

RESEARCH NOTE

Low pay and industrial relations: the case of contract cleaning

Peter Brosnan* and Frank Wilkinson**

A key feature of the present government's economic strategy has been to directly, and indirectly, undermine pay and conditions of employment. Unemployment, although an inevitable by-product of the government's industrial and monetary-fiscal policies, has been blamed on the wage fixing system and on the levels of pay. In turn, the government and employer interests have been able to use the growth of unemployment as a legitimization of their attacks on the pay fixing system and the level of pay. Real wages, both gross and net, are now lower on average than when the present government was first elected in 1984 and the thrust of current government policy is to lower them further. This decline in real gross wages has been far from evenly shared. While the lowest quintile of wage earners experienced a fall in real income of 3.5 percent between September 1984 and the end of 1987, the top quintile experienced an increase of 1.1 percent. Real net wages for the lowest quintile fell by 0.4 percent while those of the top quintile rose 4.5 percent (Brosnan and Wilkinson, 1989, Table 2).

The continual reduction of wages at the lower levels is justified by the government and its advisers as producing more flexibility and ensuring the survival of marginal firms. The Treasury, perhaps the strongest proponent of lowering pay at the lower levels, has even gone so far as to recommend that the Minimum Wage Act be repealed. We have argued elsewhere that these arguments are fallacious and that a decent Minimum Wage is essential not only for equity but as an important component of New Zealand's economic recovery (Brosnan and Wilkinson, 1989). We do not propose to repeat those arguments here but rather to present a case study of one of the lower paid industries: contract cleaning.

* Faculty of Commerce and Administration, Victoria University of Wellington.

** Department of Applied Economics, University of Cambridge.

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Although contract cleaning is far from the lowest paid industry (Brosnan and Wilkinson, 1989, Table 8), this case study is especially pertinent for three reasons: (a) contract cleaning is a highly profitable industry whose profitability is based almost entirely on low pay; (b) the study shows that low pay is not confined to small inefficient firms using obsolete technologies - the classic sweatshop - but is increasingly the province of large multinational companies; (c) the study also shows that low pay is not inevitable; moreover, that a strong, well organised trade union, in conjunction with the national award system, is sometimes able to achieve increases in pay, and without any loss of employment.

The industry

Contract cleaning is dominated by a handful of large companies: the Swedish-based Electrolux, Australian-based Berkeley Services, and Crothalls. Crothalls, which operates as Command, controls more than half of the market. However its market share is being eroded by Electrolux and some small, locally owned operators. Originally a New Zealand-based firm, Crothalls spread to Australia, the United States of America and the United Kingdom. Crothalls pioneered the extension of contract cleaning into related services, such as hospital food preparation. In the United Kingdom, where the company at one stage held 90 percent of National Health Service cleaning work allocated to private contractors, it has attracted considerable attention on account of its exploitative practices. The most infamous was the Barking Hospital dispute when 90 women cleaners sustained an 18 month strike against the company. On the domestic front, it has aggressively swallowed competitors including Newco, Hygrade, Vacuum, Lloyds and Diamond White (Wellington) and extended its range of activities well beyond its base in contract cleaning to include building maintenance (Crothall Property Services), private hospital management (Comprehensive Australasian Retirement Enterprises, Health Care Management Consultants), security (Securitas), alarm systems (Monitor Controls), communication services (Seekers), catering and vending (Huntsbury Food Services, Advanced Food Systems and Synergetic systems). The Crothall empire was acquired in 1980 by the United Kingdom-based Pritchard Group which, in turn, was taken over in June 1986 by the Hawley Group, a Bermuda-registered, United Kingdom-based multinational. Despite the wide range of its activities and its foreign ownership, Crothalls still poses as a modest, Christchurch family firm.

The ownership of cleaning firms is constantly changing through mergers and takeovers and the changing maze of wholly owned subsidiaries allows the larger companies to submit several tenders for each new job by using the names of one of their acquired competitors. This constant changing of identities also serves another purpose in that it helps the contracting firms to escape previously acquired reputations for bad service. Thus Hawleys have now changed their name to ADT, originally the name of an American company they recently acquired. Their New Zealand arm, Crothalls, has changed its name to ADT Services (New Zealand) Ltd and has restructured into two sub-companies, Crothall Property Maintenance and United Health Serv. These companies in turn frequently submit tenders in the names of previously acquired competitors such as Hygrade or Lloyds. The concentration of ownership among the major companies is even greater since the Australian-based Berkeleys is owned by ADT (Hawleys).

Despite its near monopolisation, the industry remains fiercely competitive. What is more, the low level of capital required for entry permits a substantial number of small, locally-based firms on the periphery of the industry. These firms can compete successfully with the major companies. For example, Avalon, a small Wellington company, recently won the Wellington and Hutt Hospitals' contracts from Crothalls.

This competitive bidding for contracts means that profit margins are trimmed to between 1 and 5 percent of the contract price. However, high levels of turnover, and the

low capitalisation required by the industry, are able to yield very substantial rates of profit on capital deployed, typically 30 to 50 percent per annum - roughly twice as great as for New Zealand companies in general.

Contract cleaning companies and privatisation

Because the dominant firms in New Zealand are all foreign owned, they are not required to produce financial statements. However, the Hawley Group's total operation is a matter of public record in the United Kingdom. Ascher (1987) comments that the group increased its turnover tenfold between 1980 and 1984 and that Pritchard Services increased its business five times in the same period. A notable feature of the operation of these firms in the United Kingdom, aside from their extremely low wages, is their infiltration of government decision making processes:

The strategy employed by the major contractors to gain a foothold in the public sector markets has been both simple and successful. Unlike the unions, who have devoted tremendous effort to mobilising public opinion, the contractors have directed their lobbying efforts almost exclusively at the political decision-makers, particularly those at national level. Their campaign has been low-key, often operating behind closed ministerial doors, and virtually invisible to those outside mainstream Conservative Party politics. Four aspects of this lobbying campaign are of particular interest: trade association activity, Conservative activists in service industries, direct lobbying of Parliament, and corporate links with the Conservative Party (Ascher, 1987, p. 72).

We can only guess at the range of tactics employed by their New Zealand subsidiaries. Certainly, they have been active, along with Electrolux, in lobbying for the further privatisation of Government services, especially in the health area and in the cleaning of Government buildings.

It seems, at the time of writing, that this push for privatisation will be successful. The Government's motivation is to obtain what Kate Ascher euphemistically called "efficiency improvements" which:

... can only be achieved by reducing staff, lowering conditions of service, and instituting more flexible working arrangements. All three actions clearly undermine the position of both ... workers and their trade unions. Competitive tendering can be thought of as a zero-sum game, in which the Government and the ... trade unions are the players: the greater the efficiency savings, the more dramatic the effect upon union members (Ascher, 1987, p.97).

Crothalls have also made a determined effort to move into the cleaning of state schools and have set up a subsidiary, Schoolcare Services Ltd., especially for that purpose. As the law stands at present, school committees are required to use the money they receive for cleaners' wages to employ cleaners directly. Contract cleaning companies, however, approach school committees and offer a cleaning contract. To make this attractive, despite its illegality, they offer "kickbacks" to the school, as they do to hospitals, with the size of the kickback related to the level of costs savings achieved¹. In their approach to schools, they state explicitly that the cost savings "can only be achieved through the reduction of

¹ These kickbacks are usually in the form of an annual cash refund of half the cost saving. Sometimes it is in the form of a grant for sports equipment.

staff levels".² What they fail to add is that the existing cleaning staff will need to be laid off and rehired or that they may be replaced by school children. In the most cynical case, the companies offer to provide "training" as "work preparation" for less able pupils.³ Thus the cleaning is done by these pupils as part of the school curriculum.

The result is a low standard of cleaning in the contracted schools with consequent disruption to the school routine and with teachers and pupils being forced to do some cleaning so that classrooms can operate effectively.⁴ The contract cleaning companies are endeavouring to have the law changed so that their school cleaning contracts (about 10 percent of schools) can be legitimized and so they can take over related activities such as school caretaking, catering, security and ground maintenance.

The vulnerability of contract cleaning companies

The nature of contract cleaning with its high rates of profit on a limited capital base makes it an attractive avenue for investment by New Zealand and foreign-based firms. But the limited capital requirements make entry to the industry relatively easy. The low profit margins which ensue make employers in the industry particularly vulnerable. A strike of only one or two weeks may succeed in wiping out the annual profit on a contract. What is more, the source of additional profits, reducing staffing, and its consequence, reduced standards of service, are easily visible and unions can sometimes exploit this politically. Thus it is no surprise to find that Hawleys and their Pritchard subsidiary ruthlessly suppress unions in the United Kingdom.⁵

The two unions which represent cleaners in New Zealand⁶ are both well organised and have attempted to exploit the strategic weaknesses of the contract cleaning companies and negotiate better levels of pay for their members. Nonetheless, they confront severe organisational difficulties due to the nature of the industry with its diffusion of workplaces. Their strength owes much to the national award system and compulsory unionism. The former guarantees a common set of minimum wages and conditions throughout the industry thus ruling out wage cutting as a means of improving contracts. Compulsory unionism strengthens the union financially and prevents employers using non-union labour.

The contract cleaners' dispute 1984-1986

The ability of the cleaners' union to achieve wage increases and the importance of the arbitration system is demonstrated by the 30 percent increase won by private sector cleaners in 1986. This increase had a lengthy historical origin. Until 1979, school cleaners and private sector cleaners had received the same pay rates. In that year, the union argued for external comparability before the Public Sector Tribunal and school cleaners were granted the same rate as cleaners employed by the Department of Internal Affairs. They then sought the same rate for school cleaners employed by private sector contractors.

² Copy of correspondence held by the first author.

³ Interviews with teachers.

⁴ Interviews with teachers.

⁵ See for example Landor (1986).

⁶ The New Zealand Cleaners, Caretakers and Security Officers Federation, and The New Zealand Federated Hospital, Restaurant and Related Trades Employees Industrial Association of Workers. Now amalgamated as the Service Workers Federation of Aotearoa.

In 1981, strikes, centred on only two schools, resulted in private contractors agreeing to pay the higher rate to their school cleaners. During the wage freeze, an exemption to the freeze was sought by the union but employers refused. Cleaners went out on strike and a concerted picketing campaign was centred on Crothalls and the cleaning at BP House. The dispute was highly successful from a union point of view. The 24 hour pickets at BP House, the widely reported management and police violence (Roth, 1984, p.140), plus publicity about the low rates of pay for what most people regarded as a difficult and dirty job, won the union widespread support from the public and from other unions. The strike clearly hurt the company and Pritchard's Annual Report for 1984 commented on the "squeezed margins" (page 5) in New Zealand. After a month, management agreed to the union's demand.

But actually achieving parity took two years more. The Arbitration Court granted parity in the 1985 award but the school cleaners award had not been settled and they moved ahead again. However, the Court granted a longer term award to private sector cleaners; thus the schools' agreement would be settled first in 1986. That year, however, the cleaning contractors initially refused to negotiate on the school cleaners agreements because of the by now virtually automatic flow on to the private sector award. Eventually the school contract cleaners agreement was settled at 21.5 percent. The private sector award was then settled in the Arbitration Court and private sector cleaners gained parity with a 30.1 percent increase. In granting the award, the Chief Judge commented that he found it "strange indeed" that employers offered only \$6.00 per hour when they previously had agreed to pay school cleaners \$6.83 per hour and that "to have varying rates ... is absurd" (*Book of Awards*, 1986, p. 2475).

While the union was successful on this occasion, it must be noted that the 30 percent pay increase took seven years to achieve. Although strike action was successful and played a major role, the increase also owed much to the national award system.

The unions have had other victories. A strike at Auckland hospital by the Hotel, Hospital and Restaurant Union, in 1983, led to the Hospital Board directing the contractors to take on more full time staff (Roth, 1984, p. 143). The union had cleaners elected to the Auckland Hospital Board in 1986 and the Board subsequently changed two hospitals from using Crothalls (Command) to "self cleaning" systems (*Dominion*, 26 January 1988). Despite this, the future for the workers in the industry is less than bright. The cleaning unions face further battles as the Government weakens the award system and pursues its plans for further privatisation of public services.

The source of profits in the industry

The key to understanding the economics of contract cleaning is its inherent labour intensity, with few opportunities for increasing labour productivity by capital investment or innovation. Consequently, the surplus for the profitable operation of private capital is essentially obtained by using less labour, i.e. lowering existing standards, and by an intensification of the labour employed. This can only be achieved by lowering wages or worsening conditions of employment. The scope for these, especially the former, are limited in New Zealand because of the national award system. Nonetheless, contract cleaning companies do attempt to achieve "savings" in this way. This is most obvious where they reduce the number of hours or number of cleaners allocated to a given task. Less obvious forms are: the casualisation of formerly full-time jobs; provision not being made for sickness or other absences, thus other cleaners and/or supervisors have to do the work of absent workers; damaged or broken equipment being provided thus putting the onus on workers to use more exhausting and time consuming manual methods.

Unscrupulous contractors go to inordinate lengths to cut costs in these ways. For example, if a worker employed for 30 hours per week, six hours per day, is replaced with two workers whose combined hours are 30 per week, but each is only working 3 hours per

day, this removes the employer's obligation to provide a teabreak. This has three advantages for the contractor. First, there is a saving in not having to provide refreshments. Second, workers are less likely to meet each other, thus making union organisation more difficult. Finally, there is a higher degree of productivity to be obtained from a second worker doing the remaining three hours, as compared with the one working the full six hours (who in fact does less than six hours work because of the teabreak).

The impact of the creation of these profitable opportunities has been twofold. First, the ease of entry and ensuing fierce competition has led to very low tenders - motivated both by intense competition and also by the need for firms to establish a base in the industry from which more profitable contracts could be secured in the future - and consequential well documented instances of low standards of service.⁷ The second effect is that the more successful companies have grown mainly by acquisition and they, in turn, have been swallowed by overseas companies engaging in the same tactics. The Hawley Group and Pritchard Services which acquired Crothalls stand out for special mention:

Both these companies have engaged in acquisition behaviour on an unprecedented scale. This thirst for acquisition can be attributed to the nature of their core business - contract cleaning. Its low capital demands ensure good cash-flow prospects, and pave the way for the continual purchase of smaller companies needed to round out geographical or functional portfolios (Ascher, p. 91).

Behind the facade of financial jargon lies a simpler story. These companies are deploying their surplus generated from the low pay and poor working conditions of their employees in order to increasingly dominate the industry. From this base, they can, in the future, improve the contract price and their profit margins. The economic costs of this process are borne by the rest of society. Aside from the disincentives to efficiency which low pay generates (Brosnan and Wilkinson, 1989), there are other severe costs to the workers and to the State which subsidises the workers' low pay through Family Support and other welfare payments. To the extent that these large corporations return their surplus to their home countries, the balance of payments deteriorates. Finally, there is the cost to the community of the monopolisation of service provision in fewer and fewer hands over which it has no democratic control.

Conclusion

The present political climate is a most favourable environment for contract cleaning companies. The government's drive to contracting out and to privatisation, if it continues, will expand the range of activities available to these companies; not just in cleaning but in a range of related services such as catering and security work. This will not however produce additional jobs since workers will be displaced from jobs in the public sector. In fact, employment in the industry is bound to be lower as the competitive tendering process produces lower bids for contracts and costs are trimmed by economising in the use of labour. The workers in the industry will thus bear the brunt of this drive to privatisation and contracting out as the number of jobs is reduced and those that remain are intensified.

In this environment, which also produces a downward pressure on wage rates, effective unionism is essential. The two unions which deal with contract cleaners have been

⁷ An adage in the industry is that "you make money not from what you do but from what you don't do". For examples of the reduced standards of service provided by contract cleaners in hospitals, see Mullins (1987) and for a comparison with the behaviour of the same companies in the UK see Coyle (1986).

successful so far in maintaining pay rates and their recent federation should improve their effectiveness further. They may however face severe difficulties in the future. The nature of contract cleaning work with its workforce fragmented by location and hours, makes effective organisation extremely difficult. Much of the success of the two unions in the industry is directly attributable to two features of the New Zealand industrial relations system which overcome these organisational difficulties; namely, compulsory unionism and the blanket coverage provision of the national award system. The difficulties of organisation in systems without these provisions and the consequent low pay and appalling conditions is well described by Coyle (1986). The continued ability of the cleaning unions to maintain pay at reasonable levels and prevent further deterioration in working conditions will depend to a considerable extent on these features of the system being retained in the future.

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