



COMPENSATION MANAGEMENT

CHAPTER 15 (Study unit 11) The role of trade unions

Chapter Topics

- The Impact of Unions in Wage Determination
- Unions and Alternative Reward Systems

Impact of Unions in Wage Determination

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

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
- Size of gap varies from year to year
 - During periods of higher unemployment, impact of unions is larger
 - During strong economies, union-nonunion gap is smaller
- Union-nonunion wage differentials in public sector
 - Union employees earn about 22% more than their nonunion counterparts

Structure of Wage Packages

Three dimensions related to wage structure

- Division between direct wages and employee benefits: In unionized companies, voluntary benefits amount to 36.9% of the total compensation package and 27.8% for nonunion employees
- Evolution of two-tier pay plans: two-tier wage structures differentiate pay based upon hiring date. From management's perspective, wage tiers represent a viable alternative compensation strategy
- Relationship between worker wages and pay of managers in union and nonunion environments: the gap between workers and their managers is 23% smaller in unionized companies

Wage Structure: Division Between Direct Wages and Employee Benefits

- Presence of unions adds 20-30% to employee benefits
- Greater percentage of total wage bill allocated to employee benefits
 - Union workers: 36.9% of total compensation package
 - Nonunion workers: 27.8%
 - Higher costs due to – higher pension expenditures, and higher insurance benefits

Wage Structure: Two-Tier Pay Plans

- Two-tier pay structures are a phenomenon of union sector
 - Contract differentiates pay based upon hire date
 - Employees hired after a target date will receive lower wages than their higher-seniority peers in similar jobs
- From management's view, wage tiers are a viable alternative pay 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
- However, tradeoff bargained away equivalent wage treatment for future employees

Wage Structure: Wages of Workers vs. Pay of Managers

- Evidence indicates gap between workers and their managers is 23% smaller in unionized firms
- Managers in union firms receive higher wages than nonunion managers
- Narrowing of gap arises because worker wages increase faster than managerial wages in unionized firms

Union Impact: The Spillover Effect

- Employers seek to avoid unionization by offering workers 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 contract
- Basis of pay
 - Regular pay
 - Overtime pay
 - Pay for nonstandard shifts
 - Incentive pay
- 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 (cont.)

- 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
 - Re-opener 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
- Union stipulations
 - Equity issue involves use of group-based measures with equal payouts
 - Minimize bias
 - Use of objective performance measures in unionized firms
 - Use of measures based on past performance
- 20 percent of all U.S. collective bargaining agreements permit some alternative reward system

Types of Alternative Reward Systems

- Lump-sum awards
 - Given in lieu of merit increases
- Employee stock ownership plans (ESOPs)
 - Give employees part ownership in company
- Pay-for-knowledge plans
 - Pay employees more for learning a variety of different jobs or skills
- 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

Exhibit 15.2: Union Perceptions of Gain Sharing

EXHIBIT 15.2 Union Perceptions of Gain Sharing

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

The top nine reasons for unions favoring gain sharing were:

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 gainsharing were:

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. Gain sharing is incompatible with union goals
9. Employees really do not want more involvement

Your turn

Answer the end of chapter 15 review questions and self-evaluation questions in the study guide