

Ken Moore Associates Presents

Commentary

Are Unions Still Relevant?

In New York State, driving from Albany to Buffalo along the Erie Canal corridor, it is impossible to go 20 miles without seeing a shuttered plant that once provided good jobs for thousands of capable workers who produced superior goods and services for worldwide distribution. Where did these jobs go and why couldn't their unions protect them?

According to the Bureau of Labor Statistics, in 2007, union membership accounted for 12.1% of the employed wage and salary workers¹. In 1983, the first year for which comparable union data are available, the union membership rate was 20.1%. Earlier statistical resources identified the unionized workforce in 1946 at between 40 and 45%.

Currently, public arguments for passage of the Employee Free Choice Act focus on the benefits of the act to the unions. There appears to be little or no discussion on the benefits of unionization to the organization or the customers who purchase goods or services from these companies.

What has happened to cause such a drastic and unsustainable decrease in membership? There are many reasons, but principally this. Union leadership has abandoned its historical and successful charter of representing its membership and partnering with the organization to ensure sustainability and growth. And they have ignored the changing nature of work and business.

Consider:

1. Unions are a victim of their own successes.

Over the decades, unions successfully raised wages above those of competitors. Thus, union-made products became more expensive and priced themselves out of the market to non-union made substitutes (see General Motors vs. Toyota). This caused unionized companies to close or relocate their factories and lay off good employees, thus reducing the number of dues-paying union members.²

Union successfully fought for fair wages, safer working conditions, against child labor, and health and pension benefits. As a result, the US government took over those causes and eliminated strong union bargaining tools. Aggressive legislation such as OSHA virtually eliminated safety issues as a bargaining chip. The 1964 Civil Rights Act, subsequently amended to include strong enforcement measures, eliminated the need for unions to agitate against discriminatory practices. The

Equal Pay Act attempts to achieve parity of equal pay for equal work between men and women. However, individuals who are affected by discriminatory pay structures now seek redress through the courts rather than the unions.

2. More intelligent and informed workforce.

The shift to more white-collar work in service and technology has significantly reduced number of industrial jobs that have traditionally been union strongholds.⁴ Employees recognize that unions do not have the power to deliver on their promises without jeopardizing the sustainability of the company and their jobs. Websites, blogs, media, newsletters, oral campaigns, etc. are available to anyone who wants it. For every argument in favor of a particular position, there are scores of sites for opposing arguments. Employees also know that the only legal power a union has over a company is the threat of withholding work, i.e. the strike. And that action contains very serious risks of success and failure, as well as financial challenges.

3. The tyranny of abusive and exploitative owners and executives rarely exists.

Government intervention has seen to much of this. Competition for talent has seen to the rest of it. The union's rightful goal was to change the nature of executive power into one of a benevolent leadership where everyone wins. Unions provided effective checks and balances. Guess what? The unions succeeded beyond their wildest dreams. Management became smarter, more benevolent, more understanding of human capital and its rightful place in our society. Arguably, it may not have been for entirely altruistic reasons. Competition for talent is fierce. Companies who wish to hire the best and the brightest must prove to those applicants that they are worthy of the needs of the workforce as well as the needs of other stakeholders. Many companies are embracing concepts such as Corporate Social Responsibility (CSR) which argues that a corporation's success is not based solely on financial performance.³ It is based upon a number of criteria formerly in the domain of good union negotiators.

4. Economic and competitive pressures have taken away concepts such as better pay and more benefits. If the company cannot reach and sustain economic competitive advantage, job security cannot be guaranteed under even the best of circumstances. It can be enhanced, but only by allowing the company to quickly take advantage of market opportunities as they are recognized, and before the competition takes similar action. When compared to their non-union colleagues in any industry, there is relatively little research that supports the output and quality of union workers over non-union workers that justifies a premium price demanded in the contract.

The competition for the consumer's dollar is fierce and unrelenting, particularly so with today's economic downturn. There are multiple options for buying a car in the U.S. as buyers are no longer restricted to the Detroit Three. Market research shows that consumers buy their beer based upon taste, price and brand loyalty. Very few

people buy their beer based upon whether or not it is made with union labor. Disposable income is typically carefully rationed by the consumers, Unsurprisingly, they want the best quality for the best prices. That is something that is not negotiated. Rather it is dictated by consumer spending habits that are heavily researched.

Labor costs are but one factor in producing a product or service at competitive rates. All costs must be examined carefully to see if the money is being spent wisely. These can include energy, raw materials, taxes, rent, mortgage, salaries, infrastructure, and utilities. Union offices are no different.

Labor unions are in a service business. They provide qualified labor as needed by an organization. As such they are subject to the same economic pressures that any other vendors must endure. Their income must exceed their expenses thus generating profit to fund and advance other worthy objectives. They must be competitive against alternative sources of labor. This not only includes salaries and benefits, but availability, quality, stability, automation, and other characteristics desired by the hiring company. They must be able to help the company sustain operations and grow the business. They must help the company maintain competitive advantage in a very un-level, even unfair, playing field. In short, unions can no longer play the adversarial role. They must be a party to the sustainment and growth of the organization.

5. Unions are unable to stem the tide of, or capitalize on, global economic and cultural changes.

The economy has become global in nature and technologically advanced with the advent of the Internet and its affiliated capabilities. A customer can buy an automobile manufactured in the U.S. from a dozen manufacturers. This provides freedom of choice which is vital to our way of life. In the past, Chrysler, Ford and GM competed against each other. Now all three are lumped into the category of “Detroit” and must now compete in a global marketplace against companies like Toyota, Daimler, Fiat, Hyundai and Renault. The clothes that you wear are mostly made in foreign shops and sold at Wal-Mart and Target. Online ordering with LL Bean has eliminated the brick and mortar stores, with accompanying local jobs.

The shift in beer manufacturing to mass production has coincided with consolidations within the beer industry, and the elimination of thousands of jobs. Today, three major brewers, (Molson-Coors, SAB Miller, and Anheuser-Busch InBev) control 95% of beer production in the U.S.⁵ The result has been the elimination of hundreds of small breweries that brewed full-flavored beers and employed thousands of people, many of them unionized.

Culturally, research shows that today’s Generation Y – those born after 1985 - is one that is constantly wired into the 24/7 world and is not likely to be constrained by a 3-year contract at 40 hours per week where job behavior is restricted.⁶ They

cherish their freedom to move about freely, develop their professional and social network, pad their resume with additional skill sets, and participate in decision-making events. Employees are increasingly demanding that their employers provide a work environment that typically cannot be negotiated in a contract session. Issues like environmentally progressive policies, work-life balance, and skills development are critical to this generation. They do not look to the union to provide it. Rather, they look to the organization and to the community for these satisfiers. And, they are mobile enough to go to wherever it is provided.

6. Union members are increasingly demanding that their leadership deliver membership benefits that they cannot give.

Employees are smarter than ever. They can read the newspapers and the Internet and understand the pressures affecting their company and industry. They are scared for their jobs and their unions are not addressing their fears. Objectors to the so-called Employee Free Choice Act note that, if unionized, many small business owners will be forced to shut down rather than to absorb the cost of a union contract. According to the Schenectady, NY Chamber of Commerce, most small businesses within its membership are staying in business just by the skin of their teeth.⁷ In a small business unfriendly state like New York, any form of additional costs would have a strong and negative impact on their ability to stay in business. Unions have not been able to generate sustainable cost/benefit arguments justifying the value of a unionized workplace.

7. Higher wages, benefits and job security are now non-starters.

Being the leader in salaries and benefits is causing nervousness among the employees working for those companies. They want to know if the company can sustain those wages. Under extreme competitive pressures, corporations have learned to be very judicious in the allocation of corporate assets, e.g. labor. Over the past several decades, well-paying union jobs in the Northeast migrated to southern states where the cost of labor was less and state governments did more to attract corporate investment. Now, even those jobs are being outsourced to foreign locations, and there is very little that the unions can do to prevent it. Conversely, foreign companies such as Toyota and Honda are operating in states where the labor relations issues are less restrictive than in other parts of the country. Further, with access to multiple forms of information such as the Internet, blogs, websites and the media, the employees have become much more savvy regarding the economic condition of their company and the industry. They understand that the Jobs Bank program at General Motors may be a good idea conceptually, but is unsustainable in real economic life.

8. The playing field is not level.

At the end of World War II, the US had virtually no meaningful international competition. Europe and Japan were devastated by the effects of the war. We were

free to establish our own economic rules without regard to external competitive pressures. Ford, GM and Chrysler competed against each other. Local banks competed with local banks. McDonalds fought Burger King for the fast food business. Life was good. Then came competition, most notably with the first gas crisis in 1973 when the price of a gallon of gas shot up from 38 cents to 92 cents!

European and Asian economies rebounded and began, for the first time, to challenge American superiority. Unfettered by American work rules and laws, and the so-called legacy costs, foreign operations were able to provide the same or similar quality of goods and services as their American counterpart, but at a much lower cost per unit. True, there were and are abuses with child labor and unhealthy work conditions, but American industry flocked to these off shore sites for the financial benefits of lower labor costs. Conversely, foreign companies began to invest in American industries by demanding conditions unheard of in American unions.

What can unions do to better serve their membership? Here are some suggestions:

1. **Establish a value metric that improves competitive advantage for the organization.** Value is something that is perceived by the customer and justifies the price paid for the product or service. Your union must justify to the customers who buy your product or service why union workers generate competitive advantages for the customers over non-union workers. What good are higher wages and benefits to the employees if the fewer customers are buying what you sell and the company is sliding into bankruptcy;
2. **Focus your negotiating efforts and results on the customers who buy your products – not the membership.** Every contract negotiation session must focus on the end user of your product or service. It is not the employee! They are but one of a series of vital tools necessary to convince the consumer to buy your product or service. Clearly, without the employees, no product or service would be produced. However, without the customer, there is no need for the employees or the company or the union. The skill and the art of business is in convincing the customer to buy your product at the price you wish to charge. Unions must expand their focus to include the customer needs and desires and understand clearly why the customers buy from them. The Cadillac division of General Motors does not sell automobiles. It sells prestige and status. It competes with furs, jewelry, yachts and other high end goods valued by the customer. Negotiating strategies must be conducted with the customer firmly in mind. Any improvements in topics such as salary, benefits and job security must be tailored to the worker's abilities to sell what the customers want and are willing to pay for.
3. **Help the company increase revenue and decrease costs.** Within your own household, tough economic times means carefully examination your income and your expenses. Your household operating plan is to have more money

left over at the end of the month, rather than to have more month left over at the end of the money. Organizations are managed in exactly the same way. They must remain solvent and profitable. If they are successful, the company stays in business, union members retains their jobs, and union dues continue to be collected. The current legislative activity of the unions is aimed at increasing union membership in companies, thus generating additional income through dues-paying members. The ultimate focus on negotiating strategies is to help the company stay in and grow the business. Anything less than that invites economic disaster for all parties.

4. **Get over the adversarial mindset of your ancestors.** Smart negotiators on both sides argue their interests, not their positions.⁸ For every business decision, there is a cost/benefit analysis that must be made. From that analysis comes arguments designed to advance a particular point of view. It is frequently not a question of right vs. wrong, but who has done a better job of analyzing the data and developing a superior argument. To the business owners, executives and union leadership, you are not enemies of each other. Get over it and start focusing on keeping your company in business against aggressive competition in a very un-even playing field.

Word Count: 2,499

END NOTES

1. U.S. Department of Labor, Bureau of Labor Statistics, 2009
<http://www.bls.gov/news.release/union2.toc.htm>
2. The Social Studies Help Center, 2009,
http://www.socialstudieshelp.com/Eco_Unionization.htm
3. Employment Times, August 16, 2007
www.employmenttimesonline.com
4. Customer Centricity, Inc.
<http://www.customercentricity.biz/>
5. SEC Form 10-k, Boston Beer Company, for the period ending December 31, 2007.
6. When Generations Collide, Lancaster, Lynne & Stillman, David, 2002.
7. Schenectady (NY) Chamber of Commerce, Business Advisory Council, 2008
8. Getting to Yes: Negotiating Agreement Without Giving In, Fisher, Roger & Ury, William, 1991.