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Race to the Bottom: How Low-Road Subcontracting Affects Working Conditions in California's Property Services Industry

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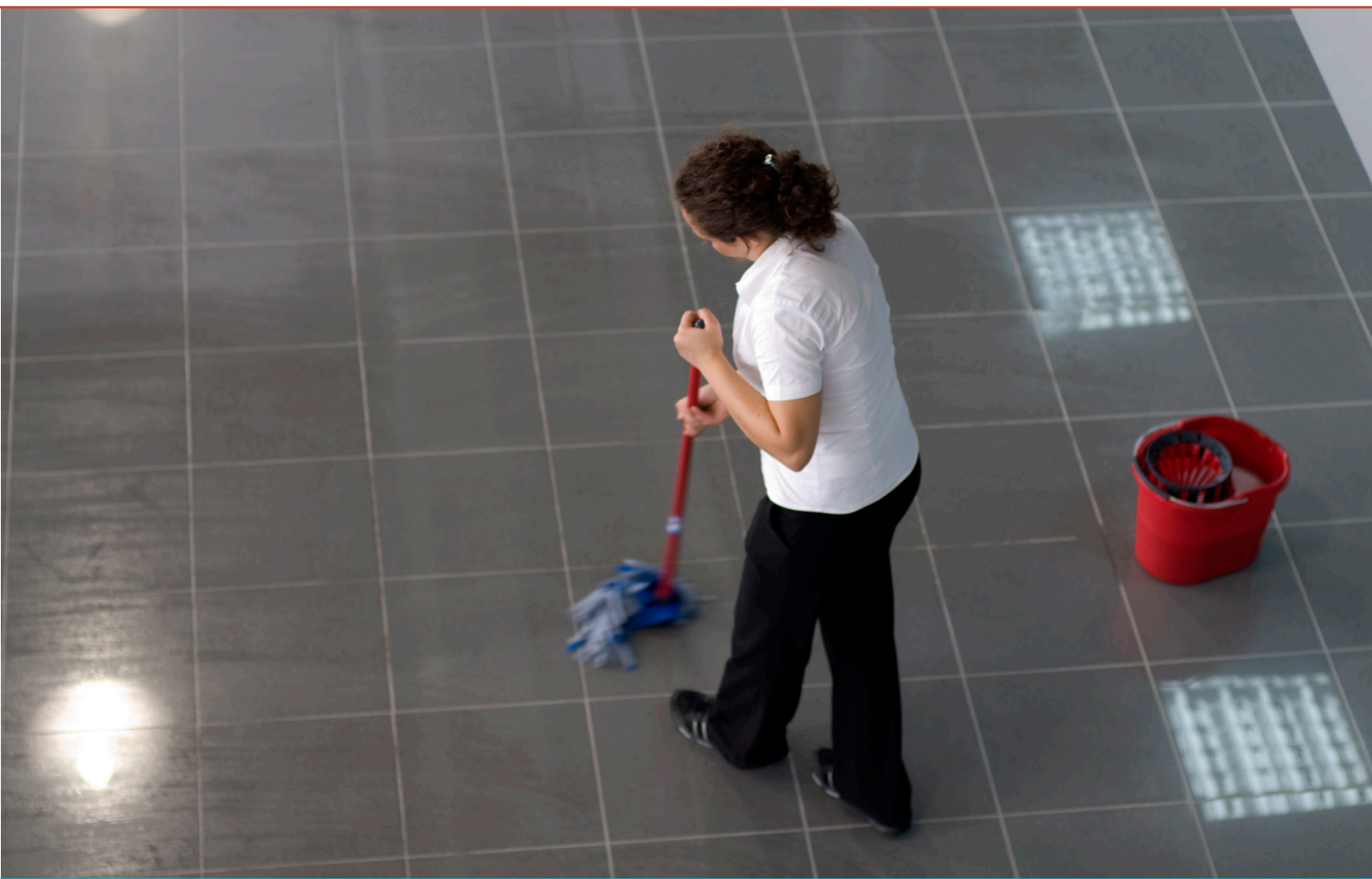
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Race to the Bottom

How Low-Road
Subcontracting
Affects Working
Conditions in
California's Property
Services Industry



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With research contributions from the Labor Occupational Health Program
at the University of California, Berkeley

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Executive Summary

As economic inequality takes center stage in the public debate, policymakers are increasingly asking whether subcontracting has contributed to the problem of low-wage work. This report analyzes the substantial growth over the past 25 years in one of the key sectors of subcontracted work in California: janitorial and security services. We find that:

Trends in subcontracting

- Of the 220,130 janitors working in California in 2014, 38 percent were employed by contractors. Of the 148,740 security officers in the state, 70 percent were employed by contractors.
- The contractor industries employing these workers have grown significantly faster than the rest of the private sector in California. Between 1990 and 2014, employment in the janitorial services industry grew by 44 percent and in the security services industry by 83 percent, compared to 20 percent for all private industries.
- The share of California janitors employed by contractors more than doubled from 1980 to 2014, while the share of California security officers employed by contractors increased by 50 percent over the same period.

Job quality outcomes

- Janitors and security officers in California are subject to a significant wage penalty when working for contractor companies. Contracted janitors earned 20 percent less than non-contracted janitors (\$10.31 compared to \$12.85 an hour) in 2012-2014. Contracted security officers earned 18 percent less than non-contracted security officers (\$11.91 compared to \$14.48 an hour, all in 2014 dollars).
- Not all workers suffer from this wage penalty, especially those in unionized contractor firms. For example, our analysis of ACS data shows that

a quarter of contracted janitors earned more than \$13.94 an hour and a quarter of contracted security officers earned more than \$16.33 an hour.

- Fully 45 percent of contracted janitors and 32 percent of contracted security officers had no health insurance coverage in 2012-2014. This is largely because of low rates of employer-provided health benefits—only 35 percent for contracted janitors and 49 percent for contracted security officers. For unionized property services workers, however, health benefits are substantial: in most major downtown areas, most full-time workers receive full family coverage after 90 days.
- A comprehensive 2008 survey in Los Angeles found that 32 percent of workers in the property services industry were paid less than minimum wage, and 80 percent were not paid the legally required overtime when they worked more than 40 hours a week.
- Research statistics and in-depth interviews suggest that women janitors are at risk of sexual harassment and assault in what are often isolated working conditions.
- Federal government statistics indicate that being a security officer is a dangerous occupation, with high rates of workplace violence and fatal injuries.

The workers and their families

- Janitors and security officers are disproportionately workers of color and immigrants; more than 70 percent of contracted janitors were born outside the U.S.
- The median household income of contracted janitors (\$39,570) and security officers (\$41,120) was about half the statewide median (\$78,521) in 2014.

- Fully 53 percent of contracted janitors and 36 percent of contracted security officers live in families that fall below 200 percent of the federal poverty level, a common benchmark of economic distress.
- Women are generally under-represented in the property services industry, but almost half (45 percent) of contracted janitors are women.
- Responsible contractors who pay fair wages do exist. Unionization of these contractor firms has grown over the last 30 years in California, especially in major metropolitan areas and for commercial buildings. The collective bargaining agreements typically set wages, annual increases, and health benefits above levels that prevail in the non-union property services sector.

The race to the bottom

Industry research and interviews with experts suggest that the property services industry is currently driven by a highly competitive race to the bottom that results in lower wages and inferior working conditions. Key factors include:

- For both janitorial and security contractors, labor costs make up the main cost of providing services; as a result, wages, benefits, and other employment costs are the primary basis on which they compete, not innovation or productivity. Profit margins are typically thin (5.5 percent for the janitorial services industry and 4.3 percent for the security services industry).
- Multiple and complex layers of contracting further reduce labor costs, shifting employment to smaller, off-the-books and unlicensed employers where workers are particularly vulnerable to workplace violations.
- For client firms—including major high-tech, retail, and commercial real estate firms—cost savings (23 percent on average) are one of the main motivations for contracting out.

- Unionized firms and other responsible contractors are, however, subject to significant pricing pressure from unscrupulous contractors—limiting their ability to shift the competitive equilibrium of the industry toward a high-road model based on providing quality services rather than on cutting labor costs.

The public costs of low-road subcontracting

- Low-wage workers and their families are often forced to rely on public assistance in order to make ends meet. We estimate that 48 percent of janitors and security officers in California have at least one family member who receives support from one or more public assistance programs.
- The total cost to the federal and California governments of this assistance averaged \$228 million per year between 2009 and 2014.
- The public also bears the costs of lost tax revenue when workers are illegally classified as independent contractors, are paid in cash, or are paid less than their actual earnings. Each minimum wage worker misclassified or paid off the books represents about \$2,957 in lost revenues per year, not including losses in state and income tax revenue.

1. Introduction

As economic inequality takes center stage in the public debate, researchers and policymakers are increasingly focused on the role of various forms of subcontracting or outsourcing in the U.S. Studies of rising income inequality have consistently documented stagnant wages at the bottom of the labor market, in contrast to robust wage growth at the top. The intuition is that firms' use of subcontractors and independent contractors has contributed to this polarization, in the search for greater flexibility and lower labor costs (Weil 2014).

While Uber and other gig-economy platforms are currently capturing much of the media's attention, they currently only constitute a very small percent of employment (Mishel 2015). More common are other forms of contracting out that have been growing for decades in some industries—that is, firms subcontracting with other firms or independent contractors for functions that used to be performed in-house (Ruckelshaus, Smith, Leberstein and Cho 2014). As a result, entire new industries of contractors have grown up to provide these functions, ranging from the high-end of legal, accounting, and IT services to the low-end of business services contractors and temp agencies. In California, employment in these service contractor industries (formally classified as Professional and Business Services) grew by 68 percent from 1990 to 2014, more than three times as fast as all private industries combined (19 percent).¹

The concern is that in some of these contractor industries, low barriers to market entry and the high percentage of labor costs can mean that competition produces a race to the bottom, focused on cutting wages and benefits and cutting corners on workplace safety, training, and workers' compensation (Ruckelshaus et al. 2014). In addition, subcontracting can make workers particularly vulnerable to wage theft and other forms of workplace violations, by shifting

¹ Quarterly Census of Employment and Wages, Bureau of Labor Statistics, 1990-2014; Professional and Business Services defined using 2-digit NAICS codes 54, 55, and 56.

employment to smaller, off-the-books and unlicensed employers (See e.g., Kirkham 2015).

For policymakers and stakeholders, this type of “low-road” subcontracting has potentially important implications for the adequacy of existing employment and labor laws; the provision of health, pension, and other workplace benefits; and workplace enforcement strategies. Unfortunately, to date researchers have been hampered in their ability to document the growth in contracting out and its effects on wages and working condition by inadequate government surveys and administrative data; until better data are developed, detailed industry case studies will be a vital important source of information (Bernhardt, Appelbaum, Houseman and Batt 2015).

The case of property services

The property services industry is the archetype of the subcontracting story. While in the past, building owners typically hired workers such as cleaners and security officers directly onto their own payrolls, increasingly they have contracted with other companies for these functions. Those contractor companies now form what is broadly termed the “property services” industry, and as we will see in Section 2, employment in this industry has grown significantly faster than employment in the private sector as a whole in California.²

In particular, contracting out for janitorial and security functions started several decades ago and is now well-established. Across the state but especially in large cities and metro areas, janitors and security officers employed by contractors service buildings owned by commercial real estate trusts, retailers, school districts, warehouses, banks, residential buildings, and high-tech firms. The use of these contractor firms has become a fixture in the state's economy and so gives policymakers an important window on how subcon-

² In this report we use the term “property services” broadly to include both security services companies and janitorial services companies (the latter often use the term “facility services” for their sector).

tracting drives changes in working conditions over time, and its impact on the immigrants and workers of color who make up the majority of the workforce.³

Goal of the study

The purpose of this study is to analyze the growth of the property services industry in California and to document the impact of subcontracting on the job quality outcomes of janitors and security officers. How common is subcontracting of these two occupations in California? How do the wages and working conditions of subcontracted workers in these occupations differ from other California workers? How do the dynamics of subcontracting and the structure of the property services industry explain the outcomes we observe? And what is the impact of those dynamics on unionized and other responsible employers?

The structure of the report is as follows. In Section 2, we give an overview of the growth of janitorial and security services subcontracting in California. In Section 3, we document the wages and working conditions in subcontracted jobs, and also provide a profile of the workers and their families. Section 4 then provides a detailed analysis of the competitive dynamics that generate a race to the bottom in many parts of the property services industry. We conclude with a discussion of the public cost of the low wages and negative labor practices that this competitive model yields.

2. An Overview of Subcontracting of Property Services

Previous studies have documented increased outsourcing of property services beginning as early as the 1970s. Throughout the late 1980s and 1990s, as businesses began to focus on their “core competencies,” functions such as building cleaning and security were some of the first to be contracted out (Weil 2014, pp.

³ Another key segment in the property services industry is landscaping services; however, landscaping functions have largely always been contracted out, making them ill-suited for this study.

3–4). Dube and Kaplan (2010) estimated that janitorial subcontracting in the U.S. increased from 16 to 22 percent and security officer subcontracting from 40 to 50 percent from the early 80s to the late 90s. Abraham and Taylor (1996) found that the percentage of U.S. companies contracting out 100 percent of their janitorial services rose from 12 to 15 percent from the late 70s to the late 80s.

The result has been a growing industry of firms providing property services to other firms. In 2015 in the U.S., the janitorial services industry (including sole proprietors, often not included in government data sources) consisted of 857,434 establishments with annual revenues of \$51.3 billion, employing 1.8 million workers; the security services industry consisted of 10,796 businesses with annual revenues of \$30.7 billion, employing 771,169 workers (Morea 2015b). Several of the largest property services companies are now multinationals, such as Securitas and Sodexo.

Subcontracting in California

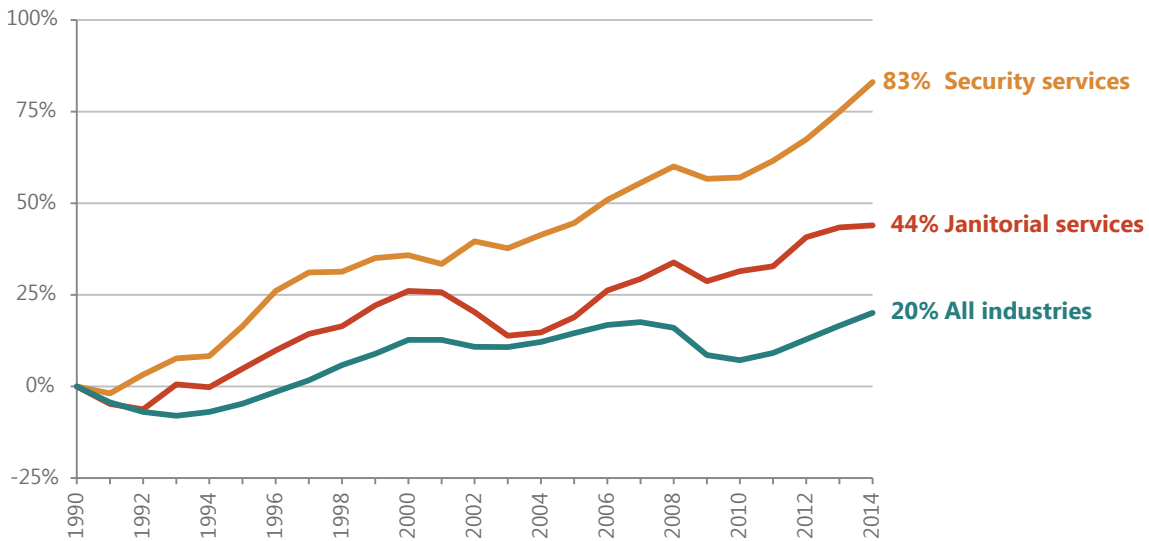
Like in the U.S. as a whole, the property services sector has been a rapidly-growing segment of the California economy over the past 25 years. Figure 1 shows that California employment in the janitorial services industry grew by 44 percent from 1990-2014, and employment in security services grew by 83 percent.⁴ Over that same period, employment in all private industries only grew by 20 percent.

In Table 1 we focus in more detail on employment in the two occupations that are the focus of this report: janitors and security officers.⁵ Employer-reported data from the Bureau of Labor Statistics Occupational Employment Statistics program (OES) indicate that

⁴ We identify janitorial services contractors using the Services to Buildings and Dwellings industry code (NAICS 5617); we identify security services contractors using the Investigation and Security Services industry code (NAICS 5616).

⁵ We identify janitors with occupation Census code 4220 (“Janitors and building cleaners”) and security officers with occupation Census code 3930 (“Security guards and gaming surveillance officers”). We use the term “security officers” in this report to reflect the term used by employers and workers.

Figure 1. Employment growth in private sector industries in California (1990-2014; indexed to 1990)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics, 1990-2014, California, private employers.

220,130 janitors and 148,740 security officers worked in California in 2014.⁶ Together, these two occupations constitute 2.4 percent of employment in the state.

We next examine the extent to which these occupations are contracted out to companies that provide property services to other companies. OES data for California shows 38 percent of janitors and 70 percent of security officers as employed by contractors in 2014.⁷ For both occupations, the majority of the non-contracted workers are employed in the private sector.

Using historical data from ACS and the Decennial Census, we estimate the share of janitors employed by contractors more than doubled from approximately 11 percent in 1980 to 24 percent in 2012-2014.⁸ The

⁶ Employer-reported employment data are a more accurate source of information on contracting out because in complex contracted work arrangements, workers are often unable to correctly identify their actual employer.

⁷ For janitors, contracted workers are identified as being employed by the Services to Buildings and Dwellings industry; for security officers, contracted workers are identified as being employed by the Investigation and Security Services industry; see footnote 4 for NAICS codes.

⁸ ACS data relies on workers to self-report their industry (see footnote 6 above); we use ACS and Census data for his-

share of California security officers employed by contractors increased from 36 percent to 56 percent over the same period.⁹

Table 1. Property services employment by occupation in California, May 2014

	Janitors		Security officers	
Contracted out	84,570	38%	103,870	70%
Not contracted out	135,560	62%	44,870	30%
Total	220,130		148,740	

Source: Occupational Employment Statistics, US Bureau of Labor Statistics, May 2014.

Union representation in the industry

Starting in the late 1980s, the Service Employees International Union (SEIU) began to organize contracted janitors in the private sector via its Justice for Janitors campaign (Milkman 2006). Over the past 25 years,

historical comparison only because OES data are not available for the years when contracting out began.

⁹ Authors' analysis of 1980 and 1990 Census of Population and Housing Public Use Microdata 5% State Sample and 2012-2014 ACS data.

SEIU has built up significant union membership at large property services firms in California, largely in commercial buildings in major metropolitan areas. Today, union density for private janitorial services in the state is an estimated 24 percent, and for security services 7 percent (Gaitan 2016). SEIU's collective bargaining agreements typically set wages, annual increases and health benefits above levels that prevail in the non-union property services sector. They also include education and training funds to support, for example, ESL and health and safety classes for their workers, and funds to support enforcement of wage standards in the industry. The collectively bargained wages rates vary significantly by geography.

sample sizes for independent contractors to analyze their wages and other job quality measures in this report.

3. Job Quality Outcomes and Worker Demographics

In this section, we analyze job quality outcomes for contracted and non-contracted janitors and security officers in the property services industry, and also give an overview of the workers and their families.

Wages

While employment in janitorial and security industries has grown more rapidly than other sectors of the economy, wage growth has lagged well behind. As shown in Figure 2, inflation-adjusted average earnings in California's private sector industries grew by 128 percent from 1990-2014, but by only 6 percent in the janitorial services industry and by 18 percent in the security services industry. In particular, wages in property services have been stagnant or declining since 2000, reflecting the statewide trend for front-line workers (UC Berkeley Labor Center 2014).

In Table 2, we look the results of this long-term wage stagnation for the current earnings of janitors and security officers, using the US Census' American Community Survey (ACS).¹¹ Private sector workers in both occupations had very low hourly wages and annual earnings in 2014. These low pay levels stand in stark contrast to that of California workers overall, who had median hourly wages of \$18.98 and median annual earnings of \$36,664 in 2014.

However, even at these low pay levels, there are significant differences depending on whether the worker was contracted out or not. Contracted janitors earned

¹¹ For this and all subsequent analyses of the American Community Survey (ACS), we combine ACS 2012, 2013, and 2014 one-year samples. The sample selection is as follows: respondents aged between 18 and 64, who worked in California the previous week and were not self-employed, and who worked at least 13 weeks in the previous year, for at least 3 hours per week on average.

"I think \$16 an hour would be good for the work that we do. In the long term, it wears down your body physically. For this reason, to be better off economically and for the individual's benefit, to compensate for this physical wear and tear... Many people have been working in the buildings for so many years and they don't have the same strength that they had 20 years ago. And they are still in the same job."

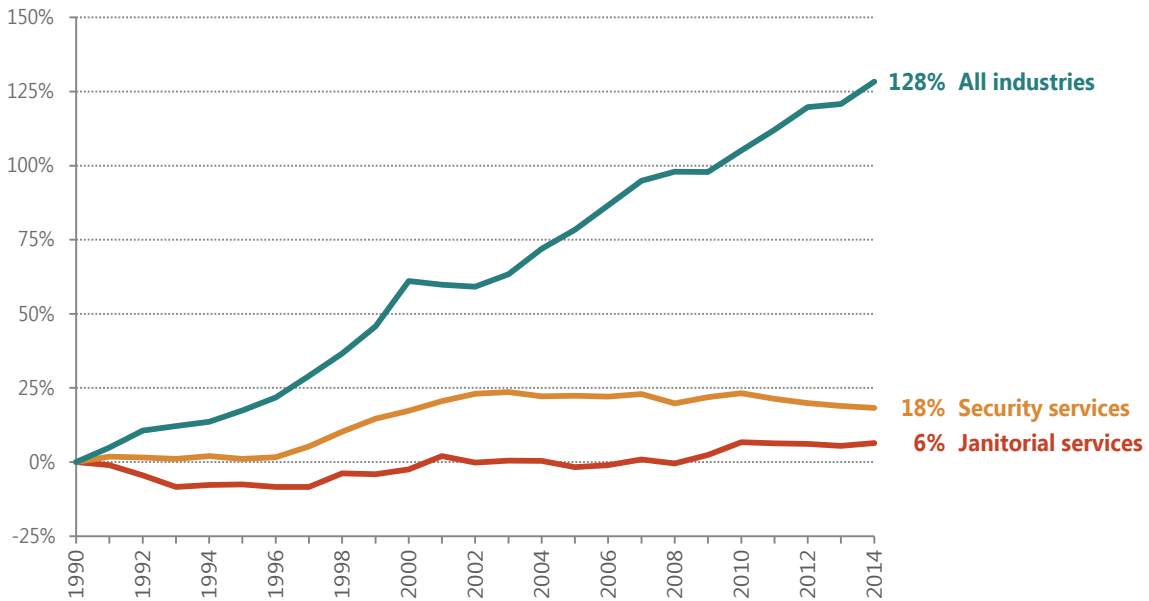
**(Janitor, single mother of two children;
translated from Spanish)**

Independent contractors

The above estimates only include employees, and thus do not count independent contractors. Our analysis of 2012-2014 ACS data, which is a worker survey, found that 12,760 janitors and 722 security officers identified themselves as self-employed in California.¹⁰ Previous studies of the janitorial industry have suggested that the role of self-employed janitors is a significant part of the underground, off-the-books janitorial contracting industry in California (see Section 4 for further discussion of independent contractor misclassification in the industry). However, we do not have sufficient

¹⁰ Workers age 18-64 with positive business income the previous year and currently working; these workers are not included as "contracted out" as that analysis only includes wage and salary workers, not self-employed.

Figure 2. Real wage growth in private sector industries in California (1990-2014; indexed to 1990)



Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics, 1990-2014, California, private employers. Earnings were adjusted for inflation using California CPI-U.

Table 2. Median hourly wages and annual earnings in California (2012-2014; 2014 dollars)

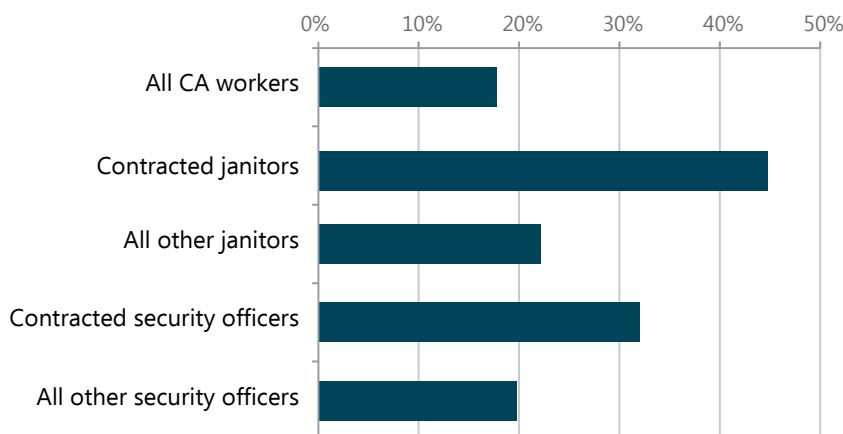
	Janitors		Security officers	
	Hourly wages	Annual earnings	Hourly wages	Annual earnings
All industries	\$12.23	\$22,046	\$12.66	\$24,032
Contracted out	\$10.31	\$18,858	\$11.91	\$22,286
Not contracted out	\$12.85	\$24,202	\$14.48	\$26,121
Not contracted out (private sector)	\$11.75	\$20,897	\$12.96	\$24,202
Not contracted out (public sector)	\$17.54	\$35,295	\$20.43	\$40,749

Source: Authors' analysis of the American Community Survey, US Census. Earnings were adjusted for inflation using California CPI-U.

20 percent less than non-contracted janitors (\$10.31 compared to \$12.85 an hour) and contracted security officers had a similar wage penalty of 18 percent (\$11.91 compared to \$14.48 an hour). The contrast is even stronger when we compare contracted workers to public sector workers. Contracted janitors earned 68 percent less and security officers 72 percent less than their counterparts employed in the public sector.

In short, janitors and security officers in California are subject to a significant wage penalty when working for contractor companies. Our estimates of this penalty match those of Dube and Kaplan (2010), who analyzed national data and found that wages decline once janitorial jobs are outsourced, with contracted workers earning anywhere from 4 percent to 24 percent less per hour.

Figure 3. Percent of workers with no health insurance coverage in California (2012-2014)



Source: Authors' analysis of the American Community Survey, US Census.

We should be clear, however, that not all contracted workers uniformly suffer from this wage penalty. For example, our analysis of ACS data shows that a quarter of contracted janitors earned more than \$13.94 an hour and a quarter of contracted security officers earned more than \$16.33 an hour (all in 2014 dollars). Although we do not have information on union membership in our dataset, one source of this variation is unionization. For example, SEIU's collective bargaining agreement for unionized janitorial services firms in downtown Los Angeles currently sets wage levels that go as high as \$15.25 an hour for workers with seniority. In San Francisco, starting wages for security officers under SEIU's collective bargaining agreement are currently \$14.25 an hour; the starting rate for janitors is \$13.45 an hour.¹² We will return to these variations in contracting outcomes in Section 4.

Benefits

Contracted workers in the property services industry are significantly less likely to have health insurance coverage through their employer than non-contracted workers (Dube and Kaplan 2010). For example, in

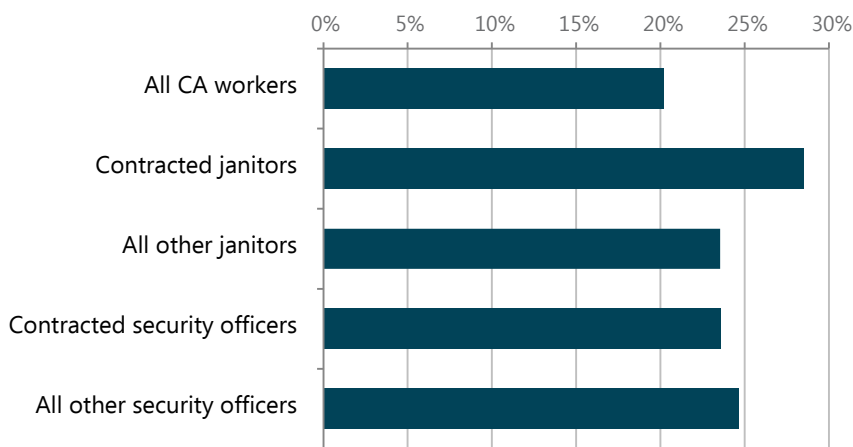
¹² Wage information obtained from interviews with staff at SEIU and from the San Francisco prevailing wage website: <http://www.sfgov.org/olse/prevaling-wage>.

2012-2014 only 35 percent of contracted janitors had health insurance through their employer or union, compared to 62 percent of non-contracted janitors. For security officers, the gap is somewhat smaller but still pronounced: only 49 percent of contracted workers had health insurance through their employer or union, compared to 66 percent for non-contracted workers. Union health benefits are substantial; many full-time workers receive full family coverage after 90 days (full-time is typically defined as working at least 110 hours a month, or 27.5 hours a week).

Contracted workers are somewhat more likely to receive public health insurance coverage (Medi-Cal). In 2012-2014, 19 percent of contracted janitors had public coverage, compared to 15 percent of non-contracted janitors and 8 percent of all California workers. For security officers, the percentages were 16 percent for contracted workers and 12 percent for non-contracted workers.

But the main effect of lack of job-based coverage is that contracted janitors and security officers are substantially more likely to have no health insurance whatsoever. As shown in Figure 3, fully 45 percent of contracted janitors and 32 percent of contracted security officers had no health insurance in 2012-2014—

Figure 4. Percent of workers with part-time jobs in California (2012-2014)



Note: Part-time is defined as working less than 35 hours a week
Source: Authors' analysis of the American Community Survey, US Census.

significantly higher rates than their non-contracted counterparts and for California workers as a whole.¹³

Part-time work

Property services workers are generally more likely to work part time (less than 35 hours a week) than the California workforce as a whole. As shown in Figure 4, for contracted janitors, the rate of part-time work is especially high, at 29 percent. But hours worked is only part of the story. A growing body of research has documented that low-wage workers experience chronic scheduling instability. Unfortunately, data are not available to estimate schedule instability for janitors and security officers. But in a national sample of early career workers in 2011, the large majority of low-wage workers had fluctuations in their work hours (70 percent for full-time workers and 85 percent of part-time workers), and close to half received one

¹³ These estimates come from pooled ACS data for 2012-2014, during which time the Affordable Care Act (ACA) was not yet fully implemented. In particular, the employer mandate was not yet in place. The individual mandate, Medi-Cal expansion, and individual exchanges went into effect in 2014. The high uninsured rates in our findings likely stem from (a) the inclusion of time periods in our sample before full ACA implementation and (b) the portion of the immigrant workforce that is undocumented and therefore not eligible for Medi-Cal.

week or less advanced notice of scheduling changes (Henly, Fugiel and Lambert 2014).

Workplace violations

Janitors and security officers in California experience high rates of employment and labor law violations. A comprehensive 2008 survey of low-wage workers in Los Angeles found that 32 percent of workers in the property services industry experienced a minimum wage violation in the previous week, the third-highest rate among the industries studied (Milkman et al. 2010). By occupation, the minimum wage violation rate was 30 percent for janitors and 20 percent for security officers. Moreover, fully 80 percent of workers in the property services industry were not paid the legally required overtime when they worked more than 40 hours a week—and 79 percent were not paid their full wage rate when they came in early or stayed late (Milkman et al. 2010). While this study was not able to distinguish between contracted and non-contracted workers, two other studies found significantly higher workplace violation rates for contracted janitors compared to their non-contracted counterparts (Bernhardt, Spiller and Theodore 2013; Nissen 2004).

Several notorious legal cases against property services contractors in California have resulted in legal sanctions against both the primary contractor and subcontractor (California Labor Commissioner, 2015). Common violations include: not carrying workers' compensation insurance; failing to pay overtime and minimum wage; and paying in cash. Just since 2014, the California Labor Commission has fined janitorial companies over \$3.25 million for wage theft (California Labor Commissioner 2015; Greene 2015; PR Newswire 2014; State of California Department of Industrial Relations 2014).

The prevalence of such violations by property service contractors happens for many reasons. As we will discuss in detail in Section 4, the janitorial services industry is based on a business model of illegal classification of workers as independent contractors and complex layers of contracting that facilitate illegal pay practices. As a result, workers may not know who their actual employer is, leaving them with little recourse if their rights are violated. In a series of interviews with janitors in Southern California, one study found that none could name their employer (Milkman 2006). In addition, the large proportion of immigrant workers (see Figure 5B below) reduces the likelihood that workers will feel comfortable filing complaints (Human Rights Watch 2012).

It may also be more difficult for agencies to investigate wage and hour violations because workers are dispersed at many different client sites (Weil 2014). Complicated subcontracting structures may make it more difficult for workers and law enforcement agencies to challenge an employer who violates wage and hour laws. Even when complaints are filed, the state enforcement agency can have difficulty identifying the actual employer, or pursuing remedies against contracting companies that dissolve and reform under new names (National Employment Law Project 2014).

Workplace hazards in the security industry

Federal government statistics indicate that being a security officer is a dangerous occupation. Data from the Bureau of Labor Statistics (BLS) and the Bureau of Justice Statistics concerning fatal occupational injuries and workplace violence illustrate the risks. In 2014, the BLS listed security guards as among the top occupations with fatal occupational injuries outside the construction and extraction sector (Bureau of Labor Statistics, 2014).

The US Department of Justice's Bureau of Justice Statistics released a report in March 2011 on workplace violence for the years 2005 through 2009. They found that "among the individual occupations examined, no occupation had workplace violence rates higher than those for law enforcement officers, security guards, and bartenders" (Bureau of Justice Statistics, 2011, p. 4).

Marlene* worked as a janitor for three years for a contractor cleaning cinemas. She was misclassified as an independent contractor and received a 1099; she was paid \$700 every two weeks to work seven days a week, often more than eight hours a day. She worked as a team in each cinema along with her partner, who earned the same amount. They weren't allowed to take off any days of work and had to work if they were sick. When her son died, she had to pay someone out of her own pocket to cover for her.

As her supervisors changed, her salary went down, first to \$600, then to \$450 every two weeks. When she was earning \$700 things were tight, but when her salary went down to \$450 every two weeks, she was not able to pay her rent for one year. Luckily her landlord allowed her to stay in her apartment even without paying rent. When she won a lawsuit against her employer, she used the money to pay her year's worth of back rent.

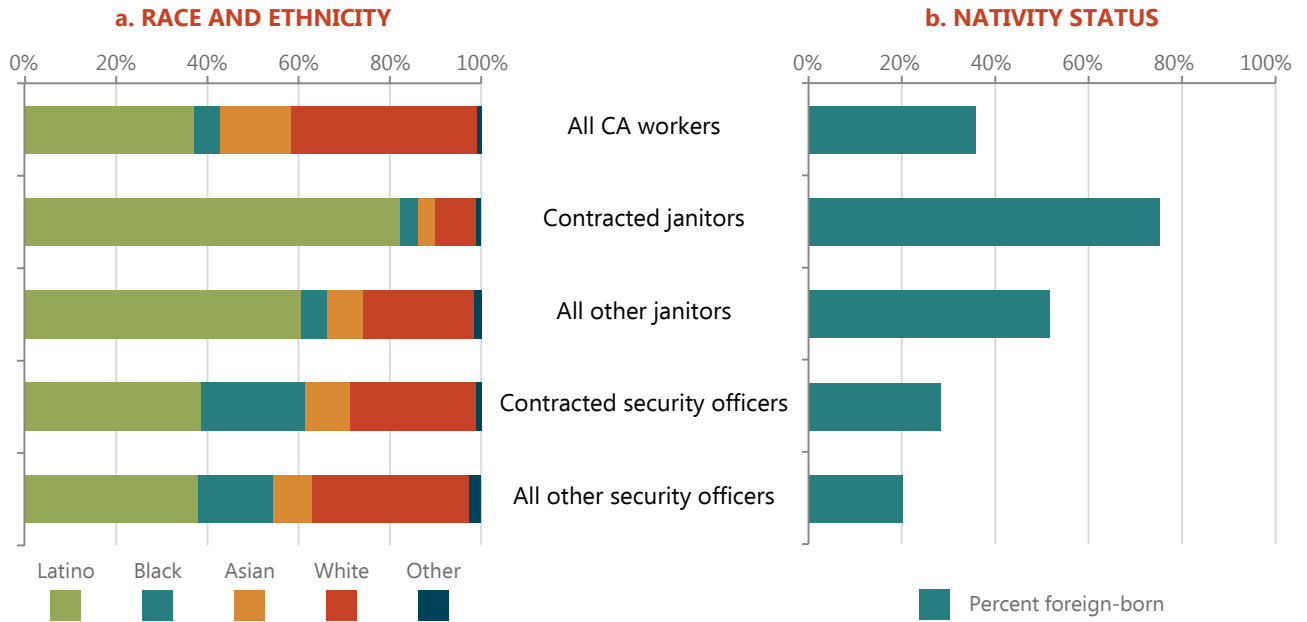
"[We worked] from Monday to Thursday eight hours a day. The other days we didn't leave until 10pm. They never paid us overtime... We didn't have a single day off. There were holidays, but we had to work them all. And all day long. On holidays, I always got off work late."

***Translated from Spanish; name has been changed**

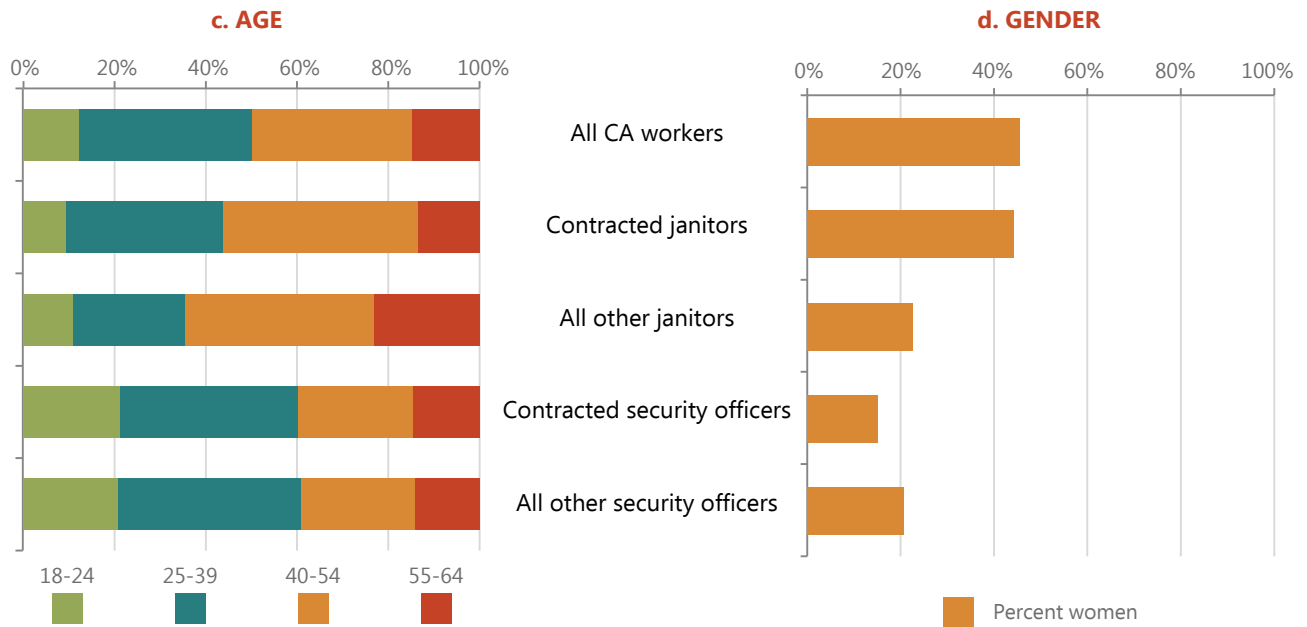
Worker demographics

Figure 5 provides a brief profile of the property services workforce in California. While property service jobs, like many low-wage service sectors, are disproportionately held by workers of color, janitors and security officers reflect quite different racial and gender dynamics. Janitors are predominantly Latino; 82 percent of contracted janitors and 41 percent of non-contracted janitors are Latino, compared to 37 percent of the California workforce. The majority of contracted janitors are immigrants; 75 percent are foreign born, compared to just over half of non-contracted janitors and 37 percent of California workers. Security officers (who often need fluent English skills) are less likely to be immigrants, but more likely to be African-American. Black workers are 23 percent of contracted security officers, but make up only 6 percent of all California workers and 17 percent of non-contracted officers. Janitors are older than the California workforce as a whole, especially contracted janitors, with a larger percentage age 40 and over; security officers are somewhat younger, with a larger

Figure 5. Worker demographics in California (2012-2014)



Note: "Latino" includes respondents of any race.



Source: Authors' analysis of the American Community Survey, US Census.

Table 3. Median household income in California (2012-2014; 2014 dollars)

	Median household income
Contracted janitors	\$39,570
Non-contracted janitors	\$50,625
Contracted security officers	\$41,120
Non-contracted security officers	\$53,463
All California workers	\$78,521

Source: Authors' analysis of the American Community Survey, US Census. Earnings were adjusted for inflation using California CPI-U.

percentage age 18-24. Women are generally underrepresented in the property services industry; that said, 45 percent of contracted janitors are women, nearly twice the proportion of non-contracted janitors.

Family characteristics

Given the low pay rates documented in Section 2, it should not come as a surprise that the household income of property services workers is quite low compared to California households overall. In fact, Table 3 shows that the median household income of contracted janitors (\$39,570) and security officers (\$41,120) was about half the state-wide median (\$78,521) in 2014.

By any measure, the federal poverty level is an inadequate reflection of the economic condition of U.S. families (Pearce 2014). Particularly in California, where housing costs exceed national averages, 200 percent of the federal poverty level is often considered a reference point for identifying “near poor” or poor families. By that measure, Figure 6 shows that 53 percent of contracted janitors and 36 percent of contracted security officers live in families that are facing economic distress. This compares with 23 percent of California workers.

“If you have family, it can be tough, you know. Because, like I said, I did a lot of overtime when I was raising my family. I was always working, you know, average 12 hours a day.”

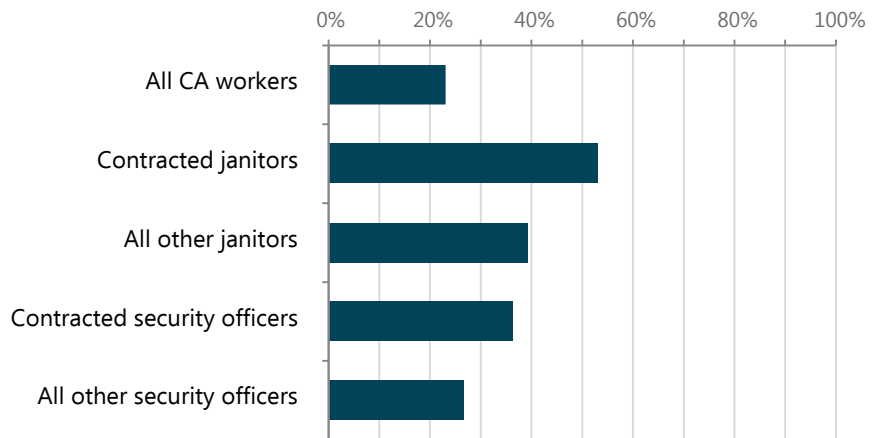
(Security officer earning \$13.45 an hour after 22 years)



“I feel sorry for the people I work with. I have retirement so I’m not raising a family on this salary. But for people who I know are, this is a hardship. They start off earning \$10.50 an hour as a regular security guard.”

(Security officer earning \$13.25 an hour in the private sector after working for 26 years in the public sector)

Figure 6. Percent of workers’ families with incomes below 200% of the federal poverty level in California (2012-2014)



Source: Authors' analysis of the American Community Survey, US Census.

Sexual harassment and sexual assault in the property services industry

by Helen Chen, Alejandra Domenzain, and Karen Andrews; Labor Occupational Health Program (LOHP) at the University of California, Berkeley

A subcontracting system that awards contracts to the lowest bidder, the practice of operating “underground” or off the books, and minimal profit margins all serve to keep wages low and hazards unchecked throughout the property services industry. This industry dysfunction can also manifest itself in the form of sexual harassment and assault of janitors and security officers, often by their own supervisors. A recent Frontline documentary, “Rape on the Night Shift” (Frontline et al. 2015), has brought national attention to conditions that workers have long endured in silence.

Sexual harassment can take the form of “unwanted sexual advances, or visual, verbal or physical conduct of a sexual nature” (DFEH 2010; US EEOC 2016). In the workplace, the harasser can be a supervisor, co-worker, client, or customer (US EEOC 2016). The targets are usually women but sometimes men. Sexual harassment can impact the long-term earning capacity of survivors and force survivors to shoulder medical and legal costs (Farrell, Reisch, Sheth, Emerson & Munro 2014). The strain on a survivor’s mental health can result in substance abuse, depression, physical symptoms such as weight loss and inability to sleep, post-traumatic stress disorder, and even suicidal behavior (Gutek & Koss 1993). Survivors of sexual assault may suffer from physical injuries, sexually transmitted diseases, and unwanted pregnancies (Miller, Taylor & Sheppard 2007; Yang, Zhang, Miller & LeHew 2009).

Risk Factors for Property Service Workers

Certain factors increase the risk that janitors or security officers may be sexually harassed or assaulted.

Working in isolation at night

Most janitors and security officers work alone in empty buildings at night. This isolation is a major risk factor for sexual harassment and assault. In a Washington state study, 85 percent of the 63 workers who were raped in the workplace were working alone (Alexander, Franklin & Wolf 1994). Employers in the property services industry typically service a large number of worksites. As a result, janitors and security officers generally do not have day-to-day contact with anyone representing the employer, other than the supervisor who may be harassing them. Being isolated from co-workers and the public reduces the likelihood that anyone will intervene or serve as witnesses and allows supervisors to exert greater control over workers.

“All the women have to go through his hands”*

Erika worked as a janitor for eight years. She didn’t think she could find better work because she is undocumented. She supports her parents and five children on her own.

One of her recent supervisors, Raul, said he would fire Erika if she didn’t have sex with him. Raul threatened her, “I know where you live, who takes care of your kids, and what time you pick them up.” The harassment and threats went on for a year.

Erika saw Raul sexually harassing her female co-workers daily. One co-worker told Erika, in tears, that she had to “be with Raul” in the middle of the night to keep her job. Another co-worker was so distraught that Raul kept grabbing her behind, following her, and threatening her family that one day, she quit her job, sobbing, without even taking her check.

Erika and her co-worker, Laura, summoned the courage to approach the manager, who came to the worksite infrequently. The women pleaded with him, “Please, please help us. We need to work, but we were suffering.” The manager responded that he had to investigate. The investigation resulted in Laura being retaliated against; they cut her work schedule from five days to two days.

Carlos, a male co-worker, approached the manager and said, “All the women have to go through (Raul’s) hands. It’s not right. Everyone leaves because of Raul.” The manager had a big argument with Carlos and, the next day, all four tires of Carlos’ car were slashed. The workers saw this as a clear threat meant to scare and silence them. A different male co-worker told Erika, “I wish I could be more of a man to defend you, but I have to support my family in Guatemala.”

Erika left and found another job as a janitor, but three days into it, her new supervisor said, “If you go with me to a hotel, you can earn in one day what you normally earn in one week.” Erika never told her family about these incidents because she felt ashamed. Erika laments, “They take honest people who are doing the hardest work and deport them, but these criminals get the right to hurt women and get rich. I will never work as a janitor again.”

Characteristics of the workers most at risk

Being female, Latina, immigrant, and undocumented can make it less likely that workers will report harassment due to the fear of retaliation or lack of familiarity with their rights or resources available to them (Human Rights Watch 2012). Latinas may be less likely to report sexual assault than women of other ethnicities (Arellano, Kuhn & Chavez 1997; Romero, Wyatt, Loeb, Carmona & Solis 1999). In a recent survey, only 6.6 percent of Latinas who had been sexually victimized reported it to the police (Cuevas & Sabina 2010). Workers who are undocumented are even less likely to come forward (Ammar, Orloff, Dutton & Aguilar-Hass 2005; Zadnik, Sabina & Cuevas 2016). The top concern of many Latina workers is “keeping their jobs, even at the expense of their health or accepting unfair treatment at work” (Eggerth, DeLaney, Flynn & Jacobson 2012). The threat of retaliation keeps workers from reporting and increases the harassers’ confidence that they will not be caught (Montgomery 2016).

Lilia Garcia-Brower from the Maintenance Cooperation Trust Fund (MCTF), a California multi-stakeholder industry watchdog group that works with janitors, observes:

“In the janitorial industry, it’s the perfect storm of conditions that come together: extreme vulnerability of a female workforce, a chain of command that’s traditionally male, and a workplace where workers are isolated and alone. It’s set up for abuse to happen.” (Garcia 2016)

Layers of contracting and subcontracting

With each layer of subcontracting in the industry, there is less accountability and there are fewer financial resources available to prevent and correct harassment, observes Julie Montgomery, Senior Staff Counsel with the California Department of Fair Employment and Housing (DFEH) (Montgomery 2016). Jennifer Reisch of Equal Rights Advocates, a civil rights organization, adds, “Subcontracting creates a situation where the people at the top deliberately put themselves at arms’ length and do not know what is happening to the isolated crews in the workplace” (Reisch 2016).

Workplace Culture

Few employers in the low-wage economy are equipped to prevent or stop harassment. Sexual harassment policies are not in place (Montgomery 2016) or are inadequate or unenforced. Workers may not know to whom they can report harassment, even if they know harassment is illegal. Supervisors are often not trained on how to respond and end up doing nothing (Human Rights Watch 2012; W. Tamayo 2016). Other employers dismiss claims as problems that should be handled by the criminal justice system (Frontline et al. 2015). Even worse, workers are frequently retaliated against after reporting harassment (Farrell et al. 2014; W. R. Tamayo 2013)—almost half of women who complain of sexual harassment are retaliated against in some way (Bravo 2007).

“The supervisor was on his side”*

Ana worked as a janitor for eight years. She came to the United States twelve years ago from Mexico.

When she was 43, she worked as a janitor in a large electronics company. Another worker, Jim, a 28-year old American man, regularly made inappropriate, sexually-charged comments about her looks. For two years, the supervisor, who was friends with Jim, had been saying, “You’re both single, give Jim a chance. When are you going to go out with him?”

To Ana, it felt like “(the supervisor) was on his side.” Ana told her supervisor she was not interested in Jim and told him to “stop pushing it.” The supervisor laughed it off, even though Ana insisted, “It’s not funny, it’s serious.”

Ana had to exchange phone numbers with Jim for work, and soon after Jim started texting her. One day, Jim wrote: “You want to try white di**?”

Ana told Jim to stop texting her, but a couple of weeks later, Jim sent a sexually explicit message with vivid details about what he wanted to do with Ana, including grabbing her hair and engaging in oral sex. Ana was deeply disturbed. Again, she asked Jim to stop.

Ana’s co-worker saw how upset she was and convinced Ana to show the message to her supervisor. At first, the supervisor joked about the message and asked, “So did you do it?” However, when he read the whole text and saw how upset Ana was, the supervisor showed it to the General Manager, who fired Jim without telling him why. Jim, undeterred, continued to text Ana.

For a long time, Ana was afraid Jim would be outside waiting for her. “He had my phone number and knew where I worked.” Ana had trouble sleeping. She felt humiliated. “Everyone at work knew... that was so hard for me,” she recalls. “I didn’t know harassment through texts counted. I thought the man had to touch you, so I did what the company wanted, which was to treat it like it wasn’t a big deal.”

** These stories were told by janitors to LOHP in February 2016. They were translated and edited for clarity and brevity by LOHP. All names have been changed for privacy reasons.*

Employer investigations may not be balanced. It can be easy for employers to dismiss reports of sexual harassment as merely a personal problem between two people. Reisch explains, “Sexual harassment is an extension of the structure of exploitation. It is not about sexual desire—it about power and control” (Reisch 2016). As William Tamayo, District Director of the EEOC’s San Francisco District Office, puts it: “The issue of sexual harassment brings up all the prejudices people have (about sex,” making it much more difficult for employers to believe a worker when she reports sexual harassment than when she reports other types of workplace violence (W. Tamayo 2016). To the worker, it may feel as if she is on trial and that the harasser is being defended as if he were wronged (Garcia 2016). Information that should be kept confidential is leaked to others and the worker may feel pressure from peers to drop the complaint (Garcia 2016). Employers may require a higher standard of proof than necessary (Reisch 2016; Stockdale 1996). Investigations conducted in this way are unlikely to find wrongdoing on the part of the harasser. Workers, sensing a culture of impunity, are unlikely to come forward to report further or new harassment, and the cycle continues.

Underreporting

The frequency with which janitors and security officers in California are sexually harassed or assaulted at work is not well documented. Those familiar with the industry state that stories of harassment, often by supervisors, are very common. Garcia-Brower from MCTF states that, in her experience, as many as three-quarters of janitors experience sexual harassment (Garcia 2016). Several high-profile sexual

harassment cases brought by female janitors and security officers in California have been won or settled in the workers’ favor in recent years (EEOC 2010; Walsh 2008a, 2008b; Walter 2012) and have helped expose an endemic problem that is largely invisible to outsiders.

As many as 35 to 50 percent of women are sexually harassed at some point in their working life (Bravo 2007; Gutek & Done 2001). The risk of sexual harassment is even higher for women working in male-dominated sectors including the security industry (Gutek & Done 2001; LaFontaine & Tredeau 1986). Under-reporting is significant for a variety of reasons including shame, despair, lack of support, a sense of powerlessness, fear of not being believed, distrust of government agencies, and a lack of awareness about rights and resources available to survivors (Bravo & Cassidy 1999). Some studies have estimated that there are 5,000 to 17,000 sexual assaults in the workplace each year (Duhart 2001; Frontline et al. 2015). Only a fraction of workers file sexual harassment claims against their employer. In California, only 4,312 sexual harassment complaints were filed with the California DFEH (DFEH, 2015).

In other low-wage industries, patterns of harassment are now becoming more public. In the agricultural industry, sexual harassment and assault of Latina farmworkers by supervisors, foremen, or others in positions of power are almost commonplace and can span months or even years (Frontline et al. 2013; Human Rights Watch 2012). In a nationwide survey of 4,300 restaurant workers, more than one in ten workers revealed that they or a co-worker experienced sexual harassment at work, often by a manager (Restaurant Opportunities Centers United 2011, 2012).

Obstacles in the legal system

Workers can file a sexual harassment charge or claim against their employer with the U.S. EEOC, California DFEH, or both. There are many challenges associated with this process including: a relatively short deadline for filing a charge; a requirement that the employer have 15 or more employees for federal cases (thereby excluding many janitorial companies); limited agency resources; protracted investigations; a narrow definition of “supervisor” that limits employer liability (Farrell et al. 2014; Graves, Watson, Robbins, Khouiri & Frohlich 2014); and extremely low caps on damages for federal cases (42 U.S.C. §1981 A(b)(3), 1991).

Criminal charges against harassers are rare. When a Latina janitor in Minneapolis was raped and went immediately back to work, injured and bleeding, the local prosecutor chose not to prosecute because the evidence came down to “her word (against) his word” and, without photos, semen, or witnesses, he felt there was not sufficient evidence to prove guilt beyond a reasonable doubt (Frontline et al. 2015).

With so few consequences for harassers or their employers, there is no incentive to prevent or stop the harassment. Anna Park, regional attorney with the EEOC, states: “We have seen this time and time again, where there are certain complaints received by certain segments of their workforce (that) just (don’t) matter. It’s not that important. It is a cost of doing business” (Frontline et al. 2015).

All of these risk factors converge to set the stage for sexual harassment to occur and to remain unchecked. ■

4. Understanding the Race to the Bottom in the Property Services Industry

Given the job quality outcomes just documented, we now draw on industry research and interviews with experts to provide a deeper analysis of the competitive dynamics that generate a race to the bottom on labor costs in the property services industry.

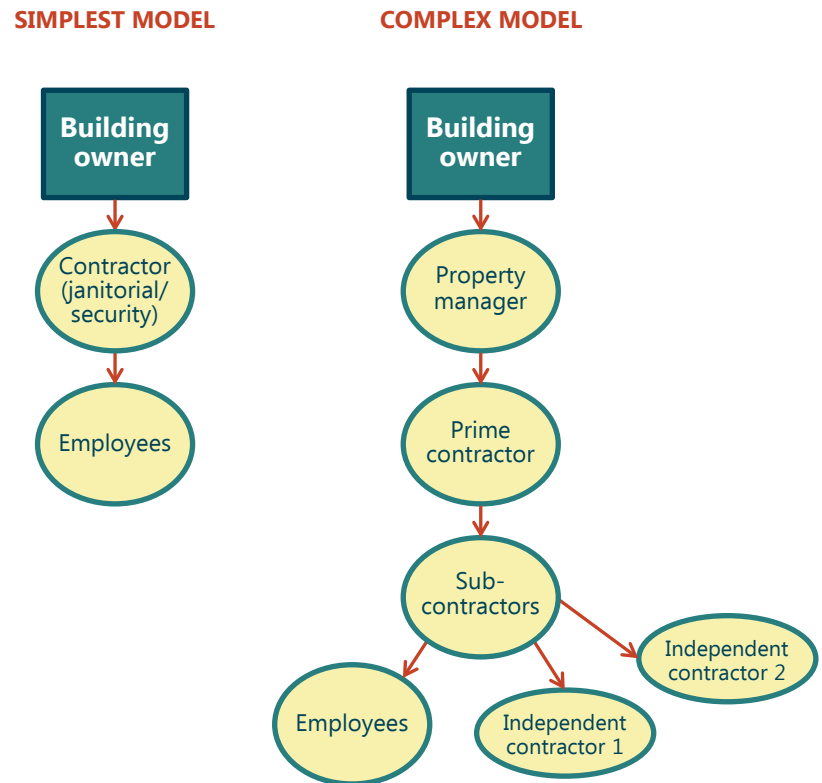
How contracting works

As shown in Figure 7, janitors and security officers work either directly for a building owner or primary tenant (i.e., schools, hospitals, warehouses, retail stores, building management companies), or they work for a company whose primary business is providing janitorial or security services to building owners. We call these companies “contractors” and the building owners who hire them as “clients.”

In the simplest contracting structure, a building owner (or a property manager hired by the building owner) hires a primary contractor to perform a prescribed set of services. The contract covers a scope of work that is negotiated during a bidding process. There are variations in how that scope is defined: some contracts are performance-based, requiring that the work be performed to a defined level, others detail how the work is to be done (for example, the number of square feet to be cleaned per hour, equipment to be used, number of patrols, etc.) (Sewell 2016). The contractor will outline labor, capital, and overhead costs, and will set wages and hours given the scope of the contract.

For both janitorial and security contractors, wages make up more than half of all costs (Morea 2015a, 2015b). With limited ability to manage capital costs (equipment and cleaning products), wages and other employment costs therefore become the primary

Figure 7. Subcontracting structures in property services



component of contractors’ expenditures.¹⁴ During periods of economic constraint, clients often ask contractors to reduce costs by restructuring or reducing the scope of services provided, resulting in fewer work hours or jobs, as well as heavier workloads.

In some cases, there may be multiple layers of contracting, which further separates janitors and security officers from the ultimate consumer of their services and increases the pressure to reduce labor costs. The Maintenance Cooperation Trust Fund (MCTF)—California’s multi-stakeholder industry watchdog group—has documented this dynamic since 1999. For example, MCTF’s investigations of janitorial contracting in the retail industry found that subcontractors were more likely to violate employment and labor laws, while the prime contractors disclaimed respon-

¹⁴ Companies providing security services must obtain licensing, but there are few significant capital costs.

sibility; the client companies had no official relationship with the subcontractor, allowing them to disavow responsibility for the conditions under which work was being performed in their own buildings (Greene 2015).

MCTF has also found cases in which subcontractors were not really independent contractors, but small companies whose only business was serving a single contract for a primary contractor. Such subcontractors—whose income is entirely from one source, and who are dictated terms rather than negotiating or bidding with the primary contractor—should be properly defined and treated as employees of the primary contractor (Department for Professional Employees 2014; Garcia 2015).

Illegal labor practices are also facilitated by the “fly by night” nature of janitorial subcontracting that has been documented by MCTF (California Labor Commissioner 2015; PR Newswire 2014; State of California Department of Industrial Relations 2014). When companies are fined for wage theft and other illegal practices, they often dissolve and reemerge under different names; MCTF identified multiple contractors who remerged as the heads of new companies while tax liens were outstanding for the original company (Kirkham 2015).

These multiple layers of contracting offer a partial explanation for the lower wages and inferior conditions in contracted sectors of the economy. Multiple subcontracts further distance the entity that pays workers from the client who has control over the work and the total amount of money being paid to do it. In some industries, researchers have found that a mix of contracting practices may be present at the same site, so that workers working side by side work for different employers (Dietz 2012).

Finally, janitorial companies (though not security services) are increasingly using franchising as a model; IBISWorld estimates 10.5 percent of janitorial service companies are franchises nationally (Morea 2015b). While still a small share of the industry, the growth of janitorial franchising is troubling, as franchises are associated with a higher rate of workplace violations (Ji & Weil 2015; Weil 2011). In addition, there is some

evidence that franchise structures may be improperly used to classify employees as franchisees or independent contractors. Coverall, a janitorial company based in Florida, was forced to pay \$3 million in Massachusetts in damages to franchise owners, when the court determined that the franchisees were actually employees (Forbes 2012).

Why building owners outsource

Cutting costs by outsourcing services that are not directly related to a firm’s main line of business has been a dominant trend in the U.S. economy since the 1970s (Abraham & Taylor 1996; Wall 2005). Building owners in particular outsource property services for two main reasons. Not surprisingly, one main motivation is to reduce the overall costs of doing business. A KPMG survey of firms reported that reducing costs was the number one reason firms outsourced real estate and facilities services (KPMG 2015). The second motivation is to benefit from using specialized contract firms and workers to perform specialized functions, allowing companies to focus on core competencies (Bisswurm 2002). Building owners may prefer to outsource the expertise of training and equipping property service workers, particularly following advances in technology and building requirements.

While both motivations are likely at play, several studies suggest that the search to reduce costs is often dominant for relatively less-skilled services (Dube & Kaplan 2010; Reich, Hall & Jacobs 2003). The International Facility Management Association (IFMA)—a business association of facility managers—estimates that outsourcing cleaning services reduces costs by 23 percent (Silitshena 2015). We identify several sources of cost savings common to property services:

- **Lower wages:** Pay ranges at property service contractors tend to be narrow, and unlike building owners, contractors do not face pressure to minimize the gap in wages between janitors/security officers and more highly-paid employees (Berlinski 2008; Weil 2014). As we saw in Section 3, the result is that contracted workers earn less per hour than non-contracted workers.

- **Lower benefit costs:** Companies may outsource in order to avoid offering benefits they offer to their own employees (Weil 2014). If contractors are less likely to offer benefits, this cost savings is passed on to the clients. As we saw in Section 3, contracted janitors and security officers were both less likely than non-contracted workers to have employer/union health coverage in 2012-2014 (before full implementation of the Affordable Healthcare Act).¹⁵
- **Illegal labor practices:** As we discussed in Section 3, outsourced janitorial and security work may also cost less simply because contractors engage in illegal labor practices. Studies have documented the relationship between outsourced property services work and a host of workplace violations (Bernhardt, McGrath & DeFilippis 2007). In addition to wage theft (minimum wage and overtime violations), contractors may cut overhead costs through such illegal practices as not paying unemployment insurance, workers' compensation, and payroll taxes, often accomplished by illegally classifying workers as independent contractors or paying them off the books (Collings 2012; Garcia 2015).
- **Lower overhead costs:** There are also non-wage cost savings associated with outsourcing property services. Building owners can externalize costs such as security licensing, training, and equipment purchasing; contractors may face economies of scale in such expenses, leading to an overall cost savings that they pass on to the client. Contractors may also be able to distribute workers across several worksites, increasing work hours and deskilling the jobs of individual workers. Contractors facing price pressure further reduce their expenses by cutting corners on human resources, training, safety procedures and other overhead costs (Garcia 2015).

¹⁵ Because the ACA exempts employers with fewer than 50 employees, it may actually increase the incentive to use multiple smaller subcontractors at a site.

Property service contractors

There is significant variety in the types of companies that provide contract property services. Among the largest janitorial employers in California are ABM, a national company, Able Services, SBM Management, and GCA Services Group. The largest security contractors in California are also the largest national firms: Securitas (an international public company based in Sweden), G4S PLC, and AlliedBarton Security Services LLC (Morea 2015a). Universal Protection Service (UPS), the largest U.S.-owned security officer company, is headquartered in California.¹⁶

Security contractors are significantly more consolidated than janitorial contractors; the average firm size in California is 70.5 employees in security services and 18.6 employees in janitorial.¹⁷ According to the Economic Census, nationally the four largest firms in the security services industry had a 33 percent market share in 2002; for janitorial firms, the figure was only 11 percent (Census Bureau, 2005).

The largest janitorial employers provide a comprehensive array of property services: for example, ABM bills itself as providing “integrated facility solutions,” including janitorial, landscaping, electrical and energy solutions, and HVAC & mechanical.¹⁸ Janitorial services are the most labor-intensive of these services, and require the lowest level of specialized skill and capital equipment. Security contractors typically offer a limited range of services; for example, Securitas America offers both on-site (posted guards) and mobile guarding (security patrols), in addition to a range of less labor-intensive technology services (remote guarding, electronic security, fire, and safety).

¹⁶ State of California Employment Development Department, employer database by industry. <http://www.labor-marketinfo.edd.ca.gov/aspdotnet/databrowsing/empMain.aspx?menuChoice=emp>

¹⁷ Quarterly Census of Employment and Wages, Bureau of Labor Statistics, May 2014. <http://www.bls.gov/cew/data.htm>

¹⁸ <http://www.abm.com/pages/facility-management-services.aspx>

There is generally little overlap in the services provided by security versus janitorial contractors, although some contractors (such as ABM) are beginning to frame themselves as providing the full spectrum of property services, from cleaning to security, and UPS acquired a division (Universal Building Maintenance) that provides janitorial services. Some of the largest property services contractors are publicly-traded (such as ABM and Aramark), and some are global in scope (Securitas, G4S).

Property service clients

Clients of property service contractors come from the full range of industry sectors (real estate, residential, schools, healthcare, government, transportation, and hospitality), but the three primary sectors are commercial real estate, single-tenant buildings, and retail.

- **Commercial real estate:** Multi-tenant buildings, particularly office buildings in large metro areas, constitute the core client sector for many property service companies. Such buildings are often managed by a property management company, which in turn hires different contract service companies. This industry has changed significantly over the years, from individual, local building owners to one dominated by real estate investment trusts (REITs) or other structures of shareholder ownership, increasing the pricing pressure placed on building managers and contractors (Dotts 2016). As the economy continues to recover in many metro markets, commercial real estate vacancy rates have been declining, driving rising rental rates (CBRE 2016; Morea 2015b). The profit margins on commercial real estate are estimated at 13.4 percent in 2016 (Rivera 2016). Using industry estimates of cleaning costs and rental revenues, we calculate that janitorial costs represent less than 1 percent of rental income, or about \$.01 per square foot of commercial space.¹⁹

¹⁹ This calculation is based on a \$12 hourly wage with ACA required insurance, and industry information from IFMA and CBRE (2016).

- **Single-tenant buildings:** Corporate headquarters, high-tech buildings, industrial, and manufacturing facilities constitute the second-largest area of outsourced property services work. Many high-tech clients (e.g., Apple and Genentech) have agreed to pay high wages (maximum wages of \$14.94 and \$17.40 respectively) to janitors cleaning their buildings, reflecting the high profit margins for such clients and the well-publicized organizing campaigns by SEIU in Silicon Valley, the Bay Area, and Southern California.
- **Retail:** The retail sector—grocery stores, big box retailers, and department stores—represents a significant user of contract property services, but its relationship to contractors has been shaped by the slim profit margins of most segments of the retail industry (see, e.g., Hurley 2016). Contractors serving the retail sector have been a repeated target of fines by the California Labor Commissioner, and MCTF has found the sector to be rife with illegal labor practices and subcontracting (Garcia 2015; Greene 2015).

“My work isn’t important for the company to make money so I am not important to the company either. They want [the office] to be clean but they don’t care about anything except making sure the senior executives are happy.”

Janitor, translated from Spanish

Janitorial contractors tend to segment the client market: large contractors target larger contracts that require complex services and large numbers of workers on site, while smaller contractors are more likely to bid on work in buildings with fewer square feet (Sewell 2016). Economies of scale and specialized services are typically found in providing cleaning services to high-technology or manufacturing facilities, health facilities, and high-end commercial real estate. Smaller contractors are more likely to be found providing services to smaller commercial buildings and retail stores. Despite this market segmentation, the low barriers to entry and ongoing pressure by

building owners to reduce costs means that there is significant overlap in the competition for contracts across the client spectrum (Dotts 2016). Depending on the structure of the building's ownership, pressure to reduce costs can come from tenants or shareholders. The increasingly dispersed ownership of commercial real estate means that building managers are responsive not to local owners but to real estate trusts, investment firms, or other absentee owners (Gotham 2006).

The race to the bottom: low-road versus high-road

Our findings support the hypothesis that contracted workers earn less than non-contracted workers. Both conventional and more complex (and legally questionable) forms of contracting out in property services contribute to the low wages and poor work outcomes for janitors and security officers. As in many labor-intensive industries, competition among contractors in property services is stiff. This intense competition results in part from the very low barriers to entry and low capital costs for both janitorial and security services, reflected in relatively high levels of “churn” in both industries: In 2013, security services experienced 46 percent and building services 41 percent annual turnover, compared to 34 percent for all industries.²⁰ Low barriers to entry mean that the number of establishments has grown faster than total industry revenue, driven by sole proprietors and small-business owners (Morea 2015b). Contractors face very slim profit margins: IBISWorld estimates that 2015 industry profit margins were 5.5 percent for the janitorial services industry and 4.3 percent for the security services industry (Morea 2015a, 2015b).

However, there is variation in the practices used by property service contractors. Outsourcing of janitorial and security services has been widespread for decades,

²⁰ Quarterly Workforce Indicators (QWI) data on turnovers (TurnOvrS) for NAICS 5616 and 5617 retrieved from <http://qwexplorer.ces.census.gov/#x=0&g=0>. QWI tracks churn over a quarter; workers who enter and leave the industry during the same quarter are not reflected in QWI data.

and highly specialized and responsible contracting practices do exist in the industry. In particular, union representation has been strong in metropolitan areas and in certain client sectors (high-end commercial real estate and large single tenant buildings); as we documented in Section 3, the collective bargaining agreements have set wages and benefits above the non-unionized sector. SEIU has been successful in improving wages and benefits for janitors and security officers in certain markets by setting a regional standard through agreements with building owners that take wages out of competition for property service contractors within those markets (Erickson, Fisk, Milkman, Mitchell & Wong 2002). These high-road contractors face significant wage pressure outside those areas and client sectors where union density is highest.

That said, on balance the property services industry is currently being shaped by a highly competitive race to the bottom that on average yields lower wages and inferior working conditions. Building owners may initially outsource property services primarily to focus on core business and benefit from specialized services.

“When it comes to competing with non-union companies, ACA helped level the playing field. Along with the three-day sick leave requirement, and minimum wage laws, these require non-union contractors to pay comparable costs. We didn’t get a lot of pushback from clients when ACA and sick leave came into play, clients understood and had some expectation around the increased costs. These very public changes make the market recognize these are costs they have to absorb.”

Laurie Sewell, President and CEO of Servicon (Sewell, 2016)

But in practice, outsourcing in an open market with insufficient resources for workplace enforcement sets off a downward spiral as contractors compete for business by constantly reducing labor costs. Clients see only the benefits from that competition, not the mechanisms by which costs are reduced. This ignorance—along with practices such as “reverse auction” bidding, in which clients name a contract price and contractors compete for the lowest bid—can drive

“Our working conditions are worse with respect to the workload... Even though they might increase [the hourly wage] a little bit, they look for ways to cut your time, your hours. That’s where they give more work to people in the building. For example in my case, we are three people. If they cut two hours for whatever reason, we have to split up this work between those of us who are working in the building. We work the same number of hours, but they are giving us more work. Because now they don’t have the same number of people working in the building. When I started I cleaned two and a half floors in each building. Now I clean three or four per building. It’s like they are saving one person. But the complaints get worse because we aren’t doing the same work. We can’t maintain the buildings like they want us to because of the amount of work. We can’t give the same amount of attention as before.”

(Janitor, single mother of two children; translated from Spanish)

“The company comes and says, you know what... we are going to cut your hours. We are only going to give you five hours now [instead of eight]. But they leave you with the same amount of work.... Imagine the pace you have to work at because they cut your hours.... You are more exposed to fatigue, injuries, stress... We need a certain number of hours to get health insurance so they cut hours so they don’t have to pay for it.”

(Janitor, translated from Spanish)

contractors to engage in illegal labor practices (Collings 2012). The MCTF has identified unscrupulous contractors who violate employment and labor laws as one of the key dynamics that makes it difficult for responsible contractors to survive in this environment (Garcia 2015).

5. The Costs of Low-Road Subcontracting

While contracting out may be profitable for client firms, the societal costs are substantial. Most importantly, contracted workers and their families face chronic economic insecurity and instability as well as long-term effects on health outcomes and children’s educational attainment (National Women’s Law Center 2016). There are also broader effects. For example, low-wage workers and their families are often forced to rely on public assistance in order to make ends meet. In Table 4, we estimate that 48 percent of janitors and security officers in California have at least one family member (including the worker) who

receives support from at least one of four public assistance programs: Medi-Cal, the Earned Income Tax Credit (EITC), the Supplemental Nutrition Assistance Program (SNAP) (formerly known as Food Stamps), or Temporary Assistance for Needy Families (TANF). The total cost to the federal and California governments of this assistance averaged \$228 million per year between 2009 and 2014.²¹

The public also bears the costs of lost tax revenue when workers are illegally classified as independent contractors, are paid in cash, or paid less than their earned wage (Eastern Research Group 2014). Every

²¹ This analysis draws on three sources of data: the American Community Survey (ACS) from 2009–2014, the March Supplement of the U.S. Bureau of Labor Statistics’ Current Population Survey (CPS) from 2010–2014, and administrative data from the Medi-Cal, TANF, EITC, and SNAP programs for FY 2009–2014. All amounts are adjusted to and reported in 2015 dollars. Medi-Cal figures exclude aged, blind, and disabled enrollees. We limit our sample of workers to those who worked at least 45 weeks per year and at least 10 hours per week. A more detailed description of our methods can be found in Allegretto et al. (2013).

Table 4. Enrollment in and expenditures by public assistance programs for families of janitors and security officers in California (2009-2014; in 2015 dollars)

	Number of workers* with families enrolled	Percentage of workers* with families enrolled	Average program costs per enrolled family	Total cost across the five programs (millions)**
Medicaid & CHIP	29,000	27%	\$2,800	\$74
EITC	42,000	40%	\$2,500	\$99
Food Stamps	17,000	16%	\$2,800	\$45
TANF	5,000	5%	\$3,300	\$16
All Programs	51,000	48%	\$5,000	\$228

* Counts are number of "year round" workers, defined as working 45 or more weeks a year and with usual hours of 10 or more per week.

** Since many families have more than one worker per family, column (4) will not equal the product of columns (1) and (3).

Source: Authors' analysis of the American Community Survey, the Current Population Survey, and government administrative data; see footnote 21 for details.

minimum wage worker misclassified or paid off the books represents \$2,957 in lost revenues per year, not including possible losses in state and income tax revenue owed by the worker.²²

6. Conclusion

This report has documented a substantial growth in building owners contracting out their janitorial and security officer functions to contractor firms over the past 30 years in California. Our research suggests that the low-road versions of this subcontracting has resulted in lower wages, fewer benefits, higher rates of part-time work, and minimum wage and other employment law violations for workers. In-depth interviews also suggest that women janitors are at risk of sexual harassment and assault in what are often isolated working conditions characterized by insufficient training and support.

In our analysis, these outcomes stem from a race to the bottom, driven by intense competition for con-

²² Includes lost withholding for federal and state unemployment programs, workers' compensation, social security, Medicare, and California employment training tax; analysis by authors based on \$20,000 annual wage. Does not include state and federal income taxes.

tracts by janitorial and security services firms and the prevalence of multiple chains of subcontracting that often end at smaller, off-the-books and unlicensed

"When you're talking about non-union competition in general, there's such a big gap in pricing, primarily because of the structure of the wages and benefits. Obviously we're a union contractor, but also in other states where there's not a union we still make a point of paying higher wages and benefits because we believe that's the right thing to do, when we can, where the market will bear. Where the market is more competitive and it's not unionized, in order to compete we have to pay lower than we would in a unionized environment. Our competitors in this environment often pay minimum wage, no vacation, no sick leave, no holidays in some of these places where there is not a union."

Laurie Sewell, President and CEO of Servicon (Sewell, 2016)

employers. In both industries, low labor costs are the primary grounds on which low-road contractors compete for business, not innovation or productivity. Unionized and other responsible contractors are subject to significant pressure from unscrupulous contractors—limiting their ability to shift the com-

petitive equilibrium of the industry toward a high-road model based on providing quality services rather than on cutting labor costs. Unless clients agree to limit competitive bids to only those contractors who pay a fair wage and provide basic benefits, responsible contractors are unable to compete against the many contractors willing to pay minimum wages, skirt labor laws, and offer no benefits in order to win business. The client companies, including major high-tech,

retail, and commercial real estate firms, have essentially displaced their own business costs onto janitors and security officers, occupations held primarily by low-income workers of color and immigrants. The property services industry exemplifies the constant pressure that subcontracting places on workers, particularly in labor-intensive service industries. But the presence of high-road contracting models also confirms that poor labor outcomes are not inevitable.

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