationship by (*inter alia*) “acknowledging and addressing the inherent inequality of power in employment relationships”.

Discussion

ERA Shift in Common Law Principles?

The New Zealand’s latest employment legislation has been described as “... radical and as effecting fundamental changes in labour law structures...The good faith obligation of the ERA is intended to be a driver of a quite different pluralist approach to employment relationships that contrasts with the market driven ECA. The broad formulation and scope of the statutory obligation...signal[s] a radical change of direction in labour law philosophy”, (Anderson, 2006: p13.). However, the courts have appeared reluctant to acknowledge a major shift in legislative policy with its concomitant impact on the shaping of common law principle. Thus, from a range of leading cases since 2000, a crucial question has emerged – namely: “To what extent has there been a shift or departure from the ECA, in which the objectives and provisions of the ERA represent?”.

In the first case decided after the enactment of the ERA – *Baguley v Coutts Cars* – the Full Bench of the Employment Court stated that:

“The Employment Contracts Act 1991 has been repealed. A markedly different regime has been established in its place. It is therefore not satisfactory to make decisions in reliance on cases decided while the Employment Contracts Act 1991 was in force unless they state principles of general application as opposed to principles peculiarly arising out of the Employment Contracts Act 1991” [2000] 2 ERNZ 409, 420

However, in overturning the Employment Court, the view of the majority in the Court of Appeal was that:

“It has long been the law that the special nature of the employment relationship incorporates mutual obligations of trust and confidence...We do not see that the new statutory obligation on employers and employees to deal with each other in good faith introduces any significantly different obligation to that the Courts have placed upon parties to employment contracts over recent years”. [2001] 1 ERNZ 660, 672 per Richardson, P, Gault & Blanchard, JJ.

In concurring, Tipping, J also stated that “... the new Act simply ratifies and incorporates much of what was regarded as implicit under the earlier regime”.

The initial assessment of the Court of Appeal was that ideologically the legislative principles underlying the ERA did not differ significantly from those of the ECA. A specific legislative amendment was needed in order to clarify that the purpose of the statute could only be achieved through recognising that "... employment relationships must be built not only on the implied mutual obligations of trust and confidence, but also on a legislative requirement for good faith behaviour ..." and that the "... duty of good faith...is wider in scope than the implied mutual obligations of trust and confidence..." s3(a)(i) & s4(1A) ERA.

A further Court of Appeal judgment, *Three Foot Six Ltd v Bryson* [2004] 2 ERNZ 526 rejected the submission of counsel for the appellant that the ERA definition of 'employee' represented no change from the position under the ECA but described the effect of the ERA as "... more in the nature of a nudge rather than radical change in this area of the law" (CA p544). A significant aspect of the reasoning supporting this conclusion was an examination of the legislative history with close attention to the revision of wording at the Select Committee stage. The majority decision appeared unable to accept the persistence of the original legislative intent in the face of amended wording, preferring instead to read down the scope of the definition. This point remains moot following the reversal of the Court of Appeal by the first employment law decision in the new Supreme Court. While endorsing the interpretation of the statutory provision in the Employment Court, (which reached a different outcome from the Court of Appeal) the issue of legislative intention was not traversed by the superior court.

Also in the *Gibbs* case ([2005] 1 ERNZ 399), the Employment Court found itself unable to read up the altered provisions which emerged from a Select Committee process in order to achieve the outcomes that were clearly anticipated in the original explanatory notes to the Bill when first introduced to Parliament. Although not assisted by the drafting of the revised provisions, the decision again reflects what appears to be a tendency to assume that the common law principles, shaped by the ECA, represent a default position against which departures must be established by unambiguous, explicit, statutory language. As mentioned, the enactment of further, very specific and detailed legislative amendments was required to spell out the initial legislative intention, although these amended provisions themselves have yet to be interpreted by the courts.

ERA and Communication Issues

In the first major ERA case to come before the courts on the issue of communications during bargaining – *Christchurch City Council v Southern Local Government Officers Union Inc*, [2005] 1 ERNZ 666 – the argument was again presented that the ERA did not implement significant alterations to the position established under the ECA. Counsel for the appellant submitted that relevant provisions of the ERA "... do not substantially alter the law as it existed under the 1991 Act but incorporate s12 of that Act and subsequent judicial interpretations of that section". It was argued "... that the requirement in s 32(1)(d)(i) for the union and the employer to 'recognise the role and authority' of the other substantially reflects the wording of s12 of the 1991 Act". Counsel also argued that

this wording in s32 was “... to reflect Parliament’s intention to retain the previous regime by codifying the case law in relation to communications with employees as it was decided under the 1991 Act”.

Although the Court rejected this position, it expressed its finding in terms of a parliamentary intention “... to extend the obligations of each party beyond that expressed in s12 of the 1991 Act”. The jurisprudence developed under the ECA around the extent of communication between the bargaining parties permitted by judicial interpretation of s 12 again clearly provides a default reference point for the Court in giving meaning to the ERA provisions. An examination of the development of principle in these “communication cases” provides an opportunity to assess the impact of the ERA’s good faith provisions and the extent to which the courts have recognised that these represent a departure from the contractualist framework of the ECA legislation.

ECA “Communication Cases”

The initial ECA case, *Adams v Alliance Textiles (NZ) Ltd*, [1992]1 ERNZ 982, was heard within a few days of the Act coming into force. The relevant statutory provision, s12(2), stipulated that:

“Where any employee or employer has authorised a person, group or organisation to represent the employee or employer in negotiations for an employment contract, the employee or employer with whom the negotiations are being undertaken shall...recognise the authority of that person, group or organisation to represent the employee or employer in those negotiations.”

The complex facts also raised a range of other issues, including whether the employment contract was procured by undue influence or by harsh and oppressive behaviour. In effect, within the context of the new employment relations environment, the employer sought to replace a union negotiated award with their own collective, standardized contract. To procure this outcome the employer met with employees directly, exerted strong pressure on individuals, and attempted to prevent union consultation with employees. The judgment summarised the situation as including “... the control and domination of the employer, the absence of independent advice, the deliberate exclusion of the union advisors, the pro-active aggressive marketing approach by...management to the promotion of the contract, the strong personalities of the managers, the absence of competent explanation of alternative rights or options available, [management’s] knowledge of that void, and the nature of the transaction” [1992]1 ERNZ 982, 1033.

The Employment Court decision did not consider, however, that the s12 requirement to recognise the bargaining agent precluded the employer from direct communication with employees about the bargaining or that it required a balanced or unbiased presentation.

“The Act is quite specific as to the conduct which is prohibited and the Court is not justified in putting a gloss on the Act by importing a requirement nowhere

expressed in it that the employer should remain neutral when its vital interests are affected and maintain in that situation a “hands-off stance”...an employer may adopt and impart to its employees a partisan stance”. [1992]1 ERNZ 982, 1023

Although insisting that the employer was required to negotiate with a properly instituted bargaining agent, the Court countenanced both a direct approach by the employer to revoke a bargaining authorisation and employer persuasion to do so. (at 1024). The Chief Judge’s refused to “... read into ...the Employment Contracts Act 1991 any implied rule of neutrality or restricting communications to those said to be necessary for the efficient operation of the employer’s business” (at 1026). He saw the New Zealand legislation, in which the “...purpose is to abolish compulsory membership of unions and the monopoly or statutory right which unions had in the past to negotiate collective employment contracts on behalf of employees ...” as “antithetical” to the Canadian good faith provisions in a context where collective bargaining is “...the preferred option” (at 1025). This decision provided no protection for employees from the undue pressure by employers to revoke their option for union bargaining authorities during negotiations and to agree to the employer’s terms.

By the time Adams reached a full Court of Appeal, it had been re-titled *Eketone v Alliance Textiles (NZ) Ltd* [1993] 2 ERNZ 783 and the issues were no longer considered to be “live”. The following obiter dicta statements in the judgment of Cooke, P, which was supported by three of the Court of Appeal bench, however, became widely accepted as defining of the effect of s12(2).

“I am disposed to think that once a union has established its authority to represent certain employees ...then the employer fails to recognise the authority of the union if the employer attempts to negotiate directly with those employees. To go behind the union’s back does not seem consistent with recognising its authority...Certainly an employer is free not to negotiate with anyone; but if he wishes to negotiate I doubt whether he can bypass an authorised representative.” [1993] 2 ERNZ 783, 787

Following *Eketone*, the Employment Court’s interpretation of s12(2) focused substantially more on employer communications with employees, rather than on attempts to have the bargaining authority revoked and that the issue of “recognition” of the bargaining agent centred on whether the comments and actions of employers undermined the authority of the agent to negotiate.

The applicants in *NZ Medical Laboratory Workers Union v Capital Coast Health*, [1994] 2 ERNZ 93, appeared to have negotiated a collective contract with the employer’s predecessor, the Wellington Area Health Board. Discussions as to the details of the document with Capital Coast Health, however, became progressively more acrimonious, to the point where Capital Coast began to communicate directly with employees rather than the union, pressuring them to accept a consolidated enterprise contract, rather than the laboratory workers’ contract, which had been the subject of the earlier negotiations. Information packs and copies of the contracts, together with letters containing

disparaging comments about union officials, were circulated directly to employees. Meetings were also held with employees in the absence of their bargaining agents, promoting the employers' consolidated, collective contract and seeking employees' signatures.

A full bench of the Employment Court granted the injunction sought to prohibit further breaches of s12(2), finding that the various actions and documents circulated undermined the authority of the bargaining agent. The Court of Appeal upheld all but one of these findings but completely rejected the basis for the Employment Court's conclusions that there is an implied duty of mutual trust and confidence in all contracts of employment. The Employment Court had accepted that "...this implied term will require an employer and employee to negotiate in such a way that they do not contravene their mutual obligations in the continuing employment relationship" [1994] 2 ERNZ 93 at 126. The Court of Appeal found questions of motive and good faith to be inappropriate considerations. Hardie Boys, J, in a passage quoted with approval in subsequent Court of Appeal decisions, stated that:

"The ECA must be seen as essentially practical legislation designed to deal with everyday practical situations. It is not appropriate to subject it to esoteric analysis or to draw fine distinctions in its application...I do not think that its meaning is greatly assisted by devising tests, whether they be of motive, either dominant or secondary, or of effect, either intended or incidental.

Section 12(2) is predicated on the basis that negotiations for an employment contract are under way between the employer and the employees' authorised representative. Negotiations are as I have said a process of mutual discussion and bargaining, involving putting forward and debating proposal and counter-proposal, persisting, conceding, persuading, threatening, all with the objective of reaching what will probably be a compromise that the parties are able to accept and live with. Once that process is under way with an authorised representative participating, the process may not be conducted directly with any party so represented. The provision of factual information does not impinge on that process. But anything that is intended or is calculated to persuade or to threaten the consequences of not yielding does. Whether any words or actions are of that kind is a question of fact to be determined on an overall view of what was said or done and the context in which it was said or done...But again the provision of factual information, relevant to the matter in hand, cannot be interference. And again, the same kind of overall assessment must be made to determine on which side of the line particular facts fall". [1995] 2 ERNZ 7 at 320

The judgment also took a narrower view of what constituted "negotiation" for the purposes of recognising a bargaining agent, regarding it as the bargaining process rather than all communications on the subject of the negotiations.

Between the Employment Court and the Court of Appeal decisions in *Capital Coast Health*, the Employment Court delivered its judgment in *Ivamy & ors v New Zealand*

Fire Service Commission [1995] 1 ERNZ 724. The Commission was engaged in a controversial restructuring of the New Zealand Fire Service and negotiating of a collective contract for firefighters. An existing undertaking by the Commission not to communicate directly with firefighters, rather than their union, had settled a previous dispute arising from attempts to extract individual signatures to a collective contract directly from the firefighters. The Commission arranged for individual information packs containing contract proposals to be couriered to firefighters at a time when collective negotiations were scheduled to resume with the union officials, (who would presumably be out of reach of their members with their cell phones turned off). Unfortunately, the individual information packs were couriered earlier in the day and the union received a different set of information much later. The collective negotiations were abandoned.

The Court found that the information packs were an attempt to by-pass the union and negotiate directly with the firefighter employees. In what became known as a “blanket prohibition” Chief Judge Goddard stated that:

“I would now hold that once negotiations for an employment contract have begun and the employees’ representative has established its authority to represent the relevant employees, no further communication on the subject of the negotiations should be addressed by the employer to those employees... Communications on all other subjects may continue but if the employer has anything to say about the negotiations, there is no reason why it should not say it to the employees’ authorised representative”. [1995] 1 ERNZ 724, 766.

A more restricted reading of s12(2), however, was provided by Judge Colgan in *Couling v Carter Holt Harvey*. In discharging an interim injunction restraining communication to employees, Judge Colgan did not consider the “blanket prohibition” of *Ivamy* appropriate.

“I consider that it will be a matter of fact and degree in any particular case to determine a number of questions including whether communications about the negotiations amounted to an attempt to negotiate and whether on the facts of the case they amount to a failure or refusal to recognise the authority of the appointed bargaining agent...I do not agree that communications per se about the negotiations necessarily amount to negotiating and thereby undermine the representatives’ authorities to represent employees” [1995] 2 ERNZ 137 at 153.

The Court of Appeal decisions in *Ivamy* [1996] 1 ERNZ 85 and in the *Airways Corporation case* [1996] 1 ERNZ 126, were delivered on the same day, traversing similar issues. In overturning the Employment Court ruling, the Court of Appeal found that employer communications in these cases did not undermine the authority of the bargaining agent. The argument of the majority judgment reiterated the words of Hardie Boys, J (above) and the principles set out in *Capital Coast Health*, and in this light considered that “...the approach taken by the Chief Judge on the law was in certain respects erroneous” [1996] 1 ERNZ 85,102 per Richardson P, Gault and Henry JJ. Thus, Court of Appeal majority not only completely rejected the “blanket ban” approach, but

also applied the law to the facts in both these cases in a manner that raised particular concerns.

In his dissent in the *Airways* case, which he also incorporated by reference into his *Ivamy* decision, Lord Cooke commented that:

“The liberty recognised in *Capital Coast Health* to provide factual information exists, but care is needed to avoid going further. In this *case [Airways Corporation]* it might be hard to say with a straight face that the newsletters [from the employer to the employee pilots outlining the negotiations and seeking responses on feedback forms] were intended to do no more than provide factual information”. [1996] 1 ERNZ 126, 131 per Lord Cooke of Thorndon

The second dissent in *Ivamy* by Thomas, J was expressed more trenchantly.

“It may well be that no new principles of law are enunciated in the majority judgment and that the principle that each case must turn on its particular circumstances is reiterated. But it would be unrealistic to believe that a decision of this Court will not be closely scrutinised by industrial parties and their advisers to discern what conduct and communications on the part of the employer is acceptable under s 12(2)...”

[This dissenting judgment then lists two full paragraphs of conduct which Thomas, J clearly felt was not acceptable in recognising the authority of the bargaining agent but which he felt would now be considered legitimate in light of the majority decision.]

“In these circumstances it is not to be unexpected that employers and employees alike may conclude that collective bargaining in the form recognised in the Employment Contracts Act is largely vitiated” [1996] 1 ERNZ 85,124 per Thomas, J

Against this background, the Court of Appeal decision in *Transportation Auckland Corporation Ltd v Marsh* [1997] 1 ERNZ 532 upheld the Employment Court [1996] 2 ERNZ 266 and appeared to be almost “against the run of play”.

Transportation Auckland Corporation Ltd, the defendant, was formed as a result of the deregulation and privatisation of urban passenger services to operate Auckland’s Yellow Bus service. In order to successful tender for the bus services against competition from private bus companies, the Corporation was forced to significantly reduce its labour costs. Following protracted negotiations with the relevant union, the company offered incentive payments to those employees who signed a collective contract which significantly reduced their working conditions. When this offer was almost unanimously rejected, contracts were sent directly to individual employees offering incentive payments for signatures and threatening partial lockout and loss of entitlement to the incentive payment for those who did not sign within a specified time. Some individual employees

were also pressured by depot managers. Over a period of about three weeks of strikes, picketing and disruption, the employees, who had not yet signed, ratified the contract at a union meeting.

The Employment Court found that the Transportation Auckland Corporation Ltd's behaviour was harsh and oppressive and that there had been undue influence and duress pursuant to s57 ECA and breaches of s12(2). While upholding the Employment Court decision, the Court of Appeal judgment appeared to suggest that a major factor in the finding of objectionable conduct under s57 was the illegal nature of the threat of partial lockout. The breach of s12(2) was treated as an element of the harsh and oppressive behaviour.

Under the ECA, then, although an employer might not directly attack the bargaining authority of the employees' agent, the provision of factual information about the bargaining, ostensibly without intention to persuade or threaten, was permitted in circumstances which provided considerable employer latitude. Restriction on employer communications applied only during "negotiations" of the actual bargaining process and did not apply to communications before or after bargaining commenced.

The ERA Decision

In the *Christchurch City Council* case, the Employment Court reinstates the "blanket prohibition" on communication "on the subject of the negotiation" which Goddard, CJ had attempted to impose in *Ivamy*. While carefully preserving the right to communicate on other matters, the decision is very clear that "...neither party may, without agreement otherwise, correspond or communicate about the bargaining with persons for whom an authorised representative is acting" [2005] 1 ERNZ 666, 686. The specific statutory prohibition in s32(1)(d)(ii) on bargaining directly or indirectly with a represented person is interpreted in light of the definition of bargaining in s5: "Communications and correspondence which precede and follow negotiations also include communications that relate to the bargaining". The Court indicates quite emphatically that:

"Relating to the bargaining' is a general term not to be read down. It [in the context of prohibiting communication] is not limited to communications that persuade or undermine...The curial gloss placed on the expression 'undermining the authority of the bargaining agent' under the 1991 Act has not been legislated for in the 2000 Act". [2005] 1 ERNZ 666, 686.

Conclusions

Evidence that there has been a marked shift in application from the ECA to the ERA and in particular, the impact of the good faith requirements under the ERA on "communication" between employers and employees during the negotiations has not always been straightforward. Indeed, court decisions have frequently been contradictory.

Nonetheless, the Employment Court decision in the *Christchurch City Council* case does recognise the clear shift in legislative policy between the ECA and the ERA. In its judgment the Court comments that:

“We note that the majority approach of the Court of Appeal in *Ivamy* was in stark contrast to the strong dissenting judgment of Thomas J which foreshadowed the provisions about bargaining conduct in the 2000 Act which was to follow 5 years later” [2005] 1 ERNZ 666, 681.

However the decision is underpinned by clear and explicit statutory wording evolved from the extensive litigation of the issue under the ECA. Whether it will survive the scrutiny of the Court of Appeal or be replicated in areas with less explicit legislative direction still remains to be seen.

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CHRONICLE

October 2006

Collective bargaining and industrial conflict in the health sector again dominated the media reports of employment relations (see September Chronicle). Food and service workers employed by New Zealand's 21 district health boards were campaigning for a single national collective employment agreement covering the hospital boards and four major contract companies. Actions included a nationwide series of rallies and protests. For example, the *Timaru Herald* and the *Southland Times* reported that food and service workers employed by local hospitals manned pickets outside their workplace. The workers alleged that the only time they received a pay rise was when the minimum wage was raised. The *Timaru Herald* cited the example of an employee who had worked in the Timaru Hospital kitchen for 28 years and was still only receiving the minimum wage of \$10.25 per hour.

Meanwhile the *Dominion Post* reported that hospital radiographers were planning their fourth strike in less than a month after health board managers rejected a mediated pay settlement (see September Chronicle). A planned five days strike in November would be their longest strike to date.

However, the long running dispute involving junior doctors appeared closer to a solution (see August Chronicle). The *Dominion Post* reported that junior doctors were poised to reach an agreement with District Health Boards and suggested that most of the key bargaining issues were resolved with only technical details still outstanding. Both sides seemed willing to compromise on a process that would allow them to trial new roster systems without having to go through a formal bargaining process.

In an article voicing the frustration and concern of hospital administrators, the *Press* presented the Canterbury District Health Board members' view that doctors, nurses and other hospital staff should be treated as essential workers and thus, having restricted access to take strike action. The article suggested that the position was prompted by a presentation to board members showing that although personnel costs had increased by \$20 million in the last three years, productivity had not kept pace.

According to the *Press*, plans by Air New Zealand to shed 1675 baggage and check-in operators was part of a strategic decision to outsource the operation to a Spanish company, Swissport International. Air New Zealand claimed that no decision had been made but unions for the affected workers claimed that the cuts would irreparably damage Air New Zealand's goodwill and image and lead to security concerns. The plan to contract out the services was estimated to save Air New Zealand \$20m.

Meanwhile the *Press* also reported that another section of Air New Zealand's workforce was embroiled in an industrial dispute. About 270 workers at the Christchurch Engine Centre (a joint venture between Air NZ and US company Pratt & Whitney) refused to work overtime after a failure to reach settlement on working conditions. The Union acting for the staff claimed that the key issue was the employer's attempt to cut an existing extra week holiday entitlement after six years

service. Subsequently, the stakes were raised when the workers were told that their jobs were at stake after Pratt and Whitney had decided it would not supply any more jet engines to be serviced at the Christchurch Engine Centre.

The *Press* reported that Mount Cook Airline pilots ended their industrial action after reaching an agreement with their employer over new working conditions (see August Chronicle). The long-running dispute was settled after a negotiation process facilitated by the Employment Relations Authority.

Television New Zealand staff walked off the job in what was described as the biggest action of its type at the company for 30 years. Around 120 union members in Auckland, Wellington and Christchurch picketed for an hour in support of their claim for a 5 per cent pay rise and better annual leave entitlements. The workers claimed they were frustrated at being offered a 2.25 per cent pay rise after seeing the salaries of some high profile newsreaders.

A postie caught on camera taking a cell phone in a shop lost her job of 30 years when the Employment Relations Authority rejected the employee's claim that New Zealand Post had unjustifiably dismissed her. The cell phone was taken from the counter of a fast-food outlet, and staff contacted NZ Post after examining security camera footage. The employee claimed that she did not notice she had the phone until she had returned to her car and her advocate argued that the security camera footage was not enough to establish the alleged serious misconduct. However, the Authority was satisfied from the security film footage that the employee had deliberately picked up the phone. The Authority found that it was "tragic" that the employee had lost her job after 30 years but a reasonable employer would have dismissed her in the circumstances.

A senior Victoria University academic, who clashed with his employer in a public e-mail fracas and then received a written warning, was cleared of any wrongdoing by the Employment Relations Authority. The warning stemmed from five e-mails written by the academic criticising the university's disciplinary process, which were copied to 200 fellow academics. The Authority found that the university did not investigate the academic's behaviour before deciding it was worthy of a disciplinary offence. However, the academic was criticised by the Authority for antagonising management with the tone of the e-mails and the Authority rejected his argument that forwarding the copied e-mails to colleagues was an exercise of academic freedom.

The *Dominion Post* reported that a creative director at a top advertising agency was awarded \$130,000 after his manager sent a "premature and precipitous" e-mail announcing his resignation. In early 2005, the employee became the company's creative director of brand and direct marketing earning a salary of \$280,000. In April 2005, the employee was told that he 'would be a casualty' of a decision to purchase another advertising agency. The employee was upset at the news, sought legal advice and offered to resign in return for an exit package. When mediation failed to reach a solution, the manager sent an email to staff saying that he had received letter of resignation. The Employment Relations Authority agreed that the employee had not resigned and had offered to do so only if certain conditions were met. As well as four months salary as compensation, the employee was awarded \$15,000 as compensation for distress and humiliation.

In a review of the work stoppages in the year to 30 June 2006, both the *Independent Financial Review* and the *NZ Herald* reported that pay issues accounted for most of the 59 work stoppages. This was the highest number of stoppages since 1997, which had 69 work stoppages. President of the Council of Trade Unions (CTU) Ross Wilson claimed that employers who were “unrealistic about the need for a decent wage increase” would continue to see workers exercising their right to take industrial action in support of a wage claim. He added that work stoppages “remain historically low” and “the vast majority” of employment agreements were settled without industrial action. Figures from Statistics New Zealand supported these claims when it was shown that work stoppages had shown a downward trend since a peak in the late 1970s. From annual levels of more than 400 work stoppages in the late 1970s, the number of stoppages had reduced to less than 100 a year since 1990.

The Business NZ-KPMG survey of compliance costs showed that the compliance cost burden on businesses continued to grow. The report estimated that firms with fewer than 10 employees faced annual compliance costs averaging \$3,000 per employee. Companies with more than 50 employees had annual compliance costs of less than \$1,000 per employee. After tax, the next biggest concern amongst business was the cost of complying with the Employment Relations Act, Holidays Act and Health & Safety in Employment Act. In particular, respondents’ comments indicated they were unhappy with the complicated work imposed by the Holidays Act and by the provisions of the Employment Relations Act that allow for spurious grievance claims. Responding to the report, CTU President Ross Wilson stated that the report was an “annual moan” from the business sector and that the World Bank had judged New Zealand to be the second easiest place in the world to do business (and first in the world for the two previous years) which put the constant complaints from business in an international context. Wilson argued that the Employment Relations Act had restored a commitment to international labour conventions, which guaranteed the right for workers to choose to join unions and bargain collectively, as well as providing a framework of good faith within which to negotiate.

November 2006

The *National Business Review* reported that the Minister of Labour Ruth Dyson had instructed the Department of Labour to investigate employment laws that ‘penalised’ employers for dismissing even their worst employees. In a letter to the Employers and Manufacturers Association (Northern), Ms Dyson admitted her concern about whether there was the right balance between “the substantive reason to dismiss and the correct processes for an employer to follow”.

The Department of Labour released a discussion paper on flexible work. The paper proposed that employees should have the ability to negotiate greater flexibility in work hours and conditions with their employers. Meanwhile, a coalition of business, union and women groups was launched in Parliament to support Green MP Sue Kedgley’s Private Member’s Bill aimed at introducing legislation on flexible working hours. Both the coalition and the discussion paper were the result of a period of consultation, which the Transport and Industrial Relations Select Committee had requested after considering the Bill.

The *National Business Review* revealed that the Ministry of Health had lobbied the government not to pass a law requiring employers of 'vulnerable workers' to open their books to competitors (see March Chronicle). Documents obtained under the Official Information Act showed that the Ministry of Health opposed the introduction of disclosure provisions in the Employment Relations Amendment Act, which were added to the Bill by a last minute supplementary order paper on the day it was passed by Parliament. Crown health organisations are the largest employers of 'vulnerable workers', such as cleaners, caterers and laundry staff. A cabinet paper said that the Ministry of Health believed the existing provisions were sufficient to protect vulnerable workers and the disclosure requirements would not add any further protection to those employees.

It was reported that the Maori Party would vote to stop the Probationary Employment Bill from progressing any further when the Bill returned to the House (see August Chronicle). The Bill had passed its first reading with Maori Party support but with the proviso that it would not disadvantage Maori workers. The party had since come under pressure from unions and members to reject the Bill. National Party Spokesperson Dr Wayne Mapp said he was disappointed that the Maori Party had made up its mind before hearing all the submissions, and warned the party that probation periods and other industrial law reform would be a priority for National at the 2008 election. After months of controversy the Bill was voted down in its second reading.

Again, the Health sector again featured prominently in the media with strike action or strike notices amongst senior doctors, radiographers and medical laboratory workers. The *Press* reported that senior doctors were threatening industrial action and were accusing District Health Boards (DHBs) of failing to retain or attract enough high-quality specialists. The senior doctors' association - the Association of Salaried Medical Specialists - claimed that patients were falling through cracks in the health system, created by under funding. In an unprecedented move, the Association voted overwhelmingly to hold a national stop work meeting if no solution was found to their contract negotiations. The Association's Executive Director Ian Powell claimed that the DHBs had ignored the country's serious recruitment and retention of senior doctors. Mr Powell also cited the increase in DHB chief executive salaries of an average of 13.5 per cent to \$299,000 in a two year period. By comparison, he said, senior doctors had been offered increases worth an average of 2.4 per cent a year. A negotiator for the DHBs said that the senior doctors had been offered an extra 10.1 per cent over three years. The offer was worth \$60 million and could be used to fund a mix of pay increases and improved conditions.

Radiographers continued their industrial action when 260 radiographers 'walked off the job' for a period of ten days. The DHBs and the radiographers' union, the Association of Professional and Executive Employees (Apex), said they were willing to keep negotiating over the union's bid for higher pay but no date was set for further negotiations. Once again, there were concerns that the strike would endanger the safety of patients. In a response to the strike, members of the Canterbury DHB voted unanimously in favour of a motion to outlaw strikes by hospital workers on the basis that public hospital workers should be deemed essential services providers, such as police, who are not allowed to take industrial action (see October Chronicle). The motion also called for a clear national process for settling disputes in the health sector.

Yet another group within the health sector gave notice of strike action. Medical laboratory workers gave notice of a seven-day strike from November 29, with the strike likely to affect laboratories throughout the country and the New Zealand Blood Service. The *Press* noted that the Medical Laboratory Workers' Union shared its contracted negotiator, Deborah Powell, with the radiographers' union, which was currently on strike in seven District Health Boards. The National President of the Laboratory Workers' Union Stewart Smith said that the pay rates were already low and staff were not prepared to accept the offer of 1.5 per cent for the first year and 2.5 per cent for the second. Talks to prevent the strike failed and the *NZ Herald* reported that private and public hospitals cancelled virtually all scheduled surgery, because blood work and transfusions were unavailable. Health commentators claimed that the strike was probably more disruptive than the junior doctors' national strike in August.

However, the negotiations between junior doctors and District Health Boards (DHBs) finally came to a close. After nearly a year of negotiations and a nationwide strike (see October Chronicle), 2500 junior doctors working in public hospitals voted to accept a settlement. The package was estimated to cost DHBs \$10 million over 18 months and included a 5.6 per cent pay rise.

The *Press* reported that mediation had started in the long running contract negotiations between the Christchurch City Council and the union representing 1100 staff in an attempt to negotiate blockages, including pay rates and flexible hours of work. A Council spokesperson said the council was seeking to redress an imbalance in the salary structure where workers on lower grades were paid well above the market rates, while those in the higher grades were well below market rates. A Union spokesperson said that the union was seeking a settlement of around 4 per cent. The council was also seeking more flexibility over starting and finishing times but the union had concerns that some staff, such as working mothers, would not be able to meet such demands.

Finsec (the financial sector union) started its campaign for industry-wide parity in pay and conditions amongst the banks. The union's 'Better Banks' campaign was targeted at improving working conditions as well as staff training and customer services. Campaign director Andrew Campbell said it was the first time that bank workers had worked together across the industry to promote change since employment awards were removed in 1990. He also said that bank employees were not looking for a return to a single multi-employer collective agreement but were aiming to standardise claims across the industry. Finsec estimated that, over the past 10 years, staff levels had been reduced by 9 per cent, income per employee had increased by 103 per cent and bank profits had collectively increased by 170 per cent.

Around 100 staff at the Colgate Palmolive factory in Petone, Wellington were told they had lost their. The National Secretary of the engineer union - EPMU - Andrew Little said that the intended closure of the factory was a huge blow to the process workers, most of who would struggle to find new jobs. Mr Little suggested the closure represented the 'ugly face of globalisation': despite making good profits and performing well, the Petone plant was to be superseded by imported goods from Australia and Malaysia. The *NZ Herald* added that the closure was the latest demonstration of how far New Zealand had lost control of its own economic destiny.

The *Manawatu Standard* reported a confidential settlement between a teacher and his employer. The teacher had lodged a personal grievance case after complaining that his students bullied him because of anti-American feeling. The teacher claimed that the school failed to provide a safe working environment by refusing to address student misbehaviour and instead blamed his “character flaws”. In a separate complaint to the Human Rights Commission (which could not proceed), the teacher claimed he was a victim of xenophobia and a scapegoat for antipathy against US foreign policy.

A survey by the ANZ Bank showed that the internet now carried more job advertisements than newspapers, with the overall total of job ads is rising. In the three months to September, the combined number of job advertisements in papers and online in New Zealand topped 170,000 for the first time, up more than 7 per cent compared to the previous three months. There were 78,000 newspaper advertisements in the quarter and more than 92,000 internet-based advertisements.

According to the *Independent Financial Review*, a Massey University study argued that the new workplace-based unions formed under the Employment Relations Act 2000 were an employee-led phenomenon with little evidence of employers dominating or precipitating the process. This argument contradicted other scholars who had argued that employers had played a significant role in the formation of workplace-based unions since the introduction of the ERA in 2000. Overall, the New Zealand Union movement had been marked by the rapid formation, registration and proliferation of new, small, workplace-based unions, in contrast to prevailing trends in most Western industrialised countries where organised labour was in decline.

December 2006

The Government discussed plans to change legislation to ensure greater patient safety when health workers go on strike (see November Chronicle). Health Minister Pete Hodgson conceded that patient safety might have been at risk in a series of strikes by Health workers. The Minister of Labour Minister Ruth Dyson announced that she intended to make changes to the Code of Good Faith in the Employment Relations Act with specific reference to the health sector. The Code of Good Faith required health providers to provide for patient safety during industrial action by ensuring life preserving services were maintained. But the schedule did not explicitly mention permanent disability, leaving it open as to whether life preserving services meant preventing death and nothing more. It was claimed that clarification would go a long way towards protecting the right to strike in the health sector.

As the strikes dragged on in the health sector the *NZ Herald* reported on further calls to outlaw stoppages by health workers (see November Chronicle). The Medical Council and the Orthopaedic Association argued that health workers’ right to strike for pay rises should be replaced by compulsory arbitration. Health sector unions said that compulsory arbitration or related approaches have failed in the past, most recently under labour laws repealed by the National Government in 1991. Dr Deborah Powell, Chief Executive of the Medical Laboratory Workers Union, said that the root cause of the unrest was that there was not enough money in the sector to pay health workers.

Prime Minister Helen Clark entered the fray when she singled out Dr Powell as the common link behind a rash of strikes disrupting the health sector. In a *Dominion Post* article, the Prime Minister stated that it was interesting that it was Dr Powell who represented the various groups of health workers who had taken industrial action this year. The Prime Minister stated that “the records would show that there’s been more willingness to negotiate by other unions in the sector than there is with these ones led by the same person”. In response, Dr Powell said the Government and District Health Boards were using her as a scapegoat and to deflect public attention from health workers’ reasonable demands for more pay.

The *Press* reported the angry response to the Prime Minister’s comments by the health sector unions. Health sector strikes were due to inadequate pay offers not individuals, said unionists who disagreed with Prime Minister Helen Clark’s public criticism of Dr Powell. District Health Board negotiator Nigel Murray told the *Press* that he did not want to comment on Dr Powell specifically, but said the prime minister had made “some good points”. Unions led by Dr Powell had jointly taken 30 days of strikes and issued 150 notices for less disruptive action which had been “designed to disrupt patients and their treatment”, Mr Murray said. He also added that “you would be hard pressed to find an observer that didn’t say these series of strikes are not in some way co-ordinated”.

Reporting on the background to the seven day strike by 1200 laboratory workers, the *Dominion Post* suggested that the industrial action in the health sector started when nurses received a substantial pay increase. Since then, other health workers had lobbied their employers (in effect, the Government) for pay increases arguing that they too had skills that were scarce and deserve reward. Like the nurses, radiation therapists, radiographers and laboratory workers had a strong case, although the article concluded that no matter how much money the Government “threw” at district health boards, they would be constantly “strapped” for money.

The *Press* reported that a Christchurch businessman issued formal notice of his intention to sue for manslaughter if health strikes caused a fatal delay in his wife’s cancer treatment. The man said that if his wife’s treatment was delayed as a result of ongoing strike action he would sue those responsible. He issued formal notice to the Canterbury DHB and the New Zealand Blood Service as well as union officials and union members.

Strike action on Interislander ferries was averted after senior crew agreed to a new employment deal with Toll NZ. Merchant Service Guild members had threatened to strike over delays in a settling a new collective agreement.

A Hastings meat works, which had set up a hi-tech smoking room for its employees, got involved in a bizarre court case. The company had a special problem because hygiene requirements meant that the clothes and equipment given to workers at the start of each shift could not be worn outside protective clothing areas. If workers wanted to smoke they had to change their clothes to go outside. In an effort to overcome this problem, the company had made a smoking room within the protective clothing area. The Ministry of Health prosecuted, alleging that the company had failed to take all reasonable steps to ensure that no one smoked in the workplace. The District Court agreed with charge and the High Court upheld the decision on appeal.

An editorial in the *Dominion Post* questioned whether Business NZ chief executive Phil O'Reilly and Business Roundtable chief executive Roger Kerr, who both argue that paying \$11.25 per hour minimum rate would make it hard for New Zealand to compete internationally, would be as enthusiastic if they were receiving \$410 a week to clean the toilets of high-earning executives. The editorial claimed that the position taken by critics of the statutory minimum wage increase ignored the reality of low paid employees. The minimum wage rise was expected to affect about 110,000 adult workers. For many employees the minimum wage was all they were likely to receive in the foreseeable future. The article concluded that many workers were insulted that they had to rely on state regulation to deliver pay increases.

A survey conducted by the Employers and Manufacturers Association (Northern) found that a quarter of businesses pay off 'problem employees' to avoid court litigation. The report estimated that more than 70 per cent of personal grievances were settled outside official channels such as the Labour Department's mediation service. The report argued that it was cheaper and less risky for an employer to pay off a worker with \$3,000 than face a minimum cost of \$5,000 for court action.

An expert in sexual harassment policies advised employers to have at least one sober person at Christmas parties to keep an eye out for drunken sexual behaviour. Jan Eggleton, a training consultant in harassment prevention, said that Christmas parties were a source of the rise in sexual harassment complaints. Ninety two per cent sexual harassment cases the commission receives were about men harassing women with the majority of men aged mid-to-late forties and the average complainant was a 21 to 23-year-old woman.

The *Dominion Post* reported on a workforce survey, which found that although New Zealand workers are less happy than four years ago, they still think their employers are okay. The international survey by Kelly Services, a staffing and recruitment company, found that 19 per cent of New Zealanders who suffered discrimination felt it was because of their age. The survey report recommended that employers needed to understand the differing needs and psyche of older employees.

January 2007

Yet more strike action occurred in the Health sector with cancer patients having their treatment disrupted when radiation therapists went on strike (see November 2006 Chronicle). Last ditch talks between the District Health Boards (DHBs) and the therapists' union Apex were held but were unsuccessful. Thus, strikes in Christchurch, Wellington and Auckland went ahead. Once again the strike was over pay with union secretary Deborah Powell arguing that DHBs had not offered a pay increase that matched the increased cost of living. In response, the DHBs claimed that therapists' salaries had increased by more than 25 per cent since 2001. In further reports in the *Dominion Post* and the *NZ Herald*, radiation therapists called on the Government to intervene in their pay dispute accusing the DHBs of refusing to negotiate in good faith.

The dispute between the DHBs and the radiation therapists was settled later in the month but the *Dominion Post* reported that tensions between the DHBs and the union

negotiators remained. Further strikes were called off after the union agreed to a reduced offer and a longer agreement period. The settlement included a 1 per cent pay rise backdated to April 2006, a further 1.5 per cent backdated to October 2006 and another 2.5 per cent from July 2007. The agreement will run until June 2008. Apex's National Secretary Deborah Powell commented that after nine months of negotiations the agreement "should do the trick" for members.

Meanwhile, there were developments in the Air New Zealand dispute with 1,700 of its passenger and ground-handling services employees (see October 2006 Chronicle). The *Press* reported that talks between the Engineering, Printing and Manufacturing Union (EPMU) and the airline had resumed. The EPMU's National Secretary Andrew Little said that negotiations had been formative but there was nothing in terms of a way forward. In a later article, the *Press* reported that Air New Zealand and the unions were likely to strike a deal. The parties were finding common ground after six days of talks although an agreement between the negotiating parties would have to be voted on by staff.

The *Press* reported that the impact of new holiday requirements could drive consumer prices up, as small businesses looked for ways to recoup the expense of an additional week's holiday for staff. Business advisory company Grant Thornton warned that the new minimum four weeks paid leave for employees, which would come into effect on April 1, would see some small and medium-size businesses struggle to cope with the increased expense. Grant Thornton estimated that the drop in productivity from having a worker away for another week of the year would be around 2 per cent for the average small business. In response, a policy analyst from the Department of Labour pointed out that British data showed growth in output and productivity from an additional week's holiday.

Employers faced with dismissing abusive employees could take heart from two recent court decisions. The *Waikato Times* reported the case of an employee who had been dismissed. The employee had been abusive to his employer when he was requested to provide a medical after he had been on sick leave for a week. After further abuse and a refusal to attend meetings to discuss the issue, the employee was suspended. While collecting his written warning he entered the office when specifically told not to and was subsequently dismissed. The Employment Relations Authority found the dismissal was unjustified through lack of process but the Authority also noted that if the employee had behaved decently the employer may not have lost patience with him and terminated his employment. The employee received no remedies because the Authority considered that he had contributed 100 per cent to his dismissal. In another case involving an abusive employee, the Authority found that an employee, who had been abusive and threatened to kill other employees, was justifiably dismissed. Furthermore, the Authority noted that even if the dismissal had not been justified due to poor process, the employee's conduct would have resulted in a 100 per cent reduction in remedies. The article concluded that where an employee's behaviour was totally unacceptable, highly offensive or there was a loss of all trust and confidence, a 100 per cent reduction in remedies would be appropriate.

Both the *NZ Herald* and the *Dominion Post* featured another Employment Relations Authority case which involved a senior clinician who was judged to be so incompetent that he would have failed medical school. The foreign trained clinician

had spent seven years treating mentally ill patients for four different District Health Boards. The story became public after the clinician challenged his dismissal as senior clinician at the Community Mental Health Centre in Otahuhu, Auckland. The Authority determined that his dismissal “was justified in all the circumstances”.

The Australian Industrial Relations Commission (AIRC) issued a ruling which allowed cinema company Village Roadshow to dismiss a long-serving manager with 19 years service because the complex, that he had previously managed, had been closed. The AIRC’s full bench overturned a successful unfair dismissal claim by the manager, ruling that Village Roadshow had proved there were ‘genuine operational reasons’ for the dismissal. President of the Australian Council of Trade Union (ACTU) Sharan Burrow suggested that the ruling demonstrated that the new Work Choices laws had given employers unwarranted power to dismiss employees at whim.

Mixed workplaces are happier places to work in according to recent British research. British recruitment consultants Office Angels interviewed 1800 employees about the types of people in their workplaces and asked them to describe people’s working styles, attitudes, philosophies and goals. After analysing the responses, it was found that the most productive British workplaces combine every element of the office political spectrum.

Likewise, other research reported in the *Dominion Post* found that family friendly policies enhanced employee job satisfaction and productivity as some organisations were starting to provide family friendly environments and flexible work arrangements for their staff. The Families Commission and Learning Media Ltd were described as two organisations that were leading the way in providing family friendly environments and flexible work arrangements for their staff. The Families Commission supported staff by providing paid parental leave, facilities at work where children can relax and play or rest if they are unwell, school holiday programs, space where mothers can breastfeed, and flexible leave options for staff to care for family members. Employees also had the capacity to work from home and could log into the central computer system. Learning Media Ltd provided support to all eligible staff over and above legislated requirements. This included a lump-sum maternity leave payout of four weeks of the employee’s gross salary, one week’s paid parental leave for the partner, as well as the statutory one to two weeks’ unpaid leave, open sick and domestic leave as appropriate, and flexible working arrangements to meet family needs that also ensured business needs are met. Both organisations emphasised the benefits to the company of allowing “home at work and work at home”.

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