

Unions and Compensation

Union Role in Wage & Salary Administration

- Unions are declining in percent of workforce for several decades
- Popular explanations for the decline
 - Change in structure of American industry
 - Alternative solutions to workers' problems
 - Reduced intensity of union organizing efforts
 - Management more effective at efforts to remain union free

Union Role in Wage & Salary Administration

- Management's hard stance against unions
 - Increased pressure from domestic and international competitors
 - Management resists wage increases that would give nonunion competitors, a competitive price advantage
 - Desire to protect "management's rights"

The Impact of Unions in Wage Determination

- Impact on general wage and benefit levels
- Impact on structure of wages
- Impact on non-union firms or spillover effect
- Impact on wage and salary policies and practices in unionized firms

Unions tend to emphasize internal alignment/equity over external competitiveness

Union Impact on General Wage Levels

- Unions do make a difference in wages
 - Union workers earn between 8.9 and 12.4% more than nonunion workers
 - Union employees in the public sector earn about 22% more than their nonunion counterparts
- Union-nonunion wage differential varies from year to year
 - During periods of higher unemployment, impact of unions is larger
 - During strong economies, union-nonunion gap is smaller

Wage Structure: Division Between Direct Wages and Employee Benefits

- Presence of unions adds 30-40% to employee benefits
- Percentage of total wage bill allocated to employee benefits
 - Union workers: 37.9% of total compensation package
 - Nonunion workers: 27.8%
 - Higher costs show up as higher pension expenditures or higher insurance benefits

Wage Structure: Wages of Workers vs. Pay of Managers

- Research indicates that gap between workers and their managers is 27% smaller in unionized firms
- Managers in union firms receive higher wages than nonunion managers
- Narrowing of gap arises because worker wages increase faster than manager wages in unionized firms

Union Impact: The Spillover Effect

- Employers seek to avoid unionization by offering workers the wages, benefits, and working conditions won in rival unionized firms
- Outcomes
 - Nonunion management continues to enjoy freedom from union “interference” in decision making
 - Workers receive “spillover” of rewards obtained by unionized counterparts

Role of Unions in Wage and Salary Policies and Practices

- Role of unions in administering compensation is outlined in the contract
- Basis of pay
 - Regular pay
 - Overtime pay
 - Pay for nonstandard shifts
 - Incentive pay

Role of Unions in Wage and Salary Policies and Practices

- Occupation-wage differentials
- Experience/merit differentials
 - Automatic progression based on seniority
 - Merit
 - Combination of automatic and merit progression

Role of Unions in Wage and Salary Policies and Practices

- Other differentials
 - Pay to unionized employees employed by firm in different geographic areas
 - Part-time and temporary employees
- Vacations and holidays
- Wage adjustment provisions
 - Deferred wage increases
 - Reopener clauses
 - Cost-of-living adjustments (COLAs) or escalator clauses

Unions and Alternative Reward Systems

- When employers face extreme competitive pressures, unions are receptive to alternative reward systems linking pay to performance
- 20 percent of all U.S. collective bargaining agreements permit alternative reward system

Unions and Alternative Reward Systems (cont.)

- In unionized firms that experiment with alternative reward systems, the union usually insists on Safeguards that protect both the union and its workers
 - Group-based performance measures with equal payouts to members.
 - Use of objective performance measures
 - Use of measures based on past performance

Unions and Alternative Reward Systems (cont.)

- ❖ Lump-sum awards
 - ❖ Given in lieu of merit increases
- ❖ Employee stock ownership plans (ESOPs)
 - ❖ Give employees part ownership in the company

Unions and Alternative Reward Systems (cont.)

- ❖ Pay-for-knowledge plans
 - ❖ Pay employees more for learning a variety of different jobs or skills
 - ❖ Make each individual worker more valuable, and less expendable, to the firm
 - ❖ Lessens the probability that work can be subcontracted out to nonunion organizations

Types of Alternative Reward Systems

- **Gain-sharing plans**
 - Align workers and management in efforts to streamline operations and cut costs
- **Profit-sharing plans**
 - Allows union members to share wealth with more profitable firms
 - Is particularly effective when union members participate in plan development

Union Perceptions of Gain Sharing

The Top Nine Reasons for Unions Favoring Gain Sharing:

1. Increased recognition
2. Better job security
3. Increased involvement with job activities
4. More money
5. Increased feeling of achievement or contributing to the organization
6. Increased influence of union
7. Greater contributions to the nation's productivity
8. Compatibility with union goals
9. Fewer grievances

The Top Nine Reasons for Unions Opposing Gain Sharing:

1. Management may try to substitute it for wages
2. Management cannot be trusted
3. Peer pressure to perform may increase
4. Bonus calculations are not understood or trusted
5. Union influence is undermined
6. Increased productivity may reduce need for jobs
7. Grievances may go unprocessed
8. Gains sharing is incompatible with union goals
9. Employees really do not want more involvement

Source: <http://www.bovino-consulting.com/unions.htm> , June 7, 2006.

Wage Structure: Two-Tier Pay Plans

- Two-tier pay structures are a phenomenon of union sector
 - Differentiate pay based upon hire date
 - Employees hired after a target date will receive lower wages than their higher-seniority peers on the same or similar jobs

Wage Structure: Two-Tier Pay Plans (cont.)

- From management's view, wage tiers are a viable alternative compensation strategy
 - Cost control strategy to allow expansion or investment
 - Cost-cutting device to allow economic survival

Wage Structure: Two-Tier Pay Plans (cont.)

- From a union's perspective, wage tiers are viewed as less painful than
 - Wage freezes
 - Staff cuts among existing employees