

**TOURISM : WHAT INCENTIVES FOR GROWTH?**

**A STUDY OF LABOUR ISSUES AFFECTING  
THE OUTLOOK FOR TOURISM**

**NEW ZEALAND BUSINESS ROUNDTABLE  
IN ASSOCIATION WITH THE  
NEW ZEALAND TOURIST INDUSTRY FEDERATION  
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## FOREWORD

It has been said rather soberingly that our tourist industry is like Argentina – it should have a great future.

It certainly should have a great future because it has all the ingredients for success. Two beautiful islands, unique natural beauty, a special culture, and – most important – people who are friendly, hospitable, courteous, talented and resourceful.

Whether it will be like Argentina is entirely up to us. As Argentina's problems are due to bad economic and industrial policies, so tourism's problems are largely the result of policy mistakes made in New Zealand.

In a nutshell the tourist industry is falling short of its potential because of unnecessarily high costs, excessive regulation of activities which provide services to tourists and rules affecting the workplace which stop people from having a go.

The tourist industry is very labour intensive and has enormous potential to create employment. Our country would be better off if all people in the tourist industry were permitted to use their ingenuity to provide better services more efficiently. Other countries are doing it, and so must we to survive.

The purpose of this study is to contribute some constructive suggestions in one key area, labour relations, for making our tourism services more competitive. The solutions are relatively simple; indeed they come from people earning their living in the industry and are already being applied to the extent that the existing constraints allow.

Wider knowledge of the issues and discussion of the solutions will, it is hoped, lead to removal of the barriers which are now preventing the tourist industry from making its potential contribution to New Zealand.

Political agreement erected the barriers in the first place and, now that we have a better understanding of the costs imposed, political agreement must remove them.

Gary Lloyd  
New Zealand Business Roundtable

## **EXECUTIVE SUMMARY**

Tourism is big business in New Zealand.

When people from home and abroad travel around the country, stay overnight, eat out, go shopping and visit resorts they spend money which ultimately flows through to the entire community.

### **Tourism creates employment...**

Supplying services to tourism generates income and employment. Tourism accounted for about 4 per cent of GDP and 5 per cent of total employment in the year to March 1989.

### **...but it must be competitive.**

How much tourism contributes to New Zealand depends on how attractive its services are compared with all the other possible choices for consumers. That comes down to how competitive tourism services are. Given the discretionary nature of tourism spending, and since New Zealand is only one of many destinations competing for the tourist dollar, every possible effort must be put into finding new tourism 'products' and new ways of reducing real costs.

### **Labour productivity the key**

There are many impediments to the future profitability and growth of New Zealand's tourism industry. This study focuses on the importance of labour relations in determining the tourism industry's efficiency and, therefore, ability to compete. Since labour is a substantial part of the cost of delivering tourism services, it follows that the productivity of labour is central to the industry's competitiveness. The key is to understand how to improve labour productivity.

### **The right incentives are essential**

It is clear from this study that labour productivity is most influenced by the institutional environment in which people work. An environment that

fosters entrepreneurial skill and innovation, and rewards performance, stimulates productivity advance. Its features are openness, flexibility and competitiveness. People are keen to 'have a go.'

### **Where does tourism see its problems?**

With the aim of encouraging growth and profitability in the tourism industry, the Business Roundtable sought the views of many individuals and companies on where the main impediments to better performance lie and what can be done to overcome them.

### **Restrictive labour regulations...**

A central problem that was identified is that the labour market is too restrictive and inimical to better performance. The Labour Relations Act entrenches out-dated union structures, attitudes and monopoly power. Many of these features were carried over from an era of protectionism in which anti-competitive behavior flourished.

### **...reduce competitiveness.**

The importance of the Labour Relations Act is that, through the force of law, it has a major influence on the labour market environment. It sets rules and regulations, and 'legitimises' attitudes and practices. Its worst features are that it gives a union sole (monopoly) coverage of an industry and makes union membership compulsory. The environment it creates encourages people to seek 'rents' from the system. That is bad for competitiveness and economic growth.

### **So let people make their own agreements**

By contrast, the environment should provide incentives for innovation, greater efficiency and growth. It should reward performance. Until, and unless, the Labour Relations Act is substantially amended to ensure that agreements made voluntarily between employers and employees at the enterprise level cannot be overturned or

circumscribed, the fundamental causes of low productivity will remain.

### **Progress is being made...**

Significant progress is, however, being made. One major employer in the liquor and food industry has recently concluded an enterprise-based agreement which incorporates flexible workplace arrangements tailored to the commercial needs of the firm. Foreshadowed amendments to the Labour Relations Act are expected to allow employers to initiate enterprise bargaining and the Arbitration Commission may be required to give priority to the registration of industry and enterprise agreements as distinct from traditional trade or activity-based agreements. However, this opportunity will be denied to enterprises employing fewer than 50 people which predominate in the tourist industry, and the proposed reintroduction of a form of compulsory arbitration will slow the momentum for bargaining reform.

### **...but more is required**

Discussions with numerous people in the industry have demonstrated a strong desire for reform. Firms and their employees want the right to make agreements which best suit the individual circumstances of the particular enterprise.

Some change for the better in labour relations is being forced by changing social attitudes and consumer preferences.

The sale of liquor, for instance, has been liberalised from 1 April 1990. At the same time the traditional nexus between the Hotel Workers' Union and liquor sales has been severed, thus clearing the way for more flexible trading hours to be decided by retailers as the market requires, rather than as the union demands. Flexible working hours with 'normal' rates of pay will follow suit – eventually. Shopping hours are being deregulated in response to market pressure.

In both cases, non-compliance with certain regulations had become widespread and it was only a matter of time before reality broke in and the government allowed what everyone, except some readily identifiable interest groups, wanted.

### **Need for flexibility...**

Penalty rates, however, remain a severe handicap for the tourism industry. Whilst being able to provide a service when tourists require it is an improvement, the competitiveness of that service is severely eroded if costs are higher because of penalty rates. Tourism, and especially accommodation, is a 24 hour per day, 7 day per week service and it is self-defeating of unions to persist with the out-moded concept of 'penalties' for work outside the 9-5 day, Monday to Friday week.

### **...which is what employees want.**

One of the more encouraging signs that commercial commonsense will prevail is that the employees themselves in all the firms interviewed want enterprise agreements. It is therefore all the more unfortunate that the industry is forced to bear unnecessary costs while some unions continue to resist what is clearly in their members' interests.

### **Monopoly power is not good for tourism...**

The industries providing transport and restaurant services are concerned at the actual or potential ability of the union movement to damage competitiveness by exercising the monopoly powers given to it under the Labour Relations Act. Whether that damage is inflicted or not – and this applies to all industries – depends on factors such as the willingness of staff to ignore union directions, the willingness of the firm not to comply with inappropriate awards, the quality of company-staff relations, the vulnerability of the firm because of its size, location or national significance, the willingness of the union to 'police'

its members and the access of the union to the firm.

However, the fact that damage to competitiveness arising from the Labour Relations Act is mitigated in some cases by the law not being applied does not mean that all is well. Indeed, nearly all firms cited examples of how labour market attitudes and practices – most of which flow from a pro-union bias in the Labour Relations Act – increase costs and lead to a loss of competitiveness.

**...so the government should remove it.**

The fundamental problem is that the Labour Relations Act is flawed in granting monopoly rights over key areas of the labour market to the union movement. That means that, if it comes to the test, union policy wins against a company and a workforce that might want to agree on arrangements different from those which the union approves. The recently foreshadowed amendments are largely tinkering and will not be sufficient to introduce new types of agreement and more productive and cooperative work practices on the scale needed. Much wider freedoms for workers and employers to negotiate individually or on a voluntary collective basis on the structure of their employment contracts must be created.

### **The direction is clear**

Against the tests for productivity growth – openness, flexibility, competitiveness and rewards for performance – the environment in the labour market for industries providing tourism services does not score well. Accordingly tourism is less competitive than it should be and the level of employment and overall activity and growth is reduced.

Amending the Labour Relations Act to:

- remove those features which give the union movement its monopoly right to represent employees;

- allow workers a free choice of union and bargaining agent; and
- facilitate changes away from national awards and towards individual contracts or collective agreements at the enterprise level,

is likely to do more than any other single action to boost labour productivity and increase tourism's competitiveness.



## 1. INTRODUCTION

This study highlights the importance of labour relations in the tourism industry. Its main theme is the fundamental significance of the environment in which investment and operational decisions are made. Does the environment encourage risk-taking and reward performance, or does it hold people back? Within this framework the focus is on the labour market. What is its incentive structure? Is it a force for generating enthusiasm, responsiveness, innovation and growth, or is more like lead in tourism's saddlebags?

The study was undertaken by the New Zealand Business Roundtable in the belief that one of the country's major industries and earners of export revenue is capable of contributing much more to the well-being of all New Zealanders than it is at present. Also, the Business Roundtable was interested to know where the industry sees its major problems and where solutions to them might lie.

The study has involved personal contact and interviews with many individuals and companies in the tourism industry. Discussions were held with people operating in most sectors of the industry, from large and small businesses and from industry organisations. These people are the source – either directly or indirectly – of the case studies, examples and anecdotes which have been documented and from which the points of principle flow. Their assistance with information and guidance on issues is acknowledged and greatly appreciated. However, given obvious commercial sensitivities, much of the

empirical material has not been attributed to individuals or companies.

The report is structured along the following lines. In the next two sections the nature of tourism and its importance to New Zealand are briefly outlined.

Section 4 discusses the main reasons why people come to, and travel in, New Zealand and underscores the overwhelming importance of competitive pricing of tourism services.

Section 5 examines the factors which will make the tourism industry grow, stagnate or decline. This leads to the significance of productivity growth and ways of achieving it which are outlined in section 6.

Having established the conditions necessary for productivity growth, some of the major labour market issues and events in the tourism industry are reviewed in section 7 to see how they measure up. Finally appropriate policy and legislative changes are suggested in section 8.

## 2. WHAT IS TOURISM?

People travel. They go to work, visit friends and relatives, go on holidays, attend conventions and shop (sometimes locally, sometimes far away). They also eat and sleep.

Tourism involves these activities, but not all travel, meals and accommodation are part of tourism. Going to work is not tourism, neither is migration. A packaged tourist holiday clearly is. But there is considerable uncertainty over how activities such as a local day trip should be regarded, assuming they can be recorded. Some expenditure on items such as food and entertainment may have occurred whether a person stayed at home or was touring.

For these reasons there is no clear definition of tourism which has universal applicability. Unlike a commodity, it cannot neatly be categorised for statistical measurement. Accordingly, information on tourism is neither precise nor comprehensive. That is not to say, however, that measurement of the size and activities of the industry is not valid; only that care should be taken in analysis or in coming to hard and fast conclusions based on the available data.

Tourism creates demand for an extensive range of infrastructure services, particularly transport, accommodation and leisure activities. In doing so, it may strain the supply of existing services, but in the longer run it improves the range and quality of those services over and above what would have been the supply based on local or non-tourism demand alone.

The tourism industry provides a vast array of services to tourists. Directly the industry includes:

- travel promotion, marketing advice and planning;
- transport;
- accommodation;
- restaurants, bars and catering;
- tourist attractions (including national parks);
- entertainment;
- shopping; and
- manufacture of travel hardware and souvenirs.

Indirectly, the industry extends to:

- general retailing;
- building and construction;
- operation of airports and harbours;
- education and training services;
- food and drink production and processing;
- supply of fuel;
- financial services;
- communications;
- medical services; and so on.

Tourism involves – to a greater or lesser extent – the consumption of these goods and services.

### 3. TOURISM'S ROLE IN NEW ZEALAND<sup>1</sup>

Tourism is very important to New Zealand. In the year ended March 1989, tourism contributed some \$2.24 billion, or about 4 per cent, to Gross Domestic Product. Its contribution to the economy has declined slightly from \$2.3 billion in the previous year, due mainly to the downturn in domestic tourism. Broadly, tourism's share of GDP puts it on a par with the meat industry – and ahead of wool – in importance to the New Zealand economy.

Approximately 79,000 people were employed in tourism-related industries in the year ended March 1989, representing about 5 per cent of total employment. Of the total jobs in tourism, about 41,000 were due to overseas visitors and 38,000 were required to meet the demands of domestic tourists. Of course, not all employees are committed entirely to servicing tourism. In the year ended March 1989, approximately 48,000 people involved as travel agents, tour bus drivers and staff in 'tourist' hotels depended totally on tourism for their employment. The remaining 31,000, such as taxi drivers, shop assistants and mechanics, provided services directly to tourists but derived a smaller proportion of their income from tourism. Nonetheless, tourism is an important and – over the longer term – increasing source of employment for New Zealanders.

In terms of volume (person nights accommodation in New Zealand), domestic tourism is about two and a half times the size of international tourism. However, since New Zealanders travelling in their own country spend much less per day than international visitors and because some spending by domestic tourists is similar to that which would have been spent at home (that is, a change in location but not in amount spent), domestic tourism's contribution to GDP is about the same as the contribution from servicing the demand of overseas visitors.

Tourism is also a significant source of export earnings – again more than meat or wool. In the year to March 1989, international tourists spent some \$2.28 billion in New Zealand, of which \$752 million was paid to Air New Zealand as air fares.

The foreign exchange earnings are, of course, gross income. Set against these earnings are the cost of imports to service the demands of overseas visitors, such as aircraft and fuel, and the cost of international promotions and sales offices.

Indeed, in assessing the role of tourism and its benefits to the economy, account must always be taken of the costs incurred in earning those benefits. Sometimes a highly favourable impression of the impact of tourism is given by the use – or misuse – of devices such as multiplier analyses because only the benefits are measured, but not the additional costs. Moreover, the assessment of the net benefit of tourism to the community cannot be measured only in terms of its own size or growth rate. What matters most is the wealth that it creates.

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<sup>1</sup> Data in this section are taken from NZTP, *The Economic Review of Tourism in New Zealand, 1987-88*, ISBN 0.478.02041.4

That, in turn, depends on the efficiency with which resources are used to provide tourism services, compared to the contribution which those resources could make to New Zealand's well-being if used in another industry.

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**What matters most is the wealth that tourism creates.**

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For tourism to contribute its potential wealth to New Zealanders it must minimise its costs as well as generate the highest possible revenue. In the light of the large number of choices facing the potential tourist, the number of tourists either coming here from abroad or – in the case of New Zealanders – choosing to travel around their own country, and whether they spend to their potential, depends mainly on the cost of New Zealand's tourism services.

The fact that New Zealanders spent \$2.23 billion net of air transport on overseas travel in the year to September 1989, thus more than offsetting the revenue from overseas visitors, indicates that they regard domestic travel and tourism services as high cost relative to competitive services abroad.

"The attractions of New Zealand are openness, cleanliness, geysers, mud pools, fiords, skiing, Maori culture and friendliness – not Gold Coast glitz."

– *New Zealand tourism consultant*

#### 4. WHY TOUR NEW ZEALAND?

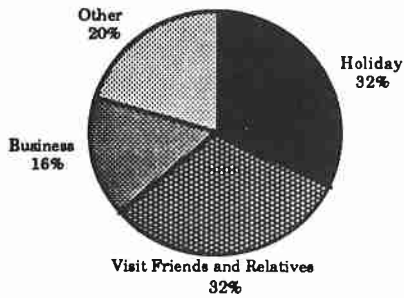
##### 4.1 Purpose of Travel

The reasons for people travelling are many and varied. For example, people on holidays are generally seeking an 'experience' and choose New Zealand because it is interesting, different and good value. Some people travel primarily to visit friends and relations, some to do business and others are just passing through. No doubt many combine all the above reasons and more. However, in terms of broad statistical categories, the main reasons given for domestic and overseas travel in and to New Zealand are shown in figures 1 and 2.

##### 4.1.1 Holidays

Holiday-making is clearly the dominant reason for tourism in New Zealand. The country's natural beauty, relatively unspoiled environment, unique cultural attractions, comparative safety and security from terrorism, and reputation for friendliness and hospitality give New Zealand some specific advantages as a holiday destination. Special events such as the Commonwealth Games boost the amount of holiday tourism.

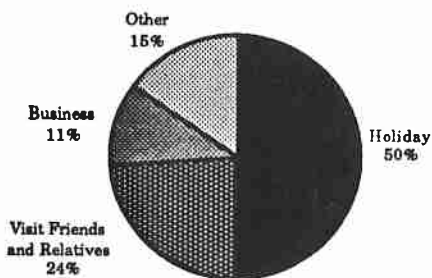
Figure 1: Why Do Domestic Tourists Travel?



Source: NZTP, Tourism Facts, 1989

Generally, holiday tourists have extensive requirements for commercially provided support services. However, these services to tourism must be provided on an internationally competitive basis because holiday-makers have many travel options and are constantly on the look-out for the best value. Accordingly the demand for holiday tourism services is highly responsive to prices charged.

Figure 2: Why International Tourists Come To New Zealand



Source: NZTP, Tourism Facts, 1989

#### 4.1.2 Visit friends and relatives

By contrast, the number of visitors to friends and relatives – especially in the

case of overseas visitors – is influenced by past migration patterns, and as those tourists tend to stay with their friends and relatives they have less demand than holiday-makers for accommodation and restaurants. Although they are tourists for longer than the other categories, they spend less per day than the others. That is, their tourism yield is lowest.

#### 4.1.3 Business

Business travellers come to – and travel within – New Zealand primarily for trade and investment. They have a high demand for transport, accommodation, restaurant and, frequently, financial services. Their length of stay is usually short, but their rate of expenditure is the highest of all categories.

#### 4.2 Spending

As there are different purposes for tourists coming to and travelling in New Zealand, so the various categories of tourists consume different tourist 'products' during their time away from home and at different rates. Furthermore, there is a distinct difference in expenditure patterns by visitors from different countries. For example, in 1988-89 the average Japanese tourist spent \$384 per day whereas the average Australian spent only \$88 per day, although this difference in daily yield was more than offset by the much greater number of Australian tourists and their longer stay.

The different reasons given for both domestic and international tourists choosing to travel in New Zealand, and the fact that some yield higher profits to the

community than others, raises questions as to how the New Zealand tourism 'product' should be presented (a marketing issue outside the coverage of this report) and what determines whether a person decides to travel and, if so, decides to travel to and in New Zealand.

"The problem is price. We need a strong domestic base but New Zealanders are going overseas. There is not enough value for money here."

*- comment of delegate to conference on the Tourism 2000 Report, Auckland, 15 November 1989*

#### **4.3 The Importance of Competitive Prices**

New Zealand is a small player in the world tourism market and must be able to offer a competitive product to tourists who are faced with many options when deciding their destination and arrangements. Given the discretionary nature of tourism expenditure - particularly for holidays - and the huge array of close substitutes, it must be expected that the demand for tourism services is price elastic. This expectation is borne out by a number of quantitative estimates cited in the recent report on Travel and Tourism by the

Industries Assistance Commission in Australia.<sup>2</sup>

"West Germans are very price conscious. While New Zealand prices are rated as generally justified, hotels and restaurants are considered expensive, and tourist programmes (e.g. guided treks and round flights) highly expensive."

*- NZ Tourism, September 1988*

Whilst price is crucial to the competitiveness of the tourism industry, there is no single measure of the price of tourism. As noted above, tourism consists of many services and the responsiveness of tourists to changes in the prices of various services may be quite different, depending on the type of tourist and the importance of a particular service in the total tourism package. What counts for maximising net returns to New Zealand is how tourists respond to each price change. As New Zealand is one of many potential destinations competing for the tourist dollar, every possible effort must be put into finding new tourism products and new ways of becoming more efficient and reducing real costs.

On the question of reducing real costs, it is important to note that not every cost increase - in the tourism sector or elsewhere - is necessarily a bad thing for the New Zealand community. Some cost

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<sup>2</sup> Industries Assistance Commission, Travel and Tourism, Report No 423, AGPS, Canberra, September 1989.

increases may simply reflect the fact that greater demand has caused a shortage of certain goods or services, in which case the rising price is an efficient mechanism for both rationing demand and encouraging greater output. As long as such price and cost movements reflect real market demands and values they are not impediments to the growth of tourism or the nation. By contrast, the costs and prices which do prevent the community from realising its potential net benefit from tourism are those which arise from failings in the way markets operate which, in turn, are frequently due to unnecessary government imposts and regulations and poor economic management.

to flourish under protected institutional arrangements.

These conditions are necessary, though by themselves not sufficient, for the tourism industry to reach its potential. Other major determinants of the industry's growth are discussed next.

"The friendliness of New Zealanders is.....rated highly by West German visitors but they are dissatisfied with poor standards and lack of variety in food, limited range of restaurants and of opportunities to eat inexpensively, early closing times and lack of evening entertainment."

- NZ Tourism, September 1988

The key to achieving competitive prices for tourism services is to remove the causes of many of the industry's unnecessarily high costs. In most cases that comes down to:

- improving economic management so that the rate of inflation is less than competitor tourist destinations; and
- removing laws and government regulations which allow anti-competitive attitudes and practices - which in turn lead to high costs -

## 5. MAJOR INFLUENCES ON TOURISM GROWTH

In addition to the all-important matter of costs, tourism growth is also affected significantly by growth in real incomes, the effectiveness of promotion, demographic changes and changes in the amount and use of leisure time – including, for instance, increases in the amount of annual leave.

The level and growth of incomes clearly determines the ability of potential tourists to save or borrow to fund holidays. The higher the income, the more that can be spent on the whole range of tourism services. For business tourists the equivalent is that increasing economic activity is associated with new investment opportunities, which generally involve greater spending – especially on travel and accommodation.

Income growth in countries such as Japan, the United States, Australia and West Germany has been a major factor in the growth in overseas visitors to New Zealand, but obviously the tourism industry can do nothing to influence that. What should not be overlooked, however, is that more than half of the industry's business is generated locally and that the level and growth of domestic income is very much in the hands of New Zealand policy-making. The industry therefore has a strong incentive to see that all macroeconomic and industry policies create the conditions for more investment and growth. In most cases that simply means removing regulatory and institutional road blocks.

Promotion, if effective, increases consumer awareness of a product and creates a market niche by differentiating that product from those of competitors. One of the objectives of differentiation is to make the product less price elastic and thereby increase the economic rents extractable from its sale. The aim, in other words, is to promote New Zealand as a special place which is different from and better than others. The same goes for its individual tourist attractions. But that raises the question of "who gets the rents?" With domestic tourism, individual tour operators or regions are able to capture most of the benefits of their promotional efforts, but the outcome is less clear in the case of international tourism. It is generally felt within the industry that individual tourist enterprises would not be able to capture a sufficient return to justify their own promotional expenditure overseas because too much leakage of the benefits to rival firms would occur. That is, international tourist promotion is seen as having a strong public good element to it. That this judgement is accepted by the government is reflected in the substantial involvement of the government and its agencies in the generic promotion of New Zealand to the world market even though the tourism industry – as an entity – is the main beneficiary and should therefore, logically, pay. The rationale for the government's involvement is that the community receives a corresponding net benefit from publicly-funded promotion, but if there are any restrictions on tourism arising from the use of market power then that rationale is negated. It follows that, to avoid this conflict of outcomes, the government should ensure that none of its laws or regulations enables a particular group to appropriate the



benefits of taxpayer-funded promotion at the expense of the wider community. This is an additional reason for removing barriers to competitiveness in the tourism industry.

Tourism growth is also affected by **demography**. Population growth increases the quantum of tourists and the amount of time available for tourism generally increases with age. Both factors are likely to have a positive impact on the tourism sector.

The **availability and use of time** are heavily influenced by institutional arrangements, especially those governing the amount of leave and age of retirement. Greater leisure time – notably in countries which are a major source of international tourists to New Zealand – is likely to contribute to the tourist industry's growth.

However, by far the greatest influence on tourism growth is **productivity advance**, which draws together all the gains from maximising revenue and minimising costs. In the following section we look at how advances in productivity are achieved.

## 6. PRODUCTIVITY GROWTH IN TOURISM - HOW DO YOU GET IT?

The most important task facing the New Zealand tourism industry is to become more internationally competitive. That means stopping at nothing in the effort to find better ways of doing things. It starts with an understanding of the sources of productivity growth and a determination to make changes which encourage productivity growth.

At its simplest, productivity growth is getting more from less. How to do that is the big question. Fundamentally it comes down to creating an environment which fosters entrepreneurial skill, innovation, rewards for performance and an urge for action.<sup>3</sup>

At the enterprise level, productivity growth depends primarily on the way people behave when presented with problems and opportunities. Peters and Waterman argue that companies which achieve excellence in productivity advance, profitability and – at the same time – contribute most to the well-being of the people which comprise the organisation, are characterised by the following attributes:

- a bias for action – not stultified by chains of command or bureaucratic procedures;

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<sup>3</sup> Richard Blandy, *Structured Chaos: The Process of Productivity Advance*, Oxford University Press, Melbourne, 1985

- closeness to the customer – providing top quality service, listening intently to customers and acting on their ideas;
- autonomy and entrepreneurship – fostering leaders and innovators, encouraging creativity and practical risk-taking, 'having a go';
- productivity through people – recognising the rank and file, not machines and structures, as the primary source of productivity gain;
- hands-on, value driven – working to well-understood and shared objectives;
- staying with the business the firm does best – reflecting the shared objectives;
- simple structure and lean staff – decentralised responsibility, a 'flat' corporate structure; and
- independence and diversity – but within a framework of 'core' values.<sup>4</sup>

In essence, high and growing productivity has its genesis in human attitudes and values and in institutional arrangements which are open, flexible, stimulating and competitive.

At the national level, Richard Blandy points out that productivity growth depends on :

"....the capacity of the society to thrive on change rather to frustrate it, to be adaptable and flexible rather than fixed in ways of going about things, to be innovative and adventurous rather than seeking protection and an illusory certainty. To foster successful traits for productivity advance, societies need to provide incentives, that is, rewards, for demonstrating those traits, and institutional arrangements which will permit productive traits to flower. This is not an issue of monetary rewards – although monetary reward structures may be important. It is essentially a matter of hearts and minds, of human attitudes and values and institutions."<sup>5</sup>

Blandy also emphasises the importance of competitive rivalry in stimulating the search for innovations which cut costs and create new products. New processes and products which advance productivity emerge more rapidly from organisations which are quick to respond to their rivals than from organisations which are protected from competition. In a competitive environment there are clear rewards for entrepreneurship in responding to changing circumstances; but in a protected environment the need to respond is dulled so productivity growth and competitiveness falls.

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<sup>4</sup> Thomas Peters and Robert Waterman, *In Search of Excellence: Lessons from America's Best-Run Companies*, Harper and Row, Sydney, 1982.

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<sup>5</sup> *ibid.*

The conditions, outlined above, which are necessary for productivity advance provide a useful framework in which to test arrangements, attitudes and practices in the tourism industry. In the light of what we know should be done, is the tourism industry doing all it can to become more competitive? What is holding it back? A problem which is consistently raised in discussions with the industry is that of labour relations. Accordingly the focus of this report is on labour market impediments to competitiveness. In the next sections we examine how members of the industry view the existing labour market arrangements and what is being done in the drive for greater productivity.

**A glimpse of some of the false diagnoses of tourism's problems:**

"Tourism's biggest job is to make itself Number One politically."

"Our growth depends on political recognition."

"We [the industry organisation] have to out-do the manufacturers who have a big budget and Federated Farmers who have 28 central plus regional staff to push their cause."

*- responses of some delegates to conference on the Tourism 2000 Report, Auckland, 15 November 1989*

**7. TOURISM PRODUCTIVITY AND LABOUR MARKET ISSUES**

The ability of New Zealand's tourism industry to meet the demands of both overseas visitors and domestic travellers as efficiently as possible, and to increase the supply of services in response to a lift in demand without offsetting increases in costs of production, depends on the characteristics of the industries which service tourist demand.

Are those industries – and that means the individual firms which together make up each industry – flexible, innovative and prepared to 'have a go'? Are the personnel committed to the goals of the firm, are they close to their customers and are they rewarded according to their performance?

Similarly, is the industrial environment open, competitive and flexible with many opportunities for innovation and advancement, or is it characterised by bottlenecks, disputes, shortages and regulations?

To meet an expansion in tourist demand the industry must raise output by either employing more resources (usually by drawing them away from other sectors of the economy with higher payments, thus leading to higher costs) or reorganising present resources more efficiently. The essential point is that an expansion in demand will simply translate into higher prices if resources are scarce and there are no offsetting productivity improvements.

As labour is a substantial part of the cost of delivering tourism services, it follows that the environment – the rules, regulations,

attitudes, practices and incentives – which determines the productivity of labour is central to the future of the tourism industry.

So what is the labour market environment like?

## 7.1 Negotiating Structures

### 7.1.1 *The Setting*

The development of businesses in New Zealand has been heavily influenced by a traditional environment of government intervention. For several generations the pervasive control of the state over wages, prices and the flow of goods and services was used in an attempt to buffer New Zealand from the fluctuations of world markets and to meet social objectives.

The community whose attitudes fostered – or at least tolerated – this widespread government control over investment and spending decisions and contractual dealings had little difficulty in accepting a system of industrial relations in which responsibility for decisions on the relationship between employers and employees was taken out of the hands of the two parties directly affected and handed to institutions to control. Thus, for almost 100 years, the influence of the Industrial Conciliation and Arbitration Act of 1894 has been dominant in setting labour relations and has, as a result, had a major impact on economic outcomes. Questions of "who controls the labour institutions?" and "what are their objectives?" are therefore paramount in understanding the role of the labour market in New Zealand's economic development.

In essence the rights of individuals to make investment decisions affecting their own well-being and to contract freely with others have been secondary to the social and political objectives of the 'industrial relations club' exercised through the powers of the labour institutions and legitimised by successive governments.

A related historical factor is that in its cultural and political traditions derived from the United Kingdom, New Zealand inherited the institutions of class conflict and trade unions, the basis of which are now largely irrelevant. However, the traditions have lived on and the concept of 'trade union' – or worker organisation based on craft or occupation – has been carried forward and entrenched in the structure of labour institutions and has become the basis of an edifice of national awards. The institutions and awards are backed by the rule of law with its associated web of regulations.

Because of the complexity of the system of awards and the legalised negotiating process, many firms leave the determination of awards, the monitoring of compliance and the resolving of alleged breaches to their industry associations. Within this environment has flourished a 'service industry' of industrial lawyers and practitioners employed by both sides in the adversarial contest, supported by a fringe apparatus of government departments. The whole system imposes a large, albeit mainly hidden, cost both on the affected industries and all New Zealanders. It is a powerful reason for changing the system away from nationally based awards to a predominant pattern of enterprise agreements negotiated directly

between a firm and its own employees. Such agreements would reflect the shared objectives of both parties – which would include security and improved well-being through greater competitiveness and therefore growth – rather than balancing the interests of unrelated parties.

"The trouble is that employer bodies don't suffer when wages rise excessively."

– a tourism industry operator

### 7.1.2 Changes are being forced

As a consequence of the government recognising the damage being done to the living standards of New Zealanders from excessive controls on product and service markets, many of the restrictions were lifted during the 1980s in a programme of deregulation. The outcome has been a more competitive economy and businesses have been forced to innovate in order to protect and develop markets. In the process of improving competitiveness they have turned to work practices as a major potential source of increasing productivity. This development has forced changes in the basis for negotiating labour agreements.

The main structural change occurring is that occupational awards are fading in significance and are being slowly replaced by industry and, particularly, enterprise agreements. The institutions are therefore having to adjust. To date, however, elements resisting adjustment have had little difficulty, with the backing of the regulatory apparatus, in maintaining control of the negotiating structures and processes. Currently the union movement is seeking to maintain its power base by

forming big unions, each one to cover an entire industry. Unions see industry-wide awards as essential to that strategy.

### 7.1.3 Legislative changes

Changes to the Labour Relations Act in 1987 were intended to simplify the negotiating structure. One of the main aims was to avoid second and third tier bargaining by providing for some options in addition to the national awards but at the same time ensuring that all conditions of employment were covered by a single document. To allow new agreements to be negotiated at the enterprise level, the Act allowed unions to cite employers out of an existing award but, with characteristic asymmetry at the time, employers were not given the right to cite themselves out of an award. An additional complementary change was that a group of workers (not necessarily a registered union, although the individuals would probably be union members) was allowed to negotiate a separate agreement with an employer.

Have these changes simplified the negotiating structure? Unfortunately the answer is "no". Some of the reasons given for the limited extent of change are:

- employers have no legal power to cite themselves out of an existing award, and the initiative, which could come from the unions, does not because any suggestion of 'opting out' would be seen as weakening the control of the national union;
- groups of workers who belong to a union, but nonetheless wish to make a separate agreement with an

- employer, are still bound by union policy – as the employees of an Auckland company found when the Labour Court disallowed their agreement to transfer a shift from Friday to Sunday without penalty pay, but their union did not approve;
- groups of workers who do not belong to a union have no legal standing if a union decides – by a majority of those who vote – to exercise its (legitimised) powers of compulsory coverage in their industry;
  - the condition that any union must have a minimum size of 1000 members makes it virtually impossible for most groups of enterprise-based workers to form a new union;
  - a new union cannot be registered if an existing union is deemed to have coverage of the industry in question;
  - the provision allowing a group of employees to negotiate a separate agreement with an employer was negated by a decision of the Labour Court; and
  - some employers find the present arrangements quite comfortable in that a centralised system limits the ability of competitors to develop innovative, productivity-improving labour packages.
- allowing employers to initiate enterprise bargaining provided a majority of workers agrees and provided there are 50 or more workers involved – in these circumstances citing out of existing awards would be permitted;
  - requiring the Arbitration Commission to give priority to the registration of industry and enterprise agreements; and
  - providing for the protection of workers left behind in residual awards.

Because firms in the tourist industry are typically small, these proposals are of little relevance to it. Moreover, they include a return to a form of compulsory arbitration which risks slowing down what little movement there has been away from outmoded award structures.

Many within the industry are frustrated that nothing will change while the Labour Relations Act continues to secure the stranglehold of employer bodies and unions on the negotiation process. Nearly all tourist operators interviewed favoured far-reaching reform and said that their employees also generally supported greater flexibility and payments related to productivity, but most innovations suggested were blocked by the rules of the system.

In March 1990 the government foreshadowed further amendments to the Labour Relations Act to encourage workplace – as distinct from national – agreements by:

"Current wage bargaining structures are based on outdated award systems. Progress in reaching agreement is agonisingly slow, and imposes costs on both workers and employers, without achieving tangible benefits."

- NZ Tourist and Publicity Department,  
paper presented to "Tourism 2000"  
Conference, Wellington, 1989

#### 7.1.4 *Tourism needs flexible workplace contracts*

Broadly, under the present system of industry awards, the employer panel and appropriate union negotiate pay rates and conditions. Those then become blanket standards which are imposed on all enterprises, regardless of the individual circumstances of each firm.

The concept of a single industry award is especially inappropriate for tourism because the industry consists of several product and service industries – which themselves may change considerably according to location and season – and as many of those industries may depend to a highly variable extent on tourism it is impossible to cover them with an 'industry' award which has any logical or consistent basis. Moreover, even within an industry such as accommodation, there is such a broad range of enterprises – from international hotels, to motels, to caravan parks, to camping grounds, to youth hostels and farm/homes – that it is quite absurd to seek to subject them to the same industrial 'rules'. This is apparent from the large number of exemptions sought from awards,

many of which are granted. It is, in effect, an admission that given the diversity in the accommodation sector, let alone the whole tourism industry, the only practical basis for many employment contracts is by enterprise.

As noted above, there is no legislation preventing enterprise agreements or unions. Most of the barriers to them are the outcome of other features of the Labour Relations Act which work in the interests of members of the 'industrial relations club'.

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**... the only practical basis for many employment contracts is by enterprise.**

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There are, however, some moves on the part of employers away from the restrictive negotiating structures. For example, historically in the liquor and accommodation industries the Hotel Association has been virtually the sole negotiator on behalf of hotel operators with the liquor unions. This role was established mainly by virtue of custom and practice which, in turn, reflected the mindset of an era of strict controls over liquor markets and labour market relativities. When the Sheraton Hotel began operating in Auckland it recognised the extent to which it and similar hotels were in a different market from the traditional hotels and that it was being disadvantaged by the negotiating procedures and objectives of the entrenched industry-wide or 'blanket' arrangements. Accordingly it was instrumental in setting up an Accommodation Council to break away from the traditional industrial

negotiator (the Hotel Association) on behalf of the accommodation industry. Not surprisingly the Hotel Association is attempting to maintain its position by accommodating the more specialised interests of the large international hotel chains, but it is having difficulty in serving different masters with divergent objectives.

Gradually the rigid institutional structure within which labour agreements have been negotiated is being broken down by the necessity of firms in an increasingly competitive environment having to increase labour productivity. Also, the community generally is more aware of the adverse consequences of many regulations and is pressuring governments to allow greater flexibility and choice. Freeing up the market for liquor is a case in point.

## 7.2 Buying a Drink

The sale of liquor is being liberalised. From April 1990 most outlets are able to serve liquor seven days a week and there are fewer restrictions on outlets. The tourism industry and the general public will benefit enormously from having a better service. The new arrangements also break the statutory link which existed between the provision of accommodation and the sale of liquor.

### 7.2.1 *History of high cost and poor service*

Hotels traditionally had a monopoly on the sale of liquor, which was reinforced by the legislative requirement that all licensed premises (subject to the Sale of Liquor Act) were also bound by the Licensed Hotel Employees Award. In fighting to maintain

their monopoly the hotels used to argue that if they lost that monopoly then they would not be able to provide accommodation.

But changing consumer preferences led to the licensing provisions and Licensed Hotel Employees Award becoming increasingly irrelevant. Instead of drinking at hotels, there has been a growing community preference for drinking at clubs and at home. The lifting of restrictions on the sale of liquor simply reflects this trend. Now that supermarket sales of liquor are permitted, sales from hotels will be significantly eroded, thus forcing further adjustment on the hotel sector – which will also improve the industry's competitiveness.

Because the Licensed Hotel Employees Award was tied to licensing for the sale of liquor it applied to a wide range of firms and activities. It covered hotels – but not motels, on the grounds that they did not sell liquor – taverns, bars, wine shops, vineyard sales and race courses. The same conditions applied to all. Predictably, there was widespread breaching of the award because its blanket provisions were inappropriate for the vast differences in the commercial environment of many individual firms.

Many years of market pressure forced a slow liberalisation of the Sale of Liquor Act and this, in turn, forced changes in the Licensed Hotel Employees Award, but at a price. Longer opening hours for liquor sales require longer working hours, so the Hotel Workers' Union demanded – and received – higher payments for the extra time worked. Overtime was payable at the rate of time and a half for the first three



hours after normal time (eight hours) and double time thereafter during Monday to Friday, and penalty rates applied at time and a half on Saturdays and Sundays for eight hours and double time thereafter.

"Any day is like another to a tourist."

- Reg Turner, *Solitaire Lodge*,  
commenting on weekend penalty rates

To ensure that full-time workers received as much overtime as they wanted, the award made it difficult for firms to employ part-time workers. For each part-timer employed, a written permit had to be obtained from the union. The procedure for approval was a very bureaucratic one, and the union took a very restrictive attitude towards applications. Not surprisingly the number of part-timers hired was negligible.

An alternative for employers was to hire casual labour, but that option was effectively closed because the rate required by the award, both during the (Monday to Friday) week and at week-ends, for (say) bartenders, was 15 per cent above the full-time rate for each of those times. Another option for casual labour was to pay the set rate of \$7.20 per hour for bartenders instead of paying overtime to full-time employees at \$8.58 per hour for three hours in the evening during the standard week. But the award required casuals to be paid for a minimum of eight hours at the standard rate. It also allowed for a special category of bartender who could be employed for a minimum of two hours but was only able to work between the hours of 12.00 p.m. and 2.30 p.m. or after 4.30 p.m. These rules

were clearly devised to protect full-time employees, but they had the effect of not allowing employers to tailor their labour force to the pattern of demand in the market place. Costs were driven up and competitiveness was lost as a result.

That there was considerable breaching of the award reflected its inflexibility. Although the legislation allowed for specific agreements at a particular workplace, those agreements could only come into effect if the union which claimed coverage of that industry agreed, and the union could generally bank on support from the Labour Court in the event of a dispute. It was simpler in some cases and more efficient for firms and their employees, where feasible, to make the arrangements which suited them best and take a chance on the union (a) finding out and (b) being interested enough to take action.

### 7.2.2 *Big changes afoot*

Growing awareness by all parties that the liquor and food industries were being hobbled by out-dated regulations and work practices helped create the conditions in which one major firm has obtained an enterprise-based award to cover all of its employees who were previously covered by national awards. The company award incorporates a 10 hour day, 4 day work week option and removes the impediments to efficient rostering of part-time staff that had burdened the industry. Hence - among other changes - the nonsense of having to obtain permits for part-time work, the distinction between casual and part-time work, and the restriction on starting times have been removed.

The essential features of the industrial environment in which this landmark company award was negotiated were:

- the company is large, covering 70 hotels and taverns throughout New Zealand and employing some 3,500 workers;
- there was a refusal by the company to continue with national awards that were inappropriate to the needs of the company and individual members of its workforce;
- the initiative for reform of work practices was driven totally by the company;
- there was close and effective communications between management and all staff to explain what was being proposed and how they would be affected;
- dialogue and negotiation with the unions which were parties to the national awards took account of factors such as: the size of the company; the good relationship between management and staff; the gulf between the objectives of union officials and the company's employees; consultations in which company employees made their views clear to the unions; the fact that employees had been granted pay increases by the company during the stalemate in which the national awards had not been negotiated; and a 'hands-off' attitude by the government to award negotiations.

The company award, which was concluded in December 1989, is not only very

significant in its own right but also for the pressure it puts on others in the industry to reform their labour practices. For instance, in April 1990 the Licensed Hotel Employees Award was reviewed after a stalemate in which workers had not received a negotiated wage increase for 28 months. Having stalled all that time, the Hotel Workers' Union officials eventually accepted all the significant employer claims that they had been rejecting. Clearly - having observed the success of the company award cited above and faced with an erosion of their power base - they were desperate to retain a national award.

On flexibility ...

"I get \$7.50 an hour, which is better than the casual daily rate, plus time and a half on Saturdays and Sundays. It suits me fine because I'm a student and can work this job around my lectures and study programme. Cuts into my social life, though if I can't come, one of my friends fills in. No, I'm not a member of a union and have never been asked. Which one is it, anyway?"

- 20 year old waitress at an Auckland restaurant

Significant progress towards more efficient negotiating arrangements and productivity-improving work practices is being made on the initiative of some companies, but this progress is occurring despite the Labour Relations Act, not because of it.

### 7.3 Going Shopping

An important tourism activity is shopping. The competitiveness of shopping services has a significant impact on the value of

tourism to the economy. Cost and convenience are major factors. They, in turn, are heavily influenced by labour practices.

### 7.3.1 *Penalty Rates*

The cost of having to pay double rates for Saturdays, Sundays and on days deemed to be holidays under the main retail awards imposes large additional costs on traders. These are passed on as higher prices for goods and therefore reduce the competitiveness of New Zealand as a tourist destination.

The concept of double rates took on the status of a 'standard' about a decade ago when customer pressure was building for Saturday trading. At the time there was division in the ranks of retailers over whether to allow extended trading: some wanted it as a means of expanding their businesses, but others opposed it to prevent competitors from increasing market share. In the event, those who wanted extended trading time were forced to pay double rates – and those who did not want it did not object to their competitors being 'slugged'. The result of this inward-looking, protection-oriented attitude is that double rates have become institutionalised in retailing and – while national awards persist – may only be removed if the average rate is adjusted up to incorporate a double rate component. The lessons of a policy of appeasement seem particularly apposite here.

"There is a limit to how much further [the tourism industry] can progress with workers employed not so much because of the skills they can bring to the job, but on whether they need to be paid penalty rates for working overtime."

- NZ Tourist and Publicity  
Department, paper presented to  
"Tourism 2000" Conference  
Wellington, 1989

However, self-interest may assert itself before the award is changed. The Distribution Workers' Federation recognises that the existing award effectively prices its members out of weekend and holiday work because of the incentive faced by retailers only to employ part-time workers. A big problem for the union is that – according to the comments of retailers – in addition to bona fide part-timers, a number of regular employees also present themselves for part-time work on weekends and, if necessary, work part-time under a different name. This type of outcome seems to be reasonably typical of the sensible and economically rational non-compliance with certain regulations which reduces the damage which those regulations might otherwise do to the competitiveness of the retail shopping sector.

### 7.3.2 *Shopping hours*

A related problem has been the barrier to competition due to limitations on shop trading hours imposed under the Shop Trading Hours Act. A farcical situation had developed in which consumer pressure

for Sunday trading became overwhelming and the Shop Trading Hours Commission was being drowned in applications for exemption from the provisions of the Act. The restrictions eventually became unsustainable and in December 1989 the government announced that the Act was to be repealed.

In the context of promoting a more competitive environment it is instructive to draw some lessons from the events leading up to the freeing-up of shopping hours. The institutional barriers, in particular, need to be understood and addressed.

In response to pressure from consumers and retailers for Sunday shopping the government in 1988 established an Advisory Committee to report on the adequacy of the (then) law. The Committee reported that the law was riddled with anomalies and, in practical terms, was unworkable. But, strangely, no recommendation was made by the Committee to continue, amend or repeal the Act. The reason was not surprising: two of the three Committee members concluded that the Act served no public interest and should be repealed, but the third member - previously an official of the former Shop Employees' Union - disagreed. The Act as it stood entrenched a privilege to existing shop employees or at least their union officials. The union could not see beyond its historic position and in the light of clear and unassailable evidence for change, maintained that the Act should continue.<sup>6</sup>

The union movement made it clear that with a proliferation of part-timers it would be more difficult to collect union dues and officials would be less well off.

Out of frustration at being caught up in an increasingly nonsensical situation, one of the Shop Trading Hours Commissioners had earlier made an observation to the Minister of Labour that:

"The Act is not being policed. I state that not by way of complaint but solely as fact. I am told and have some knowledge of the fact that there are a number of shops and retail establishments that open illegally without complaint and without sanction.

"The only time action is taken by the Department against illegal opening is following a complaint. The Department will, upon receipt of a complaint, warn the retailer. If the retailer continues to open I understand a prosecution is laid. Frequently the retailer will make an application to me to regularise his misdemeanour. His case has to be judged on the proper tests [the narrow criteria of the Act] and he may be declined.

"To decline such an application may seem churlish and I know that, whether the application is granted or not, some retailers take the law into their own

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<sup>6</sup> Position Statement by the Shop Trading Hours Commission in

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relation to pre-Christmas Sunday shopping, 1989.

hands and open. If there is no further complaint they do so without trouble."<sup>7</sup>

In pointing out that his position on the Commission was becoming increasingly untenable, he told the Minister:

"In traversing the countryside I meet with many officers of the Department of Labour who are in the front line administering the Act. There is considerable disenchantment evident. I detect little heart in policing the Act and indeed understand that there are no real resources to do so. The anomalies inherent in processing applications, in explaining the procedures and explaining the uncertainty of result, in explaining the requirement to comply with closing hours, in visiting retailers following complaints, and in taking prosecutions to District Courts where some judges apparently consider the statute antiquated, have not been good for morale. Indeed because of the official attitude to enforcement there is little incentive to take the statute seriously."<sup>8</sup>

There is no doubting the deeply felt disillusionment by one of the government's key regulators of shopping hours, or the ringing condemnation of persisting with

rules that most people break and from which the community clearly benefits by their doing so.

The obvious question is: "Why would the government continue with a law which it is in the community's interests to break and which the government has no desire to enforce?" The answer, in essence, is that the government at the time was not prepared to challenge the sectional interests of some of the unions which constituted its power base and chose instead, by default, to make the community in general bear the cost. The tourist industry especially suffered through not being able to offer a competitive shopping service, although some individual firms were able to gain an advantage over their rivals by obtaining an exemption from the restrictions of the Act – an action which weakened the authority of the industry in demanding fundamental reform.

In 1989, as pressure continued to mount for Sunday trading, the government responded by appointing an Associate Commissioner to the Shop Trading Hours Commission to help clear the huge backlog of applications for exemptions from the Act. That, of course, did nothing to solve the underlying problem.

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**The tourism industry especially suffered through not being able to offer a competitive shopping service.**

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<sup>7</sup> Letter from Commissioner K.J. Bell, Shop Trading Hours Commission, to Minister of Labour, October 1987.

<sup>8</sup> *ibid.*

By December 1989 reality eventually broke through. It was announced that the Shop Trading Hours Act was to be repealed at the next sitting of Parliament and Sunday trading was allowed from 9 December

pending the repeal of the Act. Legislation was subsequently introduced into the House giving effect to the decision, but it also contained a number of so-called 'worker protection' provisions which are properly a matter for negotiation rather than statutory prescription. It is difficult to imagine any government successfully re-regulating after the public has experienced the benefits of greater choice in shopping hours. However, unless the restrictive requirements on terms of employment are removed they could negate many of the benefits of deregulation.

Predictably, there were opponents to the repeal of the Shop Trading Hours Act. The Distribution Workers' Federation said the government had gone too far in its liberalisation - virtually admitting that some freeing-up of shopping hours was inevitable. Any opposition from the union had been irreparably - and comically - weakened by its earlier demand of retailers that if Sunday trading should go ahead its members should receive first offer of employment at the higher (penalty) rates of pay!

The National Association of Retail Grocers and Supermarkets also opposed Sunday shopping. It said the move threatened many smaller stores and warned that prices would rise. The Association said that many of its members would be forced to open on Sundays to meet competition, even though they were opposed to it. Quite apart from the irony of that ambiguous but revealing statement, the Association's response is not borne out by the facts. Regularly over recent years proposals to deregulate many of New Zealand's highly controlled markets have been greeted with

predictions of doom from those who had become protected at the community's expense by restraints on trade. However, the dire consequences have failed to eventuate. To the contrary, consumers have gained through more choice and suppliers have profited from new opportunities.

The lessons of the shopping hours saga for the tourism industry are that:

- regulations are usually made according to political criteria and cause competitiveness to be reduced;
- high costs are frequently borne by regulated industries in the form of lost opportunities;
- adversely affected industries and the community generally will tolerate unnecessarily depressed incomes for a long time if their position is not threatened by new competitors;
- however, the cost of regulation on individual firms can be reduced if non-compliance is tolerated; and
- the onus is on the tourism industry to be much more active in removing regulatory barriers to its competitiveness. There is no future in waiting for the government to do it alone.

#### 7.4 Eating Out

This section is not a review of the best restaurants or recommended food for tourists. Rather, it looks at how one particular company providing fast food services manages its staff relations.

The experience of the McDonald's organisation carries some useful lessons in achieving a high level of labour productivity. Essentially, the success of the company is grounded in a philosophy of excellence in service. Their hallmark is pride.

Throughout New Zealand McDonald's employs some 5300 people and expects to create 500 new full-time and part-time jobs in 1990. Reflecting the many students employed, the average age of employees is 21. The average age of those with 10 years' service is 26.

Although McDonald's is not usually seen as a career company, there are some 200 career staff and there are strong incentives for promotion. Young executives and those in middle management receive very attractive remuneration packages.

#### *7.4.1 Staff Relations*

The relationship between management and staff of McDonald's is one of the key ingredients of the company's successful operations. It is essential that management knows what staff are thinking. If staff feel that they have to go to a union, then management is considered to have failed. In order to stay in touch, managers from time to time work in stores, on maintenance, and clean toilets and windows. They are given a grading by staff for their performance. Indeed, the periodic staff reviews include an assessment by each employee of the performance of the supervisor or manager above them in the company hierarchy. The process is consistently very helpful in

identifying where to make improvements and how they should be made.

Every six months there is a meeting with the entire 'crew'. The shop is staffed by a crew from another store and the meeting is held elsewhere, usually in conjunction with a cultural or social event. Furthermore, each store carries out a confidential crew and management assessment every six months. This is aimed at bringing out strengths and weaknesses in personal relationships. 'Rap' sessions involving six people in each store are then held to discuss the implications of the opinion survey and the steps to be taken to address problems. The meetings are invaluable for building support, trust and an urge for action.

#### *7.4.2 Union Issues*

The biggest problems have been lack of flexibility in working arrangements and a traditionally unresponsive union.

The Tea Room and Restaurant Employees Award stipulates a standard week of Monday to Friday, with penalty rates for weekend work. But the business week for the fast food industry in general is effectively Thursday to Sunday inclusive. Flat hourly or daily rates applying to any day of the week, with provision for overtime for any day, would be a more sensible arrangement. The present arrangements result in many restaurants being closed on Sundays.

A related matter is that the fast food industry wanted to be able to organise two hour shifts to increase flexibility and meet peak load demand more efficiently. More

employment would have been created and the proposal was supported by staff. In both McDonald's and Kentucky Fried Chicken, a survey of staff opinion showed an overwhelming majority supported moving to a minimum two hour shift. However, the award stipulated a minimum shift of 4 hours unless the union granted permission to reduce it. The process for obtaining permission was seen as "bureaucratic and long-winded" and was obviously designed to frustrate the introduction of more flexible working hours.

During negotiations on the Tea Room and Restaurant Employees Award in 1989 the employers sought to make the payment of higher wages under the award conditional on greater flexibility in rosters, knowing that it would suit their employees. The union refused to allow it and negotiations broke down. The unwillingness of officials to discuss more flexible working hours seemed to be related not only to ideology but also to a preparedness to see talks break down so as to add weight to their claim for compulsory arbitration. In the interim, McDonald's gave their staff a 3 per cent 'support payment'.

In the event, a new award was concluded in April 1990 and the minimum shift was reduced to 2 hours with rates of pay which had already been offered by the employers. A more flexible attitude on the part of the union was noted by the industry during the recent negotiations.

This attitude may be a long overdue response to kind of feelings expressed by one union member in a letter to an employer in the industry: "It frustrates and annoys me to think that the very people the

union are supposed to represent are often the ones suffering because of this union's political motives."

#### 7.4.3 Training

Training of staff is another key ingredient in the success of McDonald's. Its importance is seen in the practice of committing a significant amount of staff time to training - including monitoring, retraining and upgrading.

Training consists of a series of on-the-job programmes supplemented with manuals and videos, plus courses at a training centre, with the attainment of major steps being rewarded with a promotion and pay increase.

The company's training programme is structured according to nine skills verification levels which are closely integrated with the process of quality control based, in turn, on the Operations Manual (a quality standards manual).

"The most important thing in training is attitude."

- Tony Staniford, New Zealand  
Tourist Industry Federation

#### 7.5 Somewhere to Stay

The accommodation industry is characterised by enormous variety in standard of service and prices. The most popular place to stay, both for domestic tourists and those from abroad, is in private homes. This category of accommodation accounts for almost 54 per cent of total



'person nights' for domestic travellers and 17 per cent for overseas visitors.<sup>9</sup>

Home and farm hosting is largely conducted by family labour. Operating outside union rules, they provide a popular and growing accommodation service. Several farm/home hosts have combined to expand their respective businesses by making a 'chain' to provide a booking service and monitor quality.

The accommodation sector most directly affected by conditions in the labour market is hotels and motels. This form of accommodation is used by 51 per cent of overseas visitors and 15 per cent of domestic tourists in terms of 'person nights' but, because of both the higher expenditure rate of tourists from abroad and the cost of the international class hotels, the share of revenue yield of hotels and motels relative to other types of accommodation would be substantially greater than that indicated by the proportion of 'person nights'.

#### 7.5.1 *Need for higher labour productivity*

With wages amounting to 40 per cent of a typical hotel's operating costs, and total labour-related costs (including leave, insurance and other non-wage costs) being some 47 per cent, labour productivity clearly has a major influence on a business's ability to compete.

By way of comparison with New Zealand, total labour-related costs as a percentage of all operating costs are 48 percent in Australia, 25 percent in Singapore and 15 percent each in Thailand and Hong-kong. The differences are reflected in one measure of the quality of service – staff per number of rooms. In a five star hotel in New Zealand the ratio is 1:1.4, whereas in Hongkong the ratio is 1:2.2. The difference in labour costs means that hotels in New Zealand have to work that much harder at finding ways to make labour more productive. Hence the pressing need to achieve the work environment outlined in Section 6.

Productivity is improving. One hotel reduced its total staff by 15 per cent from 1988 to 1989 and still accommodated the same number of guests by working harder and smarter.

"Training is not a problem. We select our staff carefully, train them to our requirements and pay more as they improve. It works well."

– delegate to conference on the  
*Tourism 2000 Report, Auckland,*  
15 November 1989

In the search for higher productivity, each of the larger hotels has a training and promotion scheme, with the focus on pride in excellence. The schemes have different emphases – reflecting the particular style of each hotel – but they all have the common feature of incentives for doing a better job. The ability to make the schemes as effective as possible is, however, constrained by the

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<sup>9</sup> NZTP, *The Economic Review of Tourism in New Zealand, 1987-88*, ISBN 0.478.02041.4.

rigid structure of work conditions set down in the award.

### 7.5.2 *Unsuitable Award*

The hotels which are in the business of providing a 24 hour, 7 days per week service found themselves especially disadvantaged by the lack of flexibility in the Licensed Hotel Employees Award which is based on the outmoded concept of a working week being Monday to Friday and a day consisting of 8 hours. Any work outside those times is subject to 'penalty' rates - a term which reveals a negative attitude to working flexible hours. The award also contains pay scales which are too flat and which do not reward skill, but pay juniors too much. One result of that is that juniors are priced out of work. The award was agreed to by the Hotel Association, as the majority - in numbers, although not in commercial size - of its members were in a different sector of the industry from the large hotels.

### 7.5.3 *The Accommodation Council*

Because of the unsuitability of the award to the requirements of the large hotels, the Accommodation Council has been formed to represent their interests and negotiate a separate award based on the need to provide a high quality service at a competitive price, and therefore allowing for greater flexibility in the deployment of labour. The new award - if adopted - would also incorporate greater differentials to reflect the productivity of different levels of skill and provide an incentive for training and better performance, but the union has already foreshadowed its opposition. The staff, however, are keen to work under a more flexible award because it would mean

higher pay, the opportunity to do a variety of tasks and the opportunity for more free days.

### 7.5.4 *Negative union attitude*

The attitude of the union is causing its own demise. Hotel staff are leaving it because they are disillusioned by its negative attitude to what they want in the workplace. The reduction in union membership in the large hotels shows up in the fall in deduction of union dues to about one third of its amount in 1987.

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**Constructive labour relations are built on trust and working together towards shared objectives.**

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Rather than promoting the genuine well-being of its members, the union appears to be obsessed with pursuing various vendettas, the present fashionable one being 'PGs' (personal grievances). If an employee has been late to work and asked to come on time tomorrow, then he/she is being victimised. In one instance after a housemaid's work had been checked and some improvements in the quality of her work were requested, a claim was made by the union for \$10,000 compensation for 'loss of confidence'. Another PG action was brought against a hotel after a waitress was sacked for theft. The theft was proven, but that did not stop the union making a PG claim on the grounds of 'racial discrimination'.

Regrettably there are some racial overtones entering into labour relations in the accommodation industry as the union reacts to its incipient loss of members by

concentrating on certain racial groups with a variant of the old union dogma of class conflict. The pitch for membership is along the lines of 'unite behind us to fight the oppressor'. In support of its drive, and no doubt conscious of the potential for disharmony, it has recently bestowed on itself the formal title of "Service Workers' Federation of Aotearoa".

Constructive labour relations are built – amongst other things – on trust and working together towards shared objectives. By contrast, giving a union with the attitudes of the Hotel Workers' Union sole rights to represent workers is clearly inimical to constructive labour relations. Hotels and their employees would be much better off making their own arrangements at each hotel.

## 7.6 Travelling Around

Once tourists are in New Zealand, transport accounts for about 30 per cent of their spending.<sup>10</sup> Private cars and rental cars are preferred by domestic tourists, while coaches are the main form of transport for international visitors.

### 7.6.1 Air Transport

Deregulation of domestic air services has brought:

- a range of prices, including lower prices;

- a range of services;
- better services;
- better facilities;
- better aircraft; and
- a big increase in people traffic.

More improvements are possible with a corresponding deregulation of the labour market. A start has already been made by Ansett New Zealand. The next step is to remove union monopoly coverage rights.

The special award negotiated between Ansett New Zealand and the unions representing pilots, engineers and clerical staff was settled largely on Ansett's terms, but holding out to the unions the prospect of Ansett employing some 500 staff. Although Ansett did not take the opportunity to put in place internationally competitive work practices, some increases in productivity have been achieved through more efficient scheduling, better matching of aircraft to passenger traffic flow, less over-manning of aircraft and by contracting out the tasks of drivers, baggage handlers and caterers. It was that or nothing. The conclusion from Ansett New Zealand's experience is that productivity-improving labour agreements can be negotiated under the Labour Relations Act but only if the employer is in the kind of position Ansett was in, that is, with the ability to offer, and take away, the prospect of hundreds of jobs before a large financial investment is committed by the company.

Air New Zealand, on the other hand, has a large investment already committed in New Zealand and has less negotiating leverage because of its tradition – and continuing public perception – as the

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<sup>10</sup> NZTP, *The Economic Review of Tourism in New Zealand*, 1987-88, ISBN 0.478.02041.4.

national carrier. Additionally, Air New Zealand has a reputation for paying very high salaries and an array of perks to its international cabin crews, a practice carried over from the era of excessive regulation and protection of air transport. This industrial background - and the vulnerability which comes with it - is one reason for a separate award between the New Zealand Air Line Pilots' Association (ALPA) and Air New Zealand (and its subsidiaries).

The award covering Air New Zealand and its subsidiaries further illustrates the unsuitability of applying the same employment conditions to companies whose markets and operating circumstances are quite different. Air New Zealand has one set of requirements, but those of some of its smaller scale, more specialised, regional airlines are very different. Whilst the Labour Relations Act allows a union to cite an employer out of an award - and the provision is tailor-made for the situation of Air New Zealand's subsidiaries - ALPA shows no sign of allowing any flexibility or easing in cost burdens on the subsidiaries which might erode its ability to extract 'rents' from Air New Zealand.

An example of ALPA's attitude to preserving its monopoly position and entrenching its power is seen in the following threat in the Association's newsletter of 24 January 1990 to any members who might differ from the view of their 'leaders':

"If you sound and act like wimps you are saying you are being paid too much and/or aren't working hard enough.

**"THIS IS THE SAD BUT CRUDE REALITY.**

"If 10% of the pilots for one reason or another, paying lip service to Union support on policy decided by the majority they can be handled effortlessly by the rest of us.

"If that 10% infect a further 20% who begin to create doubts in a further 20%, then the 'trickle-to-stream-to-river-to-flood of runners' has to be considered. The easiest method to deal with that 10% is to put some pressure on them to identify themselves. You obtain strong metal by placing a lot of material in a blast furnace and by increasing pressure and temperature.

"The slag rises to the top. It is scooped off and you are left with pure steel."

That self-serving and bullying declaration demonstrates the need for industrial arrangements which do not hand monopoly power to one group. Ominously, ALPA has shown every indication of using the power given to it by the Labour Relations Act to tighten its grip on the airline industry by taking over the air traffic controllers. This would give it monopoly control of the airways and ensure the centralisation of negotiation of all air traffic activities. ALPA's publicly stated strategy is to counteract the effect of airline deregulation by establishing, and getting control of, centralised collective bargaining. It is all the more amazing that the government allows its airline deregulation policy not only to be contradicted, but also jeopardised, in this way by the monopoly powers in its Labour Relations Act and that it refuses to

extend the jurisdiction of the Commerce Act to labour market practices.

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**... total cost could be cut by 20 per cent**

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There would be considerable merit in moving to enterprise labour agreements in the aviation industry. Ansett New Zealand has nearly achieved this result but at present Air New Zealand - which is burdened by its history - has to negotiate 13 different awards with 19 unions, a process which adds to costs with no off-setting benefit in productivity. Indeed, Air New Zealand believes it could provide its staff with better conditions and allowances than they can achieve under the centralised system if improved work practices were introduced. Another airline operator considered that total costs could be cut by 20 per cent, with no change in the take home pay of staff, if it were possible to deal only with one union and if the concept of 'penalty' rates were abolished.

To illustrate the absurdity of having several unions at the workplace, it may be noted that cheese and biscuits are loaded on to aircraft by 'aircraft workers', but hot food is loaded by 'ground stewards'. Obviously such silly practices should not be protected by (the effect of) legislation.

The airlines see labour market legislation as biased in favour of the union movement and damaging to employees, business and economic efficiency because:

- unions can cite employers out of an award but employers cannot cite themselves out;
- the Labour Relations Act perpetuates the old relativity-driven system;
- because of the closeness of union officials to the government, employers are being used to pay for the government's social policy;
- procedures to resolve demarcation disputes are designed to protect the positions of workers and union officials, with little regard to the effect on a business (and ultimately its employees);
- unions are empowered by legislation to negotiate an award on a range of issues - staff travel, leave, superannuation and so on - which should be a matter for individual firms rather than for whole industries;
- some unions bring 'personal grievance' cases to the courts which mock commonsense, yet rulings are given in favour of the union. For example, an ex-employee jailed for theft had to be reinstated on the grounds that he had been wrongly dismissed, and another person who committed theft had to be reinstated because the amount stolen was not considered large enough to deserve dismissal;
- the legislation gives the unions an unlimited right to strike 60 days before an award expires. The threat of strikes, as ALPA showed in December 1989, is used maliciously and with impunity;
- on matters of health and safety, union officials have the power to

shut down a plant which has been declared safe by a representative enterprise-based committee; and

- companies are required by the Union Representatives (Education Leave) Act (1986) to fund the ideologically-driven Trade Union Education Authority and give nominated employees paid time off to attend it – to learn how to subvert the company.

It is small wonder that employers are frustrated by the labour market system and have little confidence in the resolve of the government to change the legislation which allows many of the practices cited above to continue unchallenged.

#### 7.6.2 *Ferries*

Labour market regulations and practices load coastal shipping with unnecessary costs. The main problems in the provision of tourism services are the high costs and delays which stem, fundamentally, from the fact that most maritime workers are not employed by the firms which run the vessels. They are employed instead by their union, so their first loyalty is to that union.

Under the rules of the Maritime Award, cooks, stewards and seamen are all employed and placed on the 'corner' – a roster system from which maritime employees are drawn as required and which provides a guaranteed wage to them if they do not sail. The union decides who is eligible for the 'corner', a prior condition being that each employee must hold a Seaman's Ticket. Although the firms operating the vessels pay the wages of

maritime employees, it is the union which employs them.

The inefficiencies arising from this system of pooled labour are seen in overmanning, idle labour (men remaining on the 'corner' when vessels are at sea) and poor labour productivity (because individual shipping companies have no incentive to train employees). This is not the case, however, with officers and engineers who are employed directly by the companies. Similarly, considerable cost savings would flow from cooks, stewards and seamen being employed directly by shipping companies. Further gains in productivity would flow from all groups of maritime employees being organised on a company basis. There would then be no doubt about where they placed their loyalty.

#### 7.6.3 *Bus Services*

Following deregulation of bus services some of the companies with established businesses were hit hard by competition from new firms which entered the market with different equipment – for example, mini-buses – and new services. One company described how, faced with the prospect of severe contraction and massive job losses, it approached the drivers' union and negotiated a standard hourly rate to apply to all days, with provision for time and a half whenever 8 hours' work were exceeded on any one day. The flexibility achieved allowed the enterprise to continue, albeit with some loss of jobs. The union's main aim over this period was to secure the best termination payments for redundant drivers as it recognised it could not maintain their employment.

Since that time, considerably more flexibility has been achieved by contracting and franchising to individual drivers – most of them erstwhile union members. The amount of business has expanded greatly since the new system was introduced and the number of drivers 'employed' under the company arrangements is over double the number who were on wages under the old system.

The ability of drivers to operate in their preferred markets according to their own attitude to risk, and in a manner best suited to each one's life style, has led to big improvements in productivity. Some drivers own their bus and pay a fee for the company's livery and marketing functions. Others lease buses from the company on a variety of bases, such as 'wet' or 'dry' hire. Many of the contract and franchised drivers – who used to be union members – now have several buses and pay their drivers cash on a per journey basis! This provides an interesting message about incentive structures.

The present position was summed up as follows:

"We're all better off. Costs are down, the drivers like it and the buses are lasting longer."

Another bus operator claimed that it was impossible to run the enterprise profitably under award conditions for drivers, especially since competitors were gaining market share by using flexible contract arrangements. He also found that the unions did not inhibit the move to contracting provided displaced drivers received adequate severance pay.

#### 7.6.4 Taxi Services

It would be premature to assess the November 1989 deregulation of the taxi industry at this stage. The early impression is that, at least in some main centres, there are a number of new and different cabs (a vehicle up to a capacity of 12 can be licensed) and the entry of new companies is improving radio service to drivers – and therefore to passengers. The common view of drivers spoken to was that the market would diverge into cheaper, basic cabs and more up-market cabs for the five star hotel and airport trade.

With the deregulation of the industry now in place, no significant labour market impediments were identified in the provision of taxi services.

#### 7.7 Training

The message to emerge from observations of people working in the tourism industry is that education and training are very much a matter of incentives. It comes down to the availability of jobs (actual and expected) and the incentive structure inherent in pay scales.

"If the tourist industry is to continue to grow and be successful then the base will be on the attitudes and confidence of staff dealing on a personal basis both with international and domestic visitors."

- *NZ Tourist Industry Federation Inc.,  
paper presented to "Tourism 2000"  
Conference, Wellington, 1989*

Criticism was made of the universities and polytechnics for being unreceptive to the

needs of the tourism sector and for generally doing what most advanced the interests of their institution. However, it was also recognised that this comment reflected frustration on the part of employers that they could not find enough skilled people and that the 'government' (read 'public education system') should do something about it. A greater role for public institutions in training is advocated by unions who maintain that employees must complete an 'authorised' course before the training is given recognition.

To the extent that the amount of training and the level of skills is regarded as insufficient, a lack of incentive to upgrade because of low margins for extra skills would appear to be the main reason. Some firms are doing their own training, backed by a system of promotion and pay gradients considerably beyond the terms of industry awards, so in this narrow respect the Labour Relations Act is not an impediment. Taking the broader view though, in not allowing (see section 7.8) workplace agreements with the flexibility to link remuneration directly to skill and performance in the market, the Act is reducing the incentive to train and depressing the overall level of skill. This must be bad for tourism.

## **7.8 Rules and Regulations: the Labour Relations Act**

Many of the rules, regulations and labour market practices which bedevil the tourism industry today evolved many years ago in quite different industries in which margins were protected and times appeared to be prosperous. The anti-competitive attitudes and practices of those times have to

some extent been carried into the present tourism industry, but in other respects it has virtually none of the features of the immediate post-World War II era. For example, the decline in the scheduled passenger shipping market that followed the introduction of intercontinental aircraft in the 1960s resulted in the movement of stewards from shipping lines to hotels and airlines, taking with them their entrenched prejudices and practices. Through the era of full employment in New Zealand and an inflexible, highly regulated and protected economic environment, the ability of firms and their workforces to respond to external change became dulled. The rules and regulations in force today still bear the characteristics of that era but, fortunately, greater flexibility and choice is gradually – albeit too slowly – being introduced.

There are several ways in which features of the Labour Relations Act continue to limit the flexibility of the industries providing services to tourism. Some details of the effects of the legislation on outcomes in the workplace were given in section 7.6.1 where the adverse impact on the airlines was described. Broadly, the offending features serve to enhance the power and influence of the trade union hierarchy, frequently at the expense of both firms and their employees. The general issues seen as reducing tourism's competitiveness are outlined below.

### *7.8.1 Compulsory Unionism*

The Labour Relations Act provides for compulsory unionism if there is majority support for it among those voting. This heavily biased piece of legislation allows a



small proportion – sometimes as low as 5 per cent – of the workers covered by an award to impose compulsory unionism on the rest. This feature of the Labour Relations Act is blatantly undemocratic, repressive and designed for the advantage of trade union officials. It flies in the face of a recent public opinion survey by Insight NZ which indicated that an overwhelming majority (77 per cent) of New Zealanders considered that union membership should be voluntary. Compulsory unionism damages competitiveness because it:

- does not allow for the flexibility inherent in individual employment contracts which may be necessary to respond to special tourist demands experienced from season to season, in different regions and by different firms;
- reduces the pressure on unions to respond quickly and effectively to the needs of their members; and
- grants monopoly negotiating rights to one union and causes that union to focus on its own preservation and growth, often by creating and resolving unnecessary disputes, instead of seeking ways of making labour more productive.

### *7.8.2 Unions Given Unjustified Powers vis-a-vis Employers*

Under the Labour Relations Act an employer is required to advise the union of the number and names of employees and, where an award requires compulsory union membership, new employees must join the union in 14 days. The onus is on the union to make those employees join. To assist the unions in their drive for members, the Act empowers a union to enter

an employer's premises and demand wages records. This power is intimidatory and serves to constrain firms in selecting and remunerating staff. To the extent that the threat of the power being used causes staff appointments to be on the basis of willingness to comply with possible union demands, rather than on the basis of potential contributions to productivity, competitiveness suffers.

### *7.8.3 Unions Given Priority Right of Coverage*

The Act ostensibly allows for firms to reach agreement with their respective workforces on an enterprise basis, but experience has shown such agreements can be overturned by the Labour Court if a national union considers the agreement is against policy.

The tourist industry is dependent on being able to provide excellent service over a 24 hour period, seven days a week, 52 weeks of the year, in all aspects of its business.

This requirement is frustrated by outdated and conservative union provisions which have remained static over a long period. The Federation therefore believes that Government should deregulate the labour market to allow greater flexibility in working patterns, specifically providing for a 40 hour week over any period without incurring penalty rates. In return the industry should be expected to improve the basic pay rates and develop greater reward and career structures over the wider industry.

"Full labour market flexibility, which should enable industry to provide greater employment opportunities, would also be assisted by voluntary unionism."

*- NZ Tourist Industry Federation Inc., paper presented to "Tourism 2000" Conference, Wellington, 1989*

In the face of national union power backed by a partial Labour Court, individual firms are effectively denied the right to negotiate employment conditions to encourage productivity growth if those conditions do not comply with union objectives. In these circumstances the need for competitiveness is barely – if at all – taken into account. The Labour Relations Act should be amended to affirm the right of employers and employees to make agreements, free from duress, that are most suitable to their particular circumstances.

"Under the Labour Relations Act unions can take an employer to court even when he and his employees have agreed on terms

*- a small business tourism operator*

In relation to the question of coverage, the opting out provisions of the Act at the initiative of a union cannot be expected to bring any meaningful flexibility to labour agreements because the union officials who would make the decision are unlikely to give up their monopoly 'control' of labour

relations in a particular industry. The remedy, of course, is to remove the monopoly power.

#### 7.8.4 *The '1000 Members' Rule*

The Act requires that a union must consist of at least 1000 members. One of the arguments put forward for introducing this measure was that, by forcing amalgamations of smaller unions into fewer, bigger unions, the problems of employers in dealing with many unions – and related demarcation disputes – would be reduced. Employers say the results do not bear this out. Most have to deal with as many unions as before and in some cases the application of blanket awards has meant a loss of flexibility and productivity. The experience of the Automobile Association (AA) illustrates this outcome. Until the Labour Relations Act was passed in 1987 the AA had its own staff association consisting of members who were part of the AA 'family' and committed to its ethos of service to clients. But the staff association did not have 1000 members. It therefore lost its coverage, and its members were taken

over by the Engineers' Union (formally, the New Zealand Aircraft, Coachbuilding and Amalgamated Engineering Trades Employees Industrial Union). This takeover was not prompted by any perceived benefit to the members from involvement with common employers; rather it was an undisguised grab for more power and influence. Since the Engineers' Union has replaced the service-oriented philosophy of the erstwhile staff association with its own brand of ideology the AA has lost its special relationship with staff and, accordingly, the quality of service has been adversely affected.

However, it is pointless simply to blame the Engineers' Union for this outcome when it was responding rationally – albeit with no consideration for the public interest – to a set of incentives contained in the Labour Relations Act. The unions, of course, lobbied the government but it was the government which made the rules and must be held accountable for the outcome.

The main effect of the '1000 members' rule has been to strengthen the position of the large, nationally-based unions and promote their strategy of industry unions. However, not all firms fit neatly into an industry definition. For example, Air New Zealand's activities include air transport, ground transport, training, communications, equipment maintenance and servicing, travel agency services, restaurant and liquor services and so on.

The '1000 members' rule is flawed in concept, is having a detrimental effect on labour productivity and has created concern in the tourism industry that 'big union dominance' will spread to other

service enterprises. It is certainly an impediment to the formation of enterprise agreements and should therefore be repealed.

To sum up, it is abundantly clear that the features of the Labour Relations Act outlined above do not meet – and indeed run counter to – the conditions necessary for productivity advance. The tourism industry cannot hope to be competitive until the offending features of the Act are removed and with them the monopoly of the union movement.

### **7.9 Enterprise contracting works**

Because of the damage done to individual firms and the tourism industry by the anti-competitive characteristics of the labour relations system, a number of employers and workers are making their own arrangements. Some of these have already been referred to. They all involve enterprise agreements which have the active support of employees. With these arrangements there is no question of compulsory 'protection' being necessary from a centralised union.

#### *7.9.1 Ski Fields*

In the ski industry 95 per cent of the workforce is free from union control. The ski field operators have an agreement with their workers which sets out the terms and conditions of employment. The workers are encouraged to appoint competent representatives who, in turn, are fully appraised of the company's operating strategy and expectations for the season.

The essential details of the agreement are that pay rates are higher than the equivalent award, the base in 1989 being \$8.40 per hour for every day of the week, to apply to a 10 hour day for any 4 days per week. Overtime is paid at the rate of the base x 1.5 applied to any hours worked in excess of 10 hours per day or 40 hours per week. The agreement covers instructors, lift operators, engineers, drivers and clerical staff who move from job to job as the need arises – and most of them like to have the change. For instance, ticket sellers whose peak time is for 3 hours in the morning are deployed to other tasks for the rest of the day. People who drive buses to and from the ski fields in the morning and evening are relief lift operators during the day.

The unions have attempted to get coverage, but the workers know that they would receive less pay and that many could not be employed if union rules applied.

The only unionised labour on the ski fields is restaurant employees who are compulsorily covered by the Hotel Workers' Union.

The biggest industrial issues for ski field operators are the 'rorts' which drive up construction costs. Items such as cold allowances, mountain allowances and rain allowances are simply blatant devices to bleed the system, but those responsible seem unconcerned at the consequences.

### 7.9.2 Resorts

There are at least 15 small scale resorts which have been able to achieve high rates of productivity with dedicated staff who are

paid a flat hourly rate – well above the award rate – 7 days a week. There is no union involvement and relationships with staff are described as 'excellent'. Some 350 farm/home hosts operate along similar lines, although some use only family labour.

### 7.9.3 Cruise Vessels

There are 54 cruise vessels on Lake Taupo, most of which are owner-operated with one or two employees. Typically the employment arrangements are flexible so that, for example, staff who want to ski at Ruapehu (a nearby skifield) during the week when it is less crowded are able to work weekends on cruise vessels. Weekend pay rates are the same as those during the rest of the week.

The general employment arrangements are illustrated by a Lake Taupo operator who runs 3 trips per day for which staff are paid \$40 per trip in the morning and afternoon, and \$70 for the evening trip. Staff are skilled in a number of tasks and relations are very good. The unions have been pressing for coverage but the staff reject their overtures because union membership is not seen as bringing any benefits. One reason cited is that the rate of \$40 per trip equates to about \$9 per hour – a rate which is justified because it attracts and retains suitable people – compared with the standard award rate of \$6.50 per hour. As there is always a queue for any jobs available it is clear that the employment arrangements are advantageous to the parties directly concerned.

## 8. POLICY IMPLICATIONS

Is apparent from those who earn their living in the tourism industry and – in doing so – create employment for thousands of New Zealanders, that they are keen to do a lot more but are frustrated by some unnecessary impediments. One of the more significant impediments is the lack of flexibility in the labour market. It is not so much a question of the level of wages per se, but of the difficulty – and frequently impossibility – of coming to mutually agreeable arrangements with employees to improve productivity and allow the particular tourism 'product' to be marketed more efficiently. Against the tests for productivity growth (see Section 6), most of the industries providing tourism services do not score well. Accordingly, tourism is less competitive than it could be and the level of employment is lower.

Many of the impediments to greater labour productivity have a long tradition. Their presence today is explained more by history than by their appropriateness to a dynamic and outward-looking society in the 1990s.

Today the impediments are entrenched as features of the Labour Relations Act. Those companies which abide by the rules find themselves carrying a heavy burden in terms of higher costs and an inability to compete as the rest of the world gets further and further ahead. Other companies, as we have seen, make alternative arrangements either to 'get around the law' or simply not comply with it.

Recognising the necessity to make changes – and indicating that the logic of the argument had been established – the

government took tentative steps in 1987 to open up the labour market and provide for more flexible agreements between employers and employees. However, the limited changes made were largely ineffective. The fundamental flaw in the new legislation is that it leaves the power of the existing unions intact with the result that, when it comes to the crunch, union policy wins against a firm and a workforce that might want to do something different.

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**... tourism is less competitive than it could be and the level of employment is lower.**

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In granting monopoly rights over key areas of the labour market to the union movement, the government has created, or continued, an institutional environment and a range of incentives which encourage people to seek special advantages from the 'system'. Union officials especially have a strong incentive to defend the institutions – and the regulations which support them – from firms and groups of workers who can see mutual benefit from freeing up the system.

There is nothing unusual about the action of the union officials. It is a normal human response to government regulation, most of which opens the way to considerable power and influence by those who can appropriate the rents created by intervention. As one writer has warned:

"Every act of intervention (by government) establishes positions of power. How that power is used, and for what purpose, depends far more on the people who are in the best position to get

control of that power and what their purposes are, than on the aims and objectives of the initial sponsors of the intervention."<sup>11</sup>

It should therefore be expected that the union movement would use its special relationship with the government to secure its "position of power" in the labour market.

There is no technical feature of the Labour Relations Act which disallows employers and employees making the arrangements which suit them best. That is a commendable feature of the Act. But it fails to be effective because in practice employers and employees have few rights of initiative, little individual choice and no ability to invoke democratic procedures. Any agreement can be over-ridden by a union claiming monopoly coverage of the particular 'industry'.

The solution is straightforward. Employees and firms should be given far wider powers to contract to their mutual advantage, either individually or collectively. Public opinion surveys suggest there is overwhelming support for such action. Some firms and their employees have already made considerable progress in this direction. Indeed the government seems to recognise the necessity for workplace agreements and

has foreshadowed legislation to foster them – but still only in a highly restricted way.

The conclusion that labour agreements at the enterprise level would substantially raise competitiveness does not imply that all problems in the labour market would be solved quickly. But in moving the focus of labour market issues away from the institutionalised and inflexible environment of centralised unions (which have their own ambitions), the Labour Court and the Arbitration Commission and into the actual workplace, there would be far more scope to negotiate 'win-win' outcomes. Furthermore, with agreements made directly between employers and employees taking account of local conditions, there would be fewer disputes – and a virtual end to disputes fomented for political ends.

Allowing – and ensuring the integrity of – workplace labour agreements would do more than any other single action to boost labour productivity and increase tourism's competitiveness.

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<sup>11</sup> Milton Friedman, *Free To Choose*, Macmillan Co of Australia, Melbourne, 1980.