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Te Pokapū a Mahi me Te Manene Rangahau

Employers' Perspectives – Part Two: The Minimum Wage System

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The Department of Labour was integrated into the new Ministry of Business, Innovation and Employment on 1 July 2012. All information included in this report continues to apply after 1 July 2012.
All references to "Department of Labour" now refer to the Labour Group, Ministry of Business, Innovation and Employment.

EXECUTIVE SUMMARY

Purpose

This report presents the findings from two data sources of employers' perspectives on the minimum wage system. The report discusses the prevalence of its use, how employers respond to increases in the minimum wage, and the impacts that a number of other government interventions have had on employment opportunities from an employer's perspective.

Background

In New Zealand, the aim of the minimum wage is to create 'a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions, and social impacts'.[1] Each year the minimum wage rate is reviewed by the Minister of Labour. This report contributes to understanding the influence of the minimum wage system on the decisions made by employers and will inform future work on the minimum wage system, as well as policy proposals that could complement the minimum wage.

Methods

Qualitative interviews

The qualitative data is derived from interviews conducted with 53 employers in Hawke's Bay, Wellington, Auckland, and Dunedin/Invercargill. There were four focus industries: agriculture, forestry, & fishing; hospitality; manufacturing; and retail. These were all industries of focus in the National Survey of Employers as well. The interviews were semi-structured and took between 20 and 90 minutes.

The focus of the interviews was the minimum wage system, so employers that were likely to have staff on or near the minimum wage were targeted. To be eligible for interviewing, an employer needed to:

- be operating in one of the four industry types of interest
- be based in one of four regions (Auckland, Hawke's Bay, Wellington, or Dunedin/Invercargill)
- have five or more staff
- have experience of paying some of its staff on or near the minimum wage in the 2 years prior to the research.

National Survey of Employers

The National Survey of Employers (NSE) surveyed New Zealand employers between mid-September and early December 2011. The purpose of this annual survey is to:

[1] CAB Min (08) 35/4 refers.

- monitor labour market, immigration, and employment issues from the employer's perspective
- improve our research and evaluation evidence base
- develop and evaluate policy
- answer questions related to current policy.

The survey achieved a sample size of nearly 2000, with a response rate of 36 percent. It excluded employers in Christchurch city: the Department conducted a separate Canterbury Employers' Survey in October 2011. The survey is a nationally representative sample based on the Statistics New Zealand Business Frame, by industry and firm size.

Key findings

One-fifth of employers are using the adult minimum wage

Twenty percent of all employers said they had at least one staff member on the adult minimum wage. Larger employers[2] (27 percent) are more likely than small−medium enterprises[3] (SMEs) (19 percent) to use the adult minimum wage.

There are some significant differences seen by industry. Employers in the accommodation & food services industry (47 percent) and the wholesale & retail trade industries (39 percent) were more likely to have staff on the adult minimum wage than employers in manufacturing (12 percent), construction (9 percent), and professional, science & technical services / health care & social assistance (4 percent) (see Table 4).

All employers in the qualitative interviews were aware of the adult minimum wage, though not all knew the actual rate at the time of interviewing. Those who were using the adult rate said it had three key purposes: as a starting wage for entry-level positions, as a benchmark for setting their other wage rates, and as a wage that would send a message to non-performing staff to move on.

Smaller increases in the minimum wage rates have little impact on employers

Overall, employers reported there had been little or no impact on employment within their business from the 25 cent increase in the minimum wage in 2011. Employers reported absorbing the increased cost and making no change at all in response to the increase. 30. The 25 cent increase to the nominal wage rate in 2011 kept the real minimum wage constant. In times of low inflation, keeping real minimum wages constant will result in small nominal increases, which the research shows does not appear to strongly impact employers' behaviour.

Smaller increases in the minimum wage also appear to cause little administrative burden, though some employers reported a medium impact in the short term related to changing rates and the prices of their goods.

[2] 'Larger employers' refers to employers with 20 or more employees.
[3] 'Small−medium enterprises' (SMEs) refers to employers with 19 or fewer employees.

Flow-on effects to wages of other staff

In the NSE, 31 percent of employers said they increase wages or salaries of staff that are already paid above the minimum in response to an increase in the minimum wage. The flow-on effect associated with increasing the minimum wage was reported to have a significant impact on businesses.

Employers reported that employees who were above but close to the minimum wage would feel they were relatively worse off if the minimum rate increased and the relativity was not maintained. This created pressure for employers to increase wages of staff above the minimum. However, employers did say that the increases given to staff above the minimum wage were not necessarily equal to the increase in the minimum wage, and that a compression of the wage scale could happen. Decisions about the size of increases were also influenced by merit in many cases.

Some employers said the regular increases in the minimum wages were useful for their internal wage-setting. The flow-on effect was also a consequence of employers benchmarking their wages to the minimum wage. Here, employers pointed out that they used the minimum wage as a guide for increases and in this case, the flow-on effect is a conscious undertaking by employers, rather than an external pressure.

Employers in the accommodation/food services, manufacturing, and wholesale and retail trade groups are more likely to report usually increasing wages of staff above the minimum wage than employers in the professional/technical services and health and social services group. These industries are more likely to have staff on or near the minimum wage than the professional/technical services and health and social services industries[4], which may in part explain this difference.

Employers would utilise a combination of responses to larger increases

The qualitative interviews asked employers about the implications for their business of a $1 increase in the minimum wage. Employers suggested that in response to a larger increase in the minimum wage they would look at cutting staff hours, reducing the number of staff, casualisation of their workforce, capital substitution, not filling vacancies, and having higher expectations when hiring. A small minority of employers said they would hire fewer youth in response to increased minimum wages, as they viewed youth as being less productive than older employees. These were all measures related to wage setting and hiring decisions, and were aimed at achieving increased productivity by getting more out of the existing overall wage bill.

Some employers also said they would look at other measures in response to a larger increase in the minimum wage. These measures included looking at increasing the prices of their goods or services if possible, reducing the cost of other inputs, absorbing the cost into the business and reducing the profit margin

[4] For more information, see: http://www.dol.govt.nz/er/pay/backgroundpapers/2010/page01.asp

(the most common actual response in the qualitative data), and, in the most extreme scenario, closing down parts of their business.

Also of note, employers in the accommodation & food services industry are more likely than other industries to report usually making at least one change (excluding increasing those on the minimum wage, where applicable) in response to an increase in the minimum wage.

Low rates of uptake of the new entrants' and training minimum wages

Two percent of employers reported using the new entrants' minimum wage and 1 percent reported using the training minimum wage. There were no significant differences between SMEs and larger employers, or between industries.

The qualitative interviews showed up a lack of awareness of the rates and the criteria for applying them. This is likely to be a contributing factor in the low uptake of the two rates.

The reasons given by employers for not using the new entrants' minimum wage were that it was unfair to pay staff less based on age, the potential savings (a maximum of $520) were not large enough to warrant the time spent administering the wage, the application criteria were too complex, and sub-minimum rates do not reduce the risk associated with a new hire.

For the training minimum wage, employers said it would affect their ability to attract high-quality applicants, it was not fair to staff to pay them less while they were improving their skills (and thus benefiting the employer), and the savings were not enough to warrant administering the wage.

Trial periods the preferred intervention to increase employment opportunities

Although the government interventions researched are complementary and can be used in conjunction with each other, trial periods were reported to be the only well-liked intervention for increasing employment opportunities. Sixty percent of hiring employers reported that they had used a trial period since the introduction of the provision, and 70 percent of all employers intended to use the provision in the future. The preference for trial periods was due to the reduction in risk to the business that trial periods give. Employers said this was a far greater driver for them in decision making than the potential cost saving of the temporary minimum wage rates.

However, awareness of trial periods was also much higher than that of sub-minimum wage rates. Trial periods have received frequent coverage in the media, which vastly outweighs the publicity the sub-minimum wage rates have received since their introduction. This suggests that the information provision on the rates may be an area to consider in any future initiatives related to wage rates.

Employers put more priority on getting the right person than on reducing the cost of labour when hiring

Employers reported they would prefer to pay more (within reason) and attract the right staff than pay less and risk employing someone unsuitable for the job. The right person has four key characteristics: the right attitude, a work ethic, good communication, and willingness to work in a team. These soft skills were viewed as being instilled in employees from their time at school, and employers viewed the education system as an area where government could make a positive contribution to applicants' employability.

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1 INTRODUCTION

In 1894 New Zealand became the first country to introduce a national minimum wage. Since then a relatively small amount of qualitative data has been collected on the impact a wage floor has on employers or employees. Much of the existing literature, especially in New Zealand, is quantitative, which answers the question of what happens to employment levels and wages when the minimum wage increases.

The effects of small changes in the minimum wage are hard to measure, and so larger changes have been studied in the past in New Zealand, such as the 8 percent increase in the adult minimum wage in 2006 (Dalziel et al 2006) and the 2008 change in the youth minimum wage (to the same level as the adult minimum wage) (Hyslop & Stillman 2011). However, the question of why these effects occur, and the reasons for other impacts and their mechanisms, are not answered by quantitative work and require qualitative methods to examine them. A greater understanding is needed of employers' decision making in relation to the minimum wage to provide the basis for effective policy making in the future, especially in light of potential changes to the structure of the minimum wage system.

In New Zealand the objective of the minimum wage is to create 'a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions, and social impacts'.[5] Each year the minimum wage rate is reviewed by the Minister of Labour. This report contributes to understanding the influence of the minimum wage system on the decisions of employers, and it will inform future work on the minimum wage system, as well as policy proposals that could complement the minimum wage to achieve the Government's goals.

This report investigates the impact that changes to the minimum wage have on price setting, wage setting, and hiring practices in firms, as well as other responses. It also examines the impact of the complexity of the minimum wage system on employers' decisions to use minimum wage rates.

This is the second report in a series of three reports on employers' perspectives. The first report focused on trial periods. The third report discusses employers' perspectives on the employment of youth and the long-term unemployed.

[5] CAB Min (08) 35/4 refers.

2 BACKGROUND

2.1 Minimum wage rates in New Zealand

As at 1 July 2012 there are three minimum wage rates:

- the adult minimum wage, which applies to all employees aged 16 and over who are not new entrants or trainees
- the new entrants' minimum wage, which applies to employees aged 16 and 17, except for those who have completed 200 hours or 3 months of employment in the workforce, whichever is shorter; or who are supervising or training other workers; or who are trainees
- the training minimum wage, which applies only to employees aged 16 and over who are doing recognised industry training involving at least 60 credits a year.

There is no statutory minimum wage for employees who are under 16 years old.

The minimum wage rates are reviewed every year. At the time of interviewing, the adult minimum wage rate (before tax) that applied to employees aged 16 or over was $13.00 per hour. The rate that applied to new entrants, and employees on the training minimum wage (before tax), was $10.40. However, there was an increase on 1 April 2012 to $13.50 for the adult minimum wage and $10.80 for the new entrants' and training minimum wages.

2.2 Existing literature

The majority of the literature published on the minimum wage is based on quantitative data. However, there are a small number of qualitative studies from New Zealand and Australia that provide a comparison.

Quantitative studies

Quantitative studies have all reported mixed effects of an increase in the minimum wage on employment (Chapple 1997; Katz & Autor 1997; Dalziel et al 2006; Neumark & Wascher 2006; Metcalf 2007; Hyslop et al 2008). Standard neoclassical models in economics would suggest that an increase in a price floor to higher than the market equilibrium will reduce the quantity of labour demanded and result in surplus supply (i.e., unemployment) (Brown et al 1982; Schaaf'sma & Walsh 1983). However, Card and Krueger (1994) found that the impact of increases in the minimum wage have an insignificant impact on quantity demanded. This has been supported by other studies since (see Spriggs & Klein 1994; Machin & Manning 1994; Card & Krueger 1995; Stewart 2004; Metcalf 2007; Incomes Data Services 2011).

There is still debate about the impact of an increase in minimum wage rates, and the findings of Card and Krueger have been challenged (Mangan & Johnson 1999; Neumark & Wascher 2006; Powers 2009). A small negative change in employment levels has been found in some research, particularly among younger employees (Yuen 2003; Sabia 2009; Hyslop & Stillman 2011).

Impacts on employment are related to how binding the minimum wage is in the labour market and the scale of the increase. This may explain why Hyslop and Stillman (2011) were able to measure a marked change in the employment of 16- and 17-year-olds when the minimum wage for this group was increased by 28.2 percent, yet other researchers did not observe a change from smaller differences. At the time of the increase studied by Hyslop and Stillman, 80 percent of 16-17 year olds employed were on this rate, suggesting it was a binding minimum wage. An increase of over a quarter of the rate was also much larger than in previous years. This scale of increase to a binding minimum wage is rare but can bring to light impacts that are too subtle to study when smaller increases occur or the minimum wage is less binding.

Aside from the mixed findings regarding the impact of a minimum wage on employment, other studies have found evidence that an increase in minimum wage rates leads to:

- employers reducing the number of hours available to employees (Sabia 2006; Stewart & Swaffield 2008; Powers 2009)
- a reduction in the number of vacancies advertised (Singell & Terborg 2007)
- a decrease in the incidence of on-the-job staff training (Schiller 1994; Neumark & Wascher 2001; Fairris & Pedace 2004)
- little change in the provision of benefits, such as health insurance (Simon & Kaestner 2004)
- a negative effect on school enrolment of youth (Schiller 1994; Landon 1997; Turner & Demiralp 2001; Pacheco & Cruickshank 2007)
- a compression of the wage scale (Swidsky & Wilton 1982; Incomes Data Services 2011)
- an increase in the prices of some products (Powers 2009).

Qualitative studies

The Department of Labour (the Department) has previously looked at firms' responses to an increase in the minimum wage (Dalziel et al 2006). The study investigated firms' responses to an increase in the minimum wage in March 2006. The research involved 31 qualitative interviews with firms in six sectors: food processing, textile & clothing manufacturing, retail, hospitality, business services, and community & personal services; as well as three interviews with national associations. The authors found seven potential responses by employers to an increase in the minimum wage:

- compression of the wage scale
- reduction in the hours of work offered
- changes to internal employment policies
- offsetting increased cost with productivity improvements
- offsetting cost reductions in other areas

- reduced profits and business closure
- higher prices.

Compression of the wage scale, reduction in hours of work offered, and changes to employment policy are considered short term by the authors. Offsetting productivity improvements, offsetting cost reductions, and reduced profits and business closure are long term. The most common response was a compression of the wage scale, followed by a reduction in the number of hours of work offered.

The study found that a number of factors influenced a firm's response to an increase in minimum wages. These were:

- whether the good being produced was internationally tradable
- whether the firm was subject to a government monopsony[6]
- whether the firm was involved in long-term contracts
- the structure of the market the firm was in
- the level of technology involved in production
- the type of business ownership.

Three qualitative studies have been undertaken in Australia since 2008. The first was carried out in 2008 for the Australian FairPay Commission (Wearne et al 2008). The most commonly thought-of response by employers was to increase product prices, although this was not the most commonly used response. Employers in small businesses were most likely to work more hours themselves in the business in an effort to reduce staff costs. Other cost reduction responses included reducing available normal and overtime hours, and increasing the training of staff to increase productivity.

A second Australian study found that in the face of decreasing revenue (for any number of reasons), labour costs were one of the first areas targeted by employers for adjustment, as well as increasing product prices, where possible (Southwell et al 2010). For some employers, measures included having higher standards when hiring staff, financial incentives for higher productivity, reduced employment, shortening the hours and shifts available, and employing more casual staff. Other employers made greater use of the minimum wage where they would normally pay above it, held off on pay rises for existing staff, reduced the number of normal and overtime hours available (including implementing 9-day fortnights), used more salaried staff than casual and wage workers, and used more junior staff than adult employees to keep the costs down.

A third Australian study of firms' responses to the minimum wage was conducted in 2010 for Fair Work Australia (Evesson et al 2011). A key finding of this study was that employers had stated a number of strategies they would employ in response to an increase in the minimum wage, but where these strategies were utilised by the employer it was not solely due to the minimum wage increase. Many of the strategies (such as changing the levels of staffing, increasing prices, or reducing the number of services available from the organisation) were utilised

[6] Monopsony refers to a situation where there is one buyer and many sellers

on a day-to-day basis in response to a number of budgetary changes and would have been made if there had been no increase, and so were not specifically in response to the increase in minimum wages. The authors argue that the increases in the minimum wage actually had only a small impact on firms' decisions on wage setting and price setting.

3 METHOD

This report combines two data sets: the results of qualitative interviews with employers, undertaken by the Department in late 2011 and early 2012, and the results from the 2011 National Survey of Employers (NSE). The report relies mostly on the data from the qualitative interviews, and supplements this with the quantitative data where appropriate.

3.1 Qualitative interviews

The qualitative data is the result of interviews conducted with 53 employers or their representatives in Hawke's Bay, Wellington, Auckland, and Dunedin/ Invercargill. The four regions were chosen to incorporate cities and provincial towns in the North and South Islands. There were four focus industries (see Table 1):

- agriculture, forestry, & fishing
- hospitality
- manufacturing
- retail.

These industries were chosen because they have the largest number of employees on or near the minimum wage.[7]

The focus of the interviews was the minimum wage system, and so employers were targeted that were likely to have staff on or near the minimum wage. To be eligible for interviewing, an employer needed to:

- be operating in one of the four industry types of interest
- be based in one of the four selected regions
- have five or more staff
- have had experience paying some of its staff on or near the minimum wage in the 2 years prior to the research.

A total of 189 employers were approached and invited to participate. Forty-five were not eligible. Most of these turned out not to have employed any staff near the minimum wage in the past 2 years. In addition, some businesses were no longer trading or had moved region. No response was received from 61 employers. Thirty employers refused to participate, usually indicating they were too busy, unavailable during the interview period, or their business was going through significant change. This meant the final sample size was 53 employers.

[7] New Zealand Income Survey, June 2011.

Table 1: Number of employer participants in the research study, by industry type and region

Industry type	Auckland	Hawke's Bay	Wellington	Dunedin/ Invercargill	All regions
Agriculture, forestry, & fishing	4	1	0	2	7
Hospitality	3	0	5	3	11
Manufacturing	3	9	3	9	24
Retail	3	0	7	1	11
All industry types	13	10	15	15	53

Usually the 'employer' interviewed was the chief executive or owner/operator of the business. However, among some of the larger employers it was a member of the senior management team (usually the manager responsible for human resources).

Fifty interviews with employers were conducted face-to-face and three interviews were conducted by phone. Most interviews were conducted before the national general election on 26 November 2011. During the campaign, a policy of a $15 minimum wage was proposed by the Labour party and discussed in the media, although the last interview was conducted in early March 2012 after the National Party had formed the government. The media discussion of a $15 minimum wage led to employers raising this option of their own volition during interviewing, and the themes from this topic are also discussed in this report.

The interviews asked employers about their wage-setting, price-setting, and hiring decisions and other responses to the minimum wage system. They also explored any administrative burdens employers felt when minimum wages were increased, and also those due to administering the three minimum wages available to them. Employers were then asked about two scenarios: the previous 25 cent increase in the minimum wage in 2011, and a hypothetical larger increase of $1 in the adult minimum wage.

Two specific groups of applicants were explored: youth and long-term unemployed. An in-depth discussion of this area is contained in the final report of the series (to follow).

Advantages and limitations of the research design

The advantage of qualitative studies such as this one is that they yield in-depth information and provide an explanatory context for the results of quantitative data. With a total of 53 interviews, the data reached saturation with no new themes emerging. Whether saturation of information was reached with employers from any one industry group, firm size, or region is less certain. Nevertheless, the research findings provide useful insights into employers' views on a number of employment relations areas, mentioned in the previous section. This report focuses specifically on responses related to the minimum wage system.

3.2 National Survey of Employers

The National Survey of Employers (NSE) surveyed New Zealand employers between September and December 2011. The focus of this survey (previously the annual Employers of Migrants Survey) was widened to explore employment relations and workplace health and safety issues. The survey was conducted by an external research company.

The purpose of this annual survey is to monitor labour market, immigration, and employment issues from the employer's perspective, and to improve the research and evaluation evidence base for developing and evaluating policy and answering contemporary policy questions.

The specific objectives of the 2011 survey were to:

- better understand employer practices regarding aspects of workplace health and safety, flexible working arrangements, operating on public holidays, and use of the minimum wage
- monitor the extent of employment relationship problems requiring action by management
- find out about employers' uptake of the 2010 changes to legislation—the requirement to retain signed employment agreements, cashing up holiday entitlements, and use of trial periods
- assess the extent to which, and how, firms outside of Christchurch city have been affected by the Canterbury earthquakes
- discover how recent migrants are integrating into their jobs and settling into New Zealand, and employers' attitudes towards migrants.

The survey contacted 7,079 employers (see Table 2) and achieved a sample size of 1,957 (with 1,645 judged to be ineligible), resulting in a response rate of 36 percent. Three-quarters of the respondents participated in telephone interviews and the remaining quarter completed the survey online.

The survey sample was obtained through an external organisation, and a probability scheme with targets set for industry groups and by establishment size (number of employees) was used. The survey excluded employers in Christchurch city. A separate Canterbury Employers Survey was conducted by the Department in October 2011.

Table 2: Achieved sample of employers in NSE, by industry and size

Industry	**2–5 staff**	**6–9 staff**	**10–19 staff**	**20–49 staff**	**50–99 staff**	**100+ staff**	**Don't know**	**Total**
Agriculture, forestry, & fishing	71	33	34	31	5	11	4	**189**
Manufacturing	39	38	60	75	54	42	0	**308**
Construction	48	43	58	58	30	24	0	**261**
Wholesale & retail trades	30	47	56	51	49	53	0	**286**
Accommodation & food services	43	59	59	44	23	21	0	**249**
Prof, science & technology; & health care & social assistance	40	34	50	57	45	47	0	**273**
Other industries	42	36	44	78	76	115	0	**391**
TOTAL	**313**	**290**	**361**	**394**	**282**	**313**	**4**	**1,957**

The survey results were coded and weighted by industry. All data presented in this report is based on the weighted results and is presented by establishment size. Only differences between groups that are statistically significant at the 95 percent confidence level are reported.

4 USE OF MINIMUM WAGE RATES

This section covers employers' use of the minimum wage rates. The first part looks at the awareness employers have of the adult minimum wage, new entrants' minimum wage, and the training minimum wage. The second part looks at the prevalence of use of the three current rates. The final part looks at how employers use the minimum wage.

4.1 Awareness

Awareness of the three minimum wage rates was not measured in the NSE. All employers in the qualitative interviews were aware of the adult minimum wage. However, the majority of employers interviewed were not aware of the two sub-minimum wage rates, particularly the training minimum wage. The interviewers had information on each of the rates at the interviews, and this appeared to be the first time a number of the employers had seen information on the actual rates and the criteria for their applicability.

When the new entrants' minimum wage was introduced, the Department ran an awareness campaign from 1 March to 30 April 2008, focusing on schools and *Tearaway* magazine, as well as emailing out information to a communications database of employers and making information available on the Department of Labour website.

Without a clear (quantitative) measure of awareness, it is hard to estimate the extent to which awareness is affecting the prevalence of use of the rates, though it clearly is a factor because employers cannot use initiatives they are not aware of.

4.2 Prevalence

The NSE asked employers about their use of the three current minimum wage rates: adult minimum wage, training minimum wage, and new entrants' minimum wage. Table 3 presents the percentage of employers that reported using a minimum wage rate for at least one employee, by employer size. This shows that larger employers are more likely than small−medium enterprises (SMEs) to have at least one staff member on the adult minimum wage. However, there was no significant difference between larger employers and SMEs in terms of uptake of the new entrants' minimum wage or the training minimum wage.

Table 3: Percentage of employers reporting they have staff on minimum wage rates, by employer size

Employer size	Adult minimum wage	New entrants' minimum wage	Training minimum wage
	(%)*	(%)*	(%)*
SMEs	19	2	1
Larger employers	27	3	2
All employers	20	2	1

Source: 2011 National Survey of Employers

* These questions were asked of all employers and are separate questions in the survey so will not sum to 100 percent

Table 4 presents minimum wage uptake by industry. There are some significant differences seen here. Employers in the accommodation & food services industry (47 percent), and in the wholesale & retail trade industries (39 percent), were more likely to have staff on the adult minimum wage than employers in manufacturing (12 percent), construction (9 percent), and professional, science & technical services/healthcare & social assistance (4 percent) (see Table 4).

Uptake of the new entrants' and training minimum wages was low across all industries. No significant differences between industries were found.

Table 4: Percentage of employers reporting they have staff on minimum wage rates, by industry

Industry	Adult minimum wage	New entrants' minimum wage	Training minimum wage
	(%)*	(%)*	(%)*
Accommodation & food services	47	5	4
Wholesale & retail trade	39	2	1
Ag/forestry/fishing & related services	24	5	2
Manufacturing	12	1	0
Construction	9	1	3
Professional, science and technical services & healthcare and social assistance	4	0	0
All other industries	14	1	0
All employers	20	2	1

Source: 2011 National Survey of Employers

* These questions were asked of all employers and are separate questions in the survey so will not sum to 100 percent.

4.3 Purpose of use

Employers in the qualitative interviews were asked how they use the minimum wage. Three themes emerged in the responses to this question. The most common was that it was a starting point for new employees. Employers commented that it was the base level for all staff, and if they showed improvement in their role they would be moved off it. The length of time these employers discussed for this type of arrangement was between 3 and 6 months, depending on their pay review cycle.

> Wellington hospitality:
> *Yes, because we use it as a starting point. Essentially, when people come in they will be on a trial basis and so we will start them off usually on the minimum wage.*

The second reason for using the minimum wage was as a comparative baseline for their other wage rates. Employers discussed either having a set difference between the minimum wage and their lowest wage rate (such as 50 cents) or a difference that was considered reasonable. In this way the minimum wage increases provide a signal to employers about the increases in rates they should be making.

> Auckland hospitality:
> *It is relevant only in that we try to ensure that there is a reasonable or an acceptable differential between the two [the minimum wage rate and the business's rate].*

Finally, a small number of employers talked about the minimum wage as a tool to move on employees who were not performing. By not increasing their pay above the minimum wage, some employers felt this signalled to the employee they might be able to find a better employment situation elsewhere and would provide an incentive for them to leave. This is the flipside of the first reason, whereby employees were moved up for performing.

> Wellington retail:
> *Once they've shown those colours they'll never go above the minimum wage because we actually want them to leave. And it's not that easy for us to get rid of them of course, and you could argue 'fair enough', so we just have to keep on their tail to make sure they're working but in the end we become babysitters for those sorts of people, and, and that's not what we want … and hopefully they'll go.*

5 RESPONSES TO CHANGES IN THE ADULT MINIMUM WAGE RATES

5.1 Effects of changes in the minimum wage

As seen in other studies (see Dalziel et al 2006; Southwell et al 2010; Wearne et al 2010; Evesson et al 2011), firms reported responding in a number of ways to an increase in the adult minimum wage. Both the NSE and the qualitative interviews revealed a range of responses, from absorbing any cost increases, to passing on costs to customers, to dismissing staff or reducing staff hours.

Employers most commonly reported using a number of responses in combination. This depended on their ability to pass on increased costs to customers and the type of good or service being sold. This section discusses these responses.

Table 5: Percentage of employers that report usually making changes in response to an increase in the minimum wage, by employer size

Employer size	Increase wages of staff above minimum wage	Increase prices of goods or services	Other adjustments	No changes made
	(%)*	(%)*	(%)*	(%)*
SMEs	31	14	12	53
Larger employers	32	8	13	53
All employers	31	14	12	53

Source: 2011 National Survey of Employers

* These questions were asked of all employers and are separate questions in the survey so will not sum to 100 percent.

Table 5 presents the types of responses employers reported usually making when the minimum wage rate increases. Nearly one-third of employers reported they usually increase the wages of staff earning above the new minimum wage. SMEs were more likely than larger employers to report increasing the prices of their goods or services in response to an increase in minimum wage rates. However, 53 percent of employers stated they usually made no changes in response to an increase in the minimum wage.

Small percentages of employers reported other responses to an increase in the minimum wage rates, such as absorbing the costs, reducing hours of some employees, or tightening costs in other ways. However, these were all small percentages and no significant difference was found by firm size or industry.

Table 6: Percentage of employers that report usually making changes in response to an increase in the minimum wage, by industry

Industry	Increase wages of staff above minimum wage	Increase prices of goods or services	Other adjustments	No changes made
	(%)*	(%)*	(%)*	(%)*
Accommodation & food services	53	26	24	30
Manufacturing	44	13	14	49
Wholesale & retail trade	32	18	14	42
Ag/forestry/fishing, & related services	31	11	8	61
Construction	28	15	4	64
Professional/tech & health/social services	15	7	2	76
All other industries	32	12	16	49
All employers	31	14	12	53

Source: 2011 National Survey of Employers

* These questions were asked of all employers and are separate questions in the survey so will not sum to 100 percent.

Flow-on effect

Employers in the accommodation & food services, manufacturing, and wholesale & retail trade groups are more likely to report increasing the wages of staff earning above the minimum wage than employers in the professional/technical services & health & social services group (see Table 6). Accommodation & food services, manufacturing, and wholesale & retail trade industries are more likely to have staff on or near the minimum wage than the professional/technical services & health & social services industries,[8] which may partly explain this difference.

In the qualitative interviews, the flow-on effect of increases to the minimum wage was discussed by the majority of employers. The flow-on effect refers to the practice of increasing wages of staff that are already earning above the minimum wage in response to an increase in the minimum rate in order to maintain the difference. The NSE showed that 31 percent of employers usually increase the wage rates or salaries of staff above the minimum wage in response to an increase in the minimum wage (see Table 6). This can result from pressure from staff to maintain wage relativities, but, as seen in the qualitative interviews, employers also report using the minimum wage as a rate to peg their wage rates to (see section 4.3).

[8] For more information, see: http://www.dol.govt.nz/er/pay/backgroundpapers/2010/page01.asp

Wellington hospitality:
It does have a significant influence in terms of if there's any changes to the minimum wage, and I'd say that probably more comes from people's expectations. Despite people who may not necessarily be on that minimum wage figure, it does increase people's levels of expectations in terms of annual increments of pay rises.

Dunedin/Invercargill manufacturing:
So then the other guy who's the one up, he says, 'Hang on a second, I've got a more responsible role, I'm better trained than this other character, who you've moved up because the minimum rate's moved up, now he's just about on parity with me,' so you do get a ratchet effect all the way up.

Compression of wage scales

The opposite of the flow-on effect is a compression of the wage scale, whereby the wage relativities within an organisation are reduced. This happens when employers raise the wages at the lower end of the scale by a larger amount than at the higher end, thus making the differences smaller and flattening the top of the wage scale. Many employers raised this aspect, although the location of the compression differed from the bottom of the wage scale to across the entire scale, bringing the top and bottom closer together. Employers reported that there was pressure on them to maintain relativities, and they felt not main was unfair to staff who would be relatively worse off when the bottom of the wage scale was lifted.

Auckland manufacturing:
So we don't adjust all the rates because the minimum wage has gone up, it just compresses the bottom for a wee while and that's it.

Auckland retail:
We wouldn't naturally increase them by the same percentage. So obviously you've got your pool of people that are increasing because of the minimum wage. The remainder of retail staff not on the minimum wage receive an increase based on performance.

Dunedin/Invercargill hospitality:
Well I asked the managers to actually review people on or around that amount. So that $13.00 to $14.00 mark, people who were in that bracket, I asked managers to have a look at their staff and make whatever increases or recommendations that they needed to, but I tried to cap it there to be honest, so really I tried to put the brakes on it there.

Dunedin/Invercargill retail:
You effectively flatten the wage rates. So you remove the differential between entry and experience. So you get this flattening effect, so as you push up from the bottom, the gap between bottom and top gets narrower.

Cost of making changes

The majority of employers stated that they did not feel a significant amount of administrative burden from changes in the rates. Many said that their accounting software took care of much of the work and this left only a small amount for them or their administration staff to do.

Auckland agriculture, forestry, & fishing:
Yeah, I'd say immaterial.

However, some employers did discuss an impact from the rate changes, particularly those in larger businesses. The work came from the need to increase prices as a result of wage increases, in addition to the payroll updates, and it was noted that if the date of the wage increase fell in the middle of a pay cycle, this was an added burden.

Wellington hospitality:
It creates more paperwork, more cost, because we've got to update all our payroll systems so there's a cost of that. So the minimum wage goes up, which means we've got to put our prices up, which means that we've got to change all the menu boards in our shops.

Wellington hospitality:
It certainly makes a change in that initial time period. I'm actually thinking of a time when I was previously at the hotel, certainly a lot more work in terms of a payroll, so going through administratively through the payroll records, cross referencing it against HR records and funnily enough it also relates to when the effective date is, so it was part way through a pay week, I recall a situation where we had to do a lot of administrative work in terms of calculating differential pay for half of the week.

Also of note is the much smaller percentage (30 percent) of employers in the accommodation & food services industry who report usually making no change (excluding increasing those on the minimum wage, where applicable) in response to an increase in the minimum wage (see Table 6). This is significantly lower than all other industries and may partly be explained by the high number of employees on or near the minimum wage in this industry.

5.2 Responses to the 25 cent increase in the adult minimum wage in 2011

The 25 cent increase in 2011 was in line with inflation for 2010. This meant that the real minimum wage level remained constant, though the nominal wage rose by the 25 cents. This report discusses nominal increases in the minimum wage as employers did not make the distinction between nominal and real during the interviewing.

It is important to note that the qualitative interviews asked employers about what they actually did in response to an increase in the adult minimum wage of 25 cents, and then how they would respond to a larger increase. Overwhelmingly, employers who did make changes in response to the minimum wage increase said they increased staff wages and this cost was absorbed into the business. Other measures discussed are those that employers said they *would* do in the future in response to a larger increase, which thus shows potential responses, not actual responses.

Previous research has reported a mixed impact on employment levels resulting from changes in the minimum wage (Chapple 1997; Katz & Autor 1997; Dalziel et al 2006; Neumark & Wascher 2006; Metcalf 2007; Hyslop et al 2008). The theme of this research suggests that small incremental increases in the minimum wage have little impact on employment.

The most common response to the 25 cent increase in 2011 found in the qualitative interviews was to absorb the increased wage costs into the business and not do anything. One employer said they reduced the number of hours available to staff, particularly overtime, and another said they were not looking to hire any youth because the rate was too high.

Forty-seven percent of employers in the NSE reported usually making some change in response to an increase in the minimum wage rates. The most common response was increasing the wages or salaries of staff who were already above the minimum wage (31 percent). Following this, 14 percent reported they usually increased the prices of their goods or services. Employers in the qualitative interviews discussed building the smaller increases into their annual pricing reviews, saying that smaller increases could be managed short term and then built into their prices for the next year.

> <u>Dunedin/Invercargill manufacturing:</u>
> *So I mean the first of April, for the two months, it's not hard to absorb it for two months, but as I say, then you factor it in for the next increase throughout the year anyway.*

5.3 Hiring and wage responses to larger changes in the minimum wage rates

The most significant changes highlighted by employers were in response to a hypothetical scenario of a $1 increase in the adult minimum wage. However, employers also raised the prospect of a $15 minimum wage (a $2 increase), in response to a pre-election proposed increase by the Labour Party, which was receiving media coverage at the time of interviewing. Using larger increases, the research has been able to show what employers would do if the minimum wage increase had a significant impact on their business. The responses proposed are consistent with previous qualitative studies (see Dalziel 2006; Wearne et al 2008; Southwell et al 2010; Evesson et al 2011).

Does the size of the increase make a difference?

As would be expected, the size of the increase did have an impact on the anticipated strategies used by employers. An increase of 25 cents was seen as manageable by all employers interviewed. The response of most employers had been to absorb this increase into their costs, followed by doing nothing at all. However, an increase of $1 was seen as much more significant, and employers proposed responses that were much more substantial and immediate. When discussing a potential increase of $1, employers were more likely to bring up reducing the number of employees, substituting labour for capital, and closing down.

An increase to $15 an hour was viewed by many employers as unsustainable if it were to occur in one increment. Most employers were unclear on what their specific response to an increase of $2 would be, but did say that it would be scaled up from the response to the $1 increase. This suggests that regular, well-signalled, smaller increases in the minimum wage are less likely to be disruptive for businesses than infrequent large increases, and give employers the opportunity to use responses that are not as likely to create unemployment.

Impacts on hiring decisions

Increases in the minimum wage were reported to have an impact on a business's hiring decisions. Employers reported that increases might cause them not to fill vacant positions and to have higher expectations of applicants when hiring.

Would not fill vacancies

Cost savings through attrition was a common method that employers discussed. Attrition is a way of reducing employment, and thus the total cost of labour, without having to make staff redundant. This means it is less costly and time-consuming for employers, and potentially less damaging to staff morale.

Auckland agriculture, forestry, & fishing:
Well, probably what you'd do if someone left, you would take the opportunity to tighten, get your better productivity. As I say, you would actually end up employing less people.

Dunedin/Invercargill retail:
But if they jumped a dollar or two dollars, we would immediately go into non-replacement mode if we thought it was going to go by anything more than 50 cents.

Greater expectations when hiring

As the cost of labour increased, employers said they would look to hire staff who are more highly trained or have more experience, instead of taking on beginners, to ensure they are still getting value out of their wage bill. This is consistent with the findings of Hyslop and Stillman (2011), who found that after the removal of the youth rate in 2008, employers substituted away from hiring younger employees. This led to an increase in unemployment in the 16−17-year-old group 2 years after the change. This suggests that employers did not necessarily dismiss younger staff when the cost of this group increased, but that they changed their behaviour at the hiring stage, which took time to flow through to employment figures.

Auckland agriculture, forestry, & fishing:
With the people we've got here now, would've been no effect, but it certainly would provide a further deterrent to employing unskilled people that you're going to have to train from scratch basically.

Dunedin/Invercargill manufacturing:
We may look at taking people on that are partially trained, so that way either they can go straight to the $14.00, but already have the certain qualifications behind them.

Reduction of labour costs

In response to an increased cost per unit of labour (wage rates), overall labour costs were addressed in a number of ways. Employers noted five separate strategies they had employed to reduce or maintain their wage bill in the face of increased wage rates.

Reduce hours

Some employers said they would reduce the number of hours available to staff, including overtime but also regular hours. This would keep the overall cost of labour down even though the average cost had increased. This was reported by 1 percent of employers in the NSE.

Wellington hospitality:
Well, you'd definitely, probably make the staff work a little bit harder and perhaps not have as many people on at any one time. We've already done all our food costings and overheads there's not a whole lot you can trim there.

Reduce number of staff

Another group of employers discussed reducing the number of staff if the increased cost of labour was unsustainable for the business. This measure would also keep the total cost of labour down.

Wellington retail:
Yeah, it would depend on how the sales were going. If sales were decreasing, and if they're significantly decreasing, then I might have to relook at the redundancy again.

Auckland agriculture, forestry & fishing:
You would probably have to reduce your staff.

Increase productivity

For lean rostering or reduced staffing levels to be sustainable, employers were expecting those left working to pick up extra work to cover the gaps. This meant that productivity would need to rise, and this was an expectation of many employers. Unlike Dalziel's (2006) model, employers did not discuss putting more effort into training staff to increase productivity. Productivity increases were seen as coming from the need to cover more work with less staff time.

Dunedin/Invercargill hospitality:
It might mean that you might restructure a wee bit, maybe multi-task a few staff a little bit more so they can take on extra jobs, if you think, okay, this department has a little bit of down time so maybe I might cut that one back a wee bit.

Wellington retail:
No, we'd just drop them, and the others would just have to then pick up the slack and you wouldn't carry that floating person that we carry.

Casualisation

A fourth option raised by some employers was moving to a casualisation of their workforce. This would give employers greater flexibility to reduce hours or the number of staff.

Hawke's Bay manufacturing:
So effectively that will be just an additional cost to our business. Our response to that would be that, look at taking on casuals rather than permanents to ensure that our wage bill is under control.

Capital substitution

Finally, employers in the manufacturing industry discussed the potential for substituting capital for labour if capital became comparatively more profitable than labour.

Hawke's Bay manufacturing:
If the minimum wage moved a dollar, obviously we'd have to accept it, but we would look to find other ways to reduce costs. So when you look at a capital project to automate a piece of plant, obviously labour costs are one of the factors.

5.4 Other responses to larger changes in the minimum wage rates

Aside from looking at ways to reduce the overall labour costs, employers also discussed a number of ways to maintain profit margins despite an increased wage bill. These involved increasing the prices of their goods or services, reducing the cost of other inputs, and closing down parts of their business. If employers could not find other ways to reduce costs, they stated they would reduce their profit margins.

Price increases

Employers fell into two distinct groups relating to price increase: those who would readily increase prices if needed, and those who wanted to but felt they could not. Fourteen percent of employers in the NSE said they usually increased the prices of their goods or services in response to an increase in the minimum wage. For some employers it was almost certain that they would increase their prices if their labour costs rose. In manufacturing, in particular, where it was possible, employers said they would build the increased cost of labour into their pricing reviews.

Wellington manufacturing:
If that has a significant impact on our wage bill, then it's going to have a significant impact on our cost. So, it'll be passed on.

Wellington hospitality:
It [a $1 increase] would mean that our wage costs would go through the roof, and we'd have to put our prices up, because there'd be no other way you could recoup that cost.

Reduction of other costs

Employers raised the option of reducing other costs to the business in order to bring the total costs of production down.

> Wellington retail:
> *No I can't see any other way to deal with it. I mean, create more business, but we're constantly trying to do that anyway, so the only way to deal with it is more sales, general reduced costs.*

Employers in manufacturing, in particular, noted the impact this would have on suppliers of their inputs, with employers wanting lower prices for their supplies.

> Dunedin/Invercargill manufacturing:
> *And so if costs are increased on us and we don't have an opportunity to shift that in the market, we either absorb them, or in our case, they get passed back to the farmer in terms of the prices we can pay him for his livestock.*

Another employer discussed the potential need to change the type of production they are involved in and import finished product instead of finishing it in New Zealand if the costs became prohibitively high.

> Dunedin/Invercargill manufacturing:
> *If our own internal costs climbed to a point through, not just labour of course, but other things as well, it may be cheaper for somebody to bring in finished product, imported.*

Cost absorption

Where employers could not increases prices or reduce costs, they reported that they would absorb the increased wage costs into their budgets and reduce their profit margin. Of note, some employers said increasing prices was not a guaranteed option because this was subject to their customers' willingness to pay, which in the current economic environment was limited.

> Wellington hospitality:
> *Well I guess to a certain extent we look to increase our room rates particularly to try and offset that, but that's not always possible. It depends again on market conditions. Worst case scenario it just gets absorbed, you know, the cost gets absorbed and the profit decreases.*

Ability to increase prices was related to the type of market the employer was in. Those who exported overseas said there was little room to move while staying competitive.

Dunedin/Invercargill manufacturing:
We just can't automatically pass on costs. We're an exporter, we sell our products round the world. It's nonsensical to suggest that we could go to a large US retailer—it may be Costco or a UK retailer, or a European one like Metro—and say, 'Oh, by the way the minimum wage has gone up, so we're putting the price of our lamb up or beef'.

It was not just exporters who were restricted in their ability to increase prices. Those in markets where the customer was using discretionary money, such as in the hospitality industry, said that passing on the cost to customers was not an option.

Dunedin/Invercargill hospitality:
No, no and I think it is just too difficult to do that [increase prices] because, once again, in this industry people have got expectations of what is an acceptable price for food.

Where employers stated they could not readily increase the prices of their goods or services, one response was that increases would be absorbed into the business and would affect their bottom line.

Hawke's Bay manufacturing:
Take more of a loss, like I am now. It hits the bottom line.

Close down

A minority of employers noted that if the minimum wage increased by a dollar or more, this would mean the closure of some of their outlets. This was only discussed by those in the hospitality industry.

Dunedin/Invercargill hospitality:
It'd kill some of our businesses. Well, you'd probably review all of our businesses, and we'd look to close some.

5.5 Signalling changes

Signalling refers to the government giving notice to employers that the minimum wage rates will increase. There are a number of ways this can be done. Currently the Minister of Labour reviews the minimum wage annually and any changes to the minimum wages takes place on 1 April. Previously the Minister has announced the changes in the final quarter of the year prior to the increase. In Australia, increases are commonly announced in June for the increase to begin on 1 July in the following year, giving a one-year lead-in period.

Employers were asked whether the timing of signalling of changes to the minimum wage rates from the Government made a difference in responding to changes in the minimum wage. The majority said it did make a difference, because it allowed them to budget for any increase in costs that will occur, making it easier to absorb and giving them more time to respond.

> Auckland retail
> *Yes it does, for a number of reasons. One is that if you are in a current financial year [and there's an increase] that you hadn't budgeted for, then it's not like your shareholders just go, 'Oh, well you didn't know about [that], that's fine, we'll take a lower dividend.'*

One larger employer was interviewed after the 2012 increase of 50 cents was announced. The employer had been expecting the minimum wage to increase by 25 cents and was caught off-guard by the greater amount. It is worth noting that in 2012 employers were given just under 2 months' notice about the increased rate, which was announced on 8 February 2012 to increase on 1 April 2012.

> Auckland hospitality
> *This time around it has been an enormous impact. We are quite labour intensive as an operation, we've got lots of people in the kitchen and so any increase to labour is a massive impact, and this particular one does have a huge increase on labour, which obviously just impacts our costs all the way along. So we're just currently looking at how do we actually mitigate the impact of that increase. It is much more than we'd expected it to be. We'd probably expect it to be normally 25 cents, so we expected it to be that. So I mean our [X] restaurant has 120 staff, so they're all going to now receive an extra 50 cents an hour which we hadn't budgeted for. We'd budgeted for 25.*

Employers suggested a signalling length that ranged from 6 months to a year to give employers the opportunity to budget for increases. Though no employers commented specifically that the time of year was an issue, they did indicate that the earlier the signal was given about an increase, the better it was for their budgeting outcomes.

> Auckland hospitality:
> *With the minimum wage changing, yes you do get notice of that but often it's after budgets etc. have been set.*

6 SELECTED INTERVENTIONS TO INCREASE EMPLOYMENT

The Government has a number of complementary initiatives aimed at improving opportunities for people who experience barriers to employment. This includes the two sub-minimum wage rates (training and new entrants') as well as Work and Income subsidies and trial periods. These three types of interventions were discussed in the qualitative interviews to understand how employers view them and how each one is used.

6.1 Sub-minimum wage rates

A key theme arising from the qualitative interviews was the lack of incentive that reducing the cost of labour (wage rates) was for employers in terms of hiring staff or filling vacancies. Employers were clear that they preferred measures that would reduce the risk to their business when taking on a new staff member rather than utilising the potential lower wage rates (new entrants' and training) available to them. This can be seen in the NSE as well, with a low uptake of the training and new entrants' minimum wage rates but a relatively high uptake of the trial period provision.

As discussed previously, awareness was low and the uptake of the reduced minimum wage rates (new entrants' and training) was very low (2 percent and 1 percent, respectively), as reported in the NSE. Employers in the qualitative interviews discussed why they were not currently using, or were not likely to use, either of these rates in the future.

New entrants' minimum wage

Awareness

The NSE found that 2 percent of employers were using the new entrants' minimum wage (see Table 3). Like the training minimum wage, a low level of awareness was found in the qualitative interviews. The majority of employers interviewed were unaware of the rate or had little understanding of the criteria for its application.

However, once they were aware of the sub-minimum wage, employers seldom said they would be interested in using it. The reasons given for the low level of interest were:

- the potential savings are not large enough to warrant the time spent administering the wage
- the application criteria are too complex
- sub-minimum rates do not reduce the risk associated with a new hire.
- it is unfair to pay staff less based on age

Duration

At the time of interviewing, the new entrants' minimum wage was $10.40, which was 80 percent of the adult rate of $13, meaning an employer could pay $2.60 less an hour if employing a 16- or 17-year-old on this rate. However, the limit of 3 months or 200 hours (whichever comes first) means an employer would pay, at most, $520 less when using the new entrants' rate. When viewed in the context of administering the rate and the potential risk an inexperienced staff member poses to businesses, the saving was not large enough.

> <u>Hawke's Bay agriculture, forestry, & fishing:</u>
> *Well, it's 200 hours, you know? If they're working 45 hours a week, it's 4 weeks.*

> <u>Dunedin/Invercargill hospitality:</u>
> *You'd be pinching pennies and it could be to the detriment of your business.*

> <u>Auckland Agriculture, Forestry and Fishing:</u>
>
> *Well I think what would be that period of time that you're talking about, when you say there's 200 hours or three months - that to me, it's not substantial enough. So if we were going take young people on like that, we'd be particularly needing to employ the right type of young kids that we think have got the skills and the maturity to be able to do our work. Then, from a financial point of view, having assistance from the government for a reasonable amount of time, and what I mean by "reasonable" would be a minimum of 12 months.*

Complexity

Employers raised the complexity of the new entrants' minimum wage as one of the deterrents for using the rate.

> <u>Auckland hospitality:</u>
> *I think that the complexity comes when you have to keep track of something. So if it is for 200 hours and there are other criteria around that, then that just makes it a bit harder.*

Does not reduce the risk

Risk was a key focus of employers when discussing employment of youth. Interviewees said the potential costs of hiring a staff member were a more significant issue than paying the adult minimum wage to a staff member who was performing. Employers said they would rather pay more, even if it was to an external company, to minimise the risk to the business.

Hawke's Bay manufacturing:
It's not a huge carrot, no. I mean $10.40 to $14.50 say, $3 an hour. I think, you'll pay more than that obviously to a labour hire company, but you pay that because they're taking a lot of that risk.

Fairness

Some employers stated that it is not fair to pay someone less based on their age. Their argument was that they employ staff to do a job, and they expect the job to be done to the same standard regardless of the age of the employee. They were willing to accept that some staff would be slower at the start of employment, but this was seen as a short-term issue and did not justify a lower wage rate.

Dunedin/Invercargill manufacturing:
We accept that when people are new to the job they are [slower], but it doesn't matter what age you are, and that's just part of our entry process. But once you're up to speed with the job you should be paid the same as the person next door. It shouldn't be just because you're two years younger you get a dollar or two an hour less. So it's not something we'd pursue.

Auckland agriculture, forestry, & fishing:
We have people under 18. We used to pay at a different rate, but now we've got everybody on the same, no matter what age they are. It's different people, but they're doing the same jobs. So there was a company decision … everyone likes to be paid the same for the same job.

Wellington manufacturing:
If a 17-year-old is doing a man's work, he should really be getting a man's pay.

Training minimum wage

Awareness

At the time of the NSE, 1 percent of employers were using the training minimum wage for at least one employee (see Table 3). This does not indicate how many employees within the business were on the training minimum wage, but it suggests that use of the rate by employers is low. Added to the low uptake, general awareness of the training minimum wage was low in the qualitative interviews. Most employers stated they had little or no knowledge of the training minimum wage.

Even when the training minimum wage was explained during the interview, however, employers expressed little interest in using the rate. The reasons were that:

- it would affect their ability to attract high-quality applicants
- it was not fair to staff to pay them less while they were improving their skills, which benefited the employer
- the savings were not enough to warrant administering the wage.

Affects quality of applicants

One reason given for employers not using the training minimum wage is that it is seen as unfair to pay staff members who are undertaking training less than others in the same role. Employers also suggested use of the rate would make them less attractive as an employer to the better candidates. Employers felt that many of their employees, who were also doing training that would qualify for this rate, were likely to be supporting themselves and potentially family members at the same time. The view was that paying them less for doing the same work as their colleagues as well as improving their skill in the work was not fair to the staff, and was potentially not a manageable wage for that employee.

> <u>Wellington retail</u>
> *We haven't used it, we've looked at it and said, 'Well we want to attract good quality apprentices who can afford to live as well as their non-apprentice employees.'*

A further reason given for not using the training wage was that employers wanted to attract the top applicants for roles, and were willing to pay at a higher rate to be able to do so. The view was that only applicants that were less able would be willing to work for a reduced rate.

> <u>Auckland agriculture, forestry, & fishing:</u>
> *Sounds good from an economic point of view, but it doesn't work in reality, because most people that have got a reasonable intellectual ability—which is what you want when you're going out and doing their job and stuff like that—are also smart enough to say, 'well I can't afford to live on $10.40, or I can do better than something like that.' So you have to pay more to get the calibre of people that you are [wanting].*

Employers commented that they would prefer a training subsidy for staff in this position over being able to pay staff less. Employers that viewed training as a positive for the business would not only pay staff at the same level as non-training staff, but would also offer to pay for the cost of the courses if staff agreed to stay on for some time after the completion of their course.

> <u>Wellington retail:</u>
> *This person starts off on an apprenticeship. I don't reduce his pay rate or peg his pay rate because of the fact that I'm paying for his fees and block courses, and everything like that. I look at that and say, 'Right, this is my contribution to developing people' ... I have gone to the person out here saying, 'Okay, your costs this year are $1,500,' right? And they sign a*

form that says, if you were to leave before 12 months has passed, then we may ask you to pay that back.

Fairness

Some employers viewed the lower rate as punitive to staff who were improving their skills, which was of benefit to the employer.

> <u>Wellington retail:</u>
> *I know there's lots of pressure on these guys here doing apprenticeships because they do get a lot of the unsocial hours, starting at 3 or 4 o'clock in the morning, whereas their mates start at 8.*

> <u>Wellington retail:</u>
> *We've tended to say that this person [an apprentice] is going to be more valuable to us … I don't reduce his pay rate, or peg his pay rate.*

Savings not enough

Finally, some employers discussed the lack of incentive the lower rate had in terms of the level of savings they would get versus the cost of administering the rate for a small number of staff.

> <u>Hawke's Bay manufacturing:</u>
> *So if there is no collective agreement, then they'd come in on the minimum wage. If the position can be justified on its merits, then two or three dollars an hour isn't actually going to make any difference to the company's hiring decision in that respect … because, I mean, we have out of the 900-odd people, I think we would have less than 10 who are enrolled in a level 4 technical training certificate.*

6.2 Work and Income subsidies

Work and Income subsidies were discussed with employers as measures to increase the likelihood of employing a person who had been unemployed for 6 months or more (long-term unemployed). Employers gave mixed feedback on this initiative. For some, the experience they had with Work and Income had been good and they had found staff successfully through this avenue.

> <u>Auckland hospitality:</u>
> *The feedback that I have heard is that it's really positive and that the WINZ people kind of bend over backwards and are really interested in building a really good relationship … so I think they take quite a lot of ownership in helping support the people that come into the workforce.*

The majority of employers in the qualitative interviews were not in favour of subsidies. This again related to the reduction in cost not being at a level that made the initiative worthwhile. Employers were more concerned with getting the right staff than getting cheaper labour.

> Auckland agriculture, forestry, & fishing:
> *We did look at that, but we figured it wasn't going to work for us…just your bureaucracy to go through and for the benefits that we were potentially going to get out of it, we just wrote it off and said, no let's go our own way.*

> Auckland hospitality:
> *That doesn't really make a difference to us to be honest. Again, they either fit the criteria or they don't. And there would probably even be circumstances that we would say, 'Look, we don't care about the subsidy, it's about finding the right people.'*

> Dunedin/Invercargill manufacturing:
> *Look, if it works, but primarily for us we understand that if you take someone on who's not a good fit for your business just to get 50 percent wage subsidy, after the 3 months you've got a problem. And it's not worth it. So the point is, if the person's right we'll take them on. The wage subsidy's just a bit of a little bonus I suppose.*

6.3 Trial periods

Trial periods are a preferred tool for employers when hiring rather than the sub-minimum wage rates, as evidenced by the prevalence of use found in the NSE. The NSE asked hiring employers if they had used a trial period for new hires.[9] For employers with fewer than 20 employees the date of introduction was 1 March 2009; for employers with 20 or more employees it was 1 April 2011. Table 7 presents the percentage of hiring employers who had used a trial period, by size.

Table 7: Employment of new staff on a trial period by hiring employers, by employer size

Employer size	Used a trial period
	(%)*
SMEs	58
Larger employers	62
All employers	60

Source: 2011 National Survey of Employers

* Percentage based on the number of employers who had hired a new staff member since trial periods were introduced.

[9] In this report, 'hiring employers' refers to employers who have hired new staff since the introduction of the trial period provision amendments for businesses of their size.

Of the hiring employers with fewer than 20 employees (53 percent of all SME employers), 58 percent had employed one or more new employees on a trial period. When looking at SMEs by industry, there are some notable differences in the use of trial periods. Employers in construction (85 percent) are more likely to use a trial period for new employees than employers in the accommodation & food services industry (61 percent), or the agriculture, forestry, fishing, & related services industry (44 percent). In the 2008 Survey of Working Life,[10] the agriculture, forestry, fishing, & related services industry had the highest rates of casual and self-employed workers across all industries, which may explain why the use of trial periods is lower in this industry.

Trial periods were seen by employers as addressing the risk they faced when hiring new staff, with 41 percent of employers who had used a trial period stating they would not have hired their last employee where a trial period was used without the provision.

The term 'risk' referred to different aspects of the business in different industries. All industries commented on the reduced risk of costs to the business if the employer wanted to dismiss an employee. Retail and hospitality employers were concerned about the impact that staff could have on their brand and the quality of their service. Employers in the manufacturing industry discussed risk in terms of the damage a new hire could do to other inputs through mistakes when using machinery or working on costly raw materials.

Trial periods do not guarantee that a new staff member will not damage a brand or other inputs of businesses, but they do give employers a less costly way of ending the employment arrangement if problems arise, thus decreasing the overall risk employers face when hiring.

For a more in-depth discussion of employers' perspectives on trial periods, refer to the first report in this series, *Employers' Perspectives: Trial Periods*.[11]

6.4 Right person versus cost

As the interviews progressed it became clearer that employers were willing to pay more (within reason) for staff they viewed as being right for the job. This was explored further, and employers were asked if their decisions were about the right person or cost, and to explain the reasoning behind this.

Employers stated that the decision was based more on having the right staff than on cost, and while they were aware of their cost constraints, they saw cost benefits in having the right staff through improved productivity and better brand representation.

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[10] See: http://www.stats.govt.nz/~/media/Statistics/Browse%20for%20stats/SurveyOfWorkingLife/HOTPMar08qtr/sowl-mar-08-qtr-all-tables.xls.

[11] See: http://dol.govt.nz/publications/research/employers-perspectives-part1-trial-periods/index.asp

Auckland hospitality:
Do we need brain surgeons serving our food in the restaurant because they might be the best candidate? Most qualified? No we don't, but we need people who are appropriately skilled, qualified and [we] are prepared to pay for the best candidates, and I think that's why we've positioned ourselves in the market as being, within the hospitality industry, as paying above minimum rates.

Auckland manufacturing:
The right staff. Without a doubt. Cost is important and is a factor, particularly when [X] competes with other dairy players internationally that have a lower labour cost to them. Absolutely it is a factor, but we will be more competitive with the right staff, so that's why I would put that ahead.

Wellington manufacturing:
One leads to the other. Having the right staff will reduce your cost of labour, so having the right staff is probably the important thing. The cost of labour is the measurable, but having the right staff would probably be the most important thing. That way your labour costs will be minimised if you've got the right people in the right place. If you've got somebody who's not fitting in or who isn't qualified or doesn't want to be, particularly doesn't want to be there, that'll be a disruptive force and a cost—which you don't see on the account sheet week by week but you'd see it growing over the year if you had a factory full of hobos, you probably wouldn't have any customers.

Dunedin/Invercargill agriculture, forestry, & fishing:
In actual fact I'm prepared to pay. It's well worth my while paying a few extra dollars to get the right [person] than it is to have the wrong person and pay them $2 an hour less, because they'll just drag the whole team down.

Following this, employers were asked what the term 'right person' meant, and what it was that made a person right for their work. This led to a discussion of the educational qualifications and skills that applicants have, as well as other attributes that employers viewed as essential. These were: having the right attitude, having a work ethic, being a good communicator, and being a team player. These four attributes were strong themes in this section of the interviews.

Right attitude

The right attitude was the most common attribute looked for in applicants, as reported by employers in the qualitative interviews. This generally meant a person who was willing to learn and motivated to do the work.

Dunedin/Invercargill agriculture, forestry, & fishing:
No, most of it is attitude really. Give me the keen one who's interested in what's going on, who wants to learn anytime, not the person who comes in with a bit of paper saying they've got this, this and this but, you've got everything but an attitude to work which makes it viable.

Work ethic

A work ethic was the second most common attribute discussed in the qualitative interviews. This related to turning up to work on time, staying focused on work, and being willing to go the extra mile when needed.

Wellington retail:
We can teach them the skills because in the end it's quite simple. In 6 months of working here you should be able to pick up everything that we require of you. But it's really about attitude, punctuality and willingness to learn and be flexible, so when it's busy, work harder.

Team player

The third most common desirable attribute was being a team player. Employers viewed new hires as having the potential to disrupt the existing staff, and this cost the business in terms of lost efficiency. Applicants who showed they could work in with current staff and systems were seen as particularly valuable.

Auckland agriculture, forestry, & fishing:
Well, the right person in any group, the people that are working in a steady, small area of the floor has to be able to get along with his fellow workers.

Auckland retail:
Someone that sort of fits in with the—the current team, the current manager, their styles of working, that sort of thing.

Good communicator

Finally, having good communication skills was part of an employer's description of the right person for their business. This related to communication both with customers and with the other staff members.

Wellington retail:
We're looking for people who are reasonably confident sort of people, aren't too shy, that they are competent enough to be able to communicate with other people, that they can work with a whole mix of races and everything like that. And their ability to be patient with customers, and

who want to be helpful with customers in terms of 'Were you able to find everything you were looking for?' or, one of the things we work hard on is, when a customer is looking for a particular product, take them to it. Don't just tell them, 'It's over there'.

These attributes or skills were highly valued, and employers stated they would be willing to pay over the minimum wage in order to attract applicants who possess them rather than paying a lower rate and getting staff members who are not as capable in these areas.

The role of the education system

Most employers interviewed had criticisms of the education system and its current preparation of applicants for the workforce. In both the manufacturing and retail industries, the Industry Training Organisations (ITOs) and tertiary training institutions were criticised for teaching only the basic skills required for the industry.

> Auckland manufacturing:
> *We've had kids come out of polytech who've done these courses and they're hopeless. They're not hopeless kids, but they know nothing. You've got to retrain them and what they've learned for their money is just criminal, in my view.*

> Hawke's Bay manufacturing:
> *I personally have been through [an ITO] and been involved with other sorts of training things. It's a matter of us being able to respect some of those training qualifications, to a point where we really see value in them for our company. Hence the reason we tried to talk to [an ITO] about the potential of some of the more basic principles of staffing.*

> Wellington retail:
> *I think, perhaps improving things like some of the retail training organisations, we used to use them quite a bit. We don't any more, we found them—be honest here—slightly out of touch, not suitable for our business. We don't believe their standards were high enough for us.*

The Ministry of Education is currently leading a review of industry training to examine the extent to which the system develops the skills demanded and to look at improvements that could be made to the current system.[12] This review is due for completion in 2012 and may address some of the concerns raised by employers in this research.

[12] For more information on the review, see : http://www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy/ReviewIndustryTraining.aspx

It was not just industry-specific training that was seen as not performing. Employers raised the education system as being a key vehicle for preparing individuals for the working environment, in terms of both job-specific skills and social and communication skills.

> <u>Wellington retail:</u>
> *Education is probably the area where government can really make the greatest difference.*

> <u>Wellington retail:</u>
> *I do think that the focus of the Government should be on, um, preparing people socially for work, because it appears to me that all of this minimum wage stuff, it's important, but I don't think money is the motivator. You have to have a bottom line. But, yeah, I don't think money's the motivator, nor will changes where the bottom line is a motivator for anyone, the employees or the employers. There's a lot of emphasis on skills training and having skills to enter the workplace, but it does appear to me that there is just a gross lack of social and communicative training and skill. And you see it, the closer you get to minimum wage, the more you see it.*

7 ECONOMIC CLIMATE

The current economic climate was an issue that all employers raised as having an influence on their hiring practices and the impact that increases in minimum wage rates had.

> Auckland retail:
> *Given the economic climate … people are less prepared to take risks about their employment.*

Businesses interviewed raised the impact the recession had on the discretionary spending of consumers, which had a flow-on effect on their ability to raise prices. With consumers cutting spending, or not willing to pay higher prices, this increased the likelihood that producers of goods or services that were more reliant on discretionary spending needed to absorb the cost into the business and look for other ways to reduce the effect on their profit margins.

> Auckland agriculture, forestry, & fishing:
> *I think it's more critical now than it used to be, because you used to be able to put price increases into shops and say, 'Yep, I'm going to have to pay people more and we'll just put a price increase,' but you can't just go along and put price increases in now. People don't like paying it—it's very hard to go to a supermarket, for example, and get a lot more money out of them. Basically the consumer today is getting a bit more price-conscious.*

Employers reported that the recession has also added impetus for them to be looking at their costs and has meant that increases in wages have not been affordable in the past 2 to 4 years.

> Auckland agriculture, forestry, & fishing:
> *We used to give a pay increase every year, but basically the, the last 3 to 4 years of the recession have meant that there are no pay increases.*

> Dunedin/Invercargill manufacturing:
> *Yeah, I mean I haven't been able to give my staff a raise for a number of years now, probably. Getting on to a couple.*

> Wellington retail:
> *We do just sort of give them [pay increases] … but I found it more difficult in the last couple of years as things have got very tighter, so we try to get in a 6-monthly sort of reviews and talks, but I found that because the economy is so tough right now.*

However, even with the financial pressure on the businesses interviewed, as we have seen, the majority were still not using the two reduced minimum wage rates, nor did they have much interest in pursuing them once they had been made aware of them. This suggests that, even in a recession, employers are still concerned more about the potential costs and risks to the business when hiring than with being able to get cheaper labour. It also suggests that some employers are relying on compressing the wage scales during the recession. This means that, assuming employers are complying with minimum wage rates, the minimum wage employees will be the only ones receiving increases in their wages.

8 CONCLUDING DISCUSSION

This report has discussed employers' views of the minimum wage system, based on qualitative interviews and quantitative data from the NSE. The qualitative and quantitative data are consistent, giving more credibility to the findings. Overall, uptake of the adult minimum wage sits at 20 percent across all employers, but uptake is much lower for the two sub-minimum rates. Two percent of employers reported using the new entrants' rate and 1 percent reported using the training rate.

All employers were aware of the adult minimum wage, though not all knew the actual rate at the time of interviewing. Those who were using the adult rate said it had three key purposes: as a starting wage for entry-level positions; as a benchmark to peg their wage rates to, but remain higher than; and as a wage that would send a message to non-performing staff to move on.

Smaller increases in the adult minimum wage appear to have only a small administrative burden, though some employers reported a medium impact in the short term related to changing rates and prices of their goods. Employers stated that the longer the signalling period prior to an increase, the better in terms of their planning. This made any increases easier to manage. Managing smaller increases tended to mean absorbing the increased cost into the costs of business. However, when considering a potential larger increase, employers discussed responding by looking at the overall wage costs or other costs in the business.

Employers said that the impact on their businesses was greater than just the increased wage for those on the minimum wage. The flow-on effect associated with increasing the minimum wage was reported to have a significant impact. Employers reported that employees who were above but close to the minimum wage would feel they were relatively worse off if the minimum rate increased and the relativity was not maintained. This created pressure for employers to increase the wages of staff earning above the minimum. In the NSE, 31 percent of employers said they increase wages or salaries of staff that are already paid above the minimum in response to an increase in the minimum wage. However, employers did say that the increases given to staff above the minimum wage were not necessarily equal to the increase in the minimum wage, and that a compression of the wage scale could happen. Decisions about the size of increases were also influenced by merit in many cases.

As was found in the previous qualitative studies, employers suggested that in response to a larger increase in the minimum wage they would look at staff hours, number of staff, increasing productivity, casualisation of their workforce, capital substitution, not filling vacancies, and having higher expectations when hiring. One employer said they would hire fewer youth in response to increased minimum wages because they viewed youth as being less productive than older employees. These are all measures related to labour costs, and would result in increased productivity by getting more out of the existing overall wage bill.

Employers also said they would look at non-labour measures in response to an increase in the minimum wage. These included looking to increase prices if possible, absorbing the cost into the business and reducing their profit margin (the most common actual response), reducing the cost of other inputs, and, in the most extreme scenario, closing down parts of their business.

The interviews discussed a number of government interventions aimed at increasing employment opportunities that operate alongside the minimum wage. Four interventions were focused on: the training and new entrants' sub-minimum rates, work and income subsidies, and trial periods.

Sub-minimum wage rates alone were not viewed as having a significant impact on the employment of those who were eligible. The data shows that there is a low uptake of both rates, and employers expressed little interest in using either. Employers in the qualitative interviews showed a lack of awareness of the two sub-minimum wage rates, with few knowing about the rates or the criteria for their application. This lack of awareness is likely to be part of the cause of the low uptake of the sub-minimum wage rates.

For the new entrants' minimum wage, the reasons given for not adopting it were that it was unfair to pay staff less based on age, the potential savings were not large enough to warrant the time spent administering the wage, the application criteria were too complex, and sub-minimum rates do not reduce the risk associated with a new hire. For the training minimum wage, employers said it would affect their ability to attract high-quality applicants, it was not fair to staff to pay them less while they were improving their skills (which benefited the employer), and the savings were not enough to warrant administering the wage.

Work and Income wage subsidies were also viewed as providing only a small incentive to employ long-term unemployed. This was because the subsidy did not reduce the potential risk that employers saw with employing someone who did not have a clear work history.

Although the government interventions are all complementary and can be applied in conjunction with each other, trial periods were reported to be the preferred intervention for increasing employment opportunities. Sixty percent of hiring employers reported that they had used a trial period since the introduction of the provision, and 70 percent intended to use the provision in the future. The preference for trial periods was due to the perceived reduction in risk to the business that trial periods give. Employers said this was a far greater driver for them in decision making than the potential cost saving of the reduced minimum wage rates.

However, awareness of trial periods was also much higher than that of sub-minimum wage rates. Trial periods have received frequent coverage in the media, which vastly outweighs the publicity the sub-minimum wage rates have received since their introduction. This suggests that information provision on the rates may be an area to consider in any future initiatives related to wage rates.

Finally, employers reported they would prefer to pay more (within reason) and attract the right staff than pay less and risk employing someone unsuitable for the job. The right person has four key characteristics: the right attitude, a work ethic, good communication, and willingness to work in a team. These soft skills were viewed as being instilled in employees from their time at school, and employers viewed the school system as an area where government could make a positive contribution to applicants' employability.

This is the second report in a series of three reports on employers' perspectives. The first report focused on trial periods. The third report discusses employers' perspectives on the employment of youth and long-term unemployed.

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