

Abstract

The paper develops a model of trade union behaviour based on the concept of the viable bargaining unit. Bargaining unit viability rests on five conditions; membership level, service level, membership participation, employer recognition and facilities. Viability is achieved by mobilisation of both members and employers. Trade unions may be seen as portfolios of viable and inviable bargaining units. From this, six propositions about trade union structure and behaviour are derived, concerning scale, growth, the impact of statutory recognition provisions, the emergence of conglomerate unions, governance structures and relations with employers. Employer dependence is a crucial element in the model and a simple game theoretic approach is used to discuss employer co-operation. A key conclusion is that viability at the union level is achieved by diversifying portfolios of bargaining units and securing co-operative relations with employers.

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The Viability of Trade Union Organisation: A Bargaining Unit Analysis

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1. Introduction

This paper explores the idea that the bargaining unit is a useful focus for the analysis of trade union behaviour. It is axiomatic that unions, in the UK at least, consist of one or more bargaining units. The proposition here is that, for a given trade union to survive, some or all of its bargaining units must be viable in the terms defined below. Where a union contains, in addition, inviable bargaining units, there are spillovers of resources and, perhaps, bargaining power from the viable to the inviable. These spillovers have implications for union growth, governance and recognition by employers. There are also implications for the financial viability of trade unions. Various dimensions of trade union behaviour may, therefore, be explicable theoretically in terms of the status of and interaction between the bargaining units in its portfolio.

The bargaining unit composition of trade unions may also be of interest for a variety of empirical and policy-related reasons. First, union membership has been declining in absolute terms in many industrialised countries for some time. Decline may be generated by workplace closure, by de-recognition by employers or by quit decisions by individual members. All may alter the balance between viable and inviable bargaining units within a union. Second, union concentration in many countries has also been increasing and the pattern of union mergers has often generated general or cross-sectoral unions with diversified bargaining unit portfolios (Undy, 1998; Willman, 1996; Streeck and Visser, 1997). Third, there is a policy issue within the UK. A statutory route to recognition has recently become available; the viability of the bargaining units created by such a route is an important question.

The structure of the paper is as follows. Section 2 develops the idea of the viable bargaining unit. Section 3 uses this to develop the idea of union viability. Section 4 assesses the usefulness of the approach for the analysis of trade union behaviour. Section 5 explores the implications of this for employers using a simple industry model of partial unionisation. Section 6 summarises and assesses implications.

2. Conditions for Bargaining Unit Viability

This section develops previous work by Berkowitz (1954), Pencavel (1971) and Willman *et al* (1993) to produce a simple model of bargaining unit viability. Berkowitz contains an early attempt to analyse the demand for and supply of union services. These services are analysed on a disaggregated basis by Pencavel such that their cost implications may be inferred. Willman *et al* develop the idea of employer subsidy of union activity through the argument that, at the union level, survival depends on success both in raising membership and in securing recognition from employers. In the following sections, these ideas are developed

further, initially at the bargaining unit level.

A viable bargaining unit is defined here as one which is capable of sustaining collective bargaining with an employer without long term support from elsewhere within the union¹. The argument identifies five ingredients of viability; membership level, union service level, employer recognition, membership participation and employer-provided facilities. Their roles and interaction are described sequentially below.

Assume an existing union begins to recruit members within a non-union establishment. It must normally achieve a certain level of membership before the employer will agree to bargain. For some time, there may be obstacles to membership growth of at least two kinds. The first is the standard collective action problem; as Elster (1989; 40) notes, 'before a union can force or induce workers to join, it must have overcome a free-rider problem in the first place'. Force or sanction based in law or group pressure may be available, but it may give rise, as Elster also notes, to significant second-order collective action problems, particularly at low levels of membership; *i.e.* costs arise for existing members in the enforcement of sanctions against those who will not join.

The second form of disincentive to membership lies in the limited union services available prior to recognition by the employer. Pencavel (1971) notes that unions supply three types of service to members; individual services such as insurance, 'semi-collective' services which are individually consumed but collectively produced, such as representation under a collectively agreed disciplinary procedure and collective services - primarily bargaining representation. Only the first is usually available at low membership levels prior to employer recognition and these services are a fragile basis for collective organisation given that unions do not have monopoly of their supply (Basset and Cave, 1993). The second may be available where, as in the UK, prior to recognition the union has a right to accompany or represent a member in a disciplinary or grievance procedure. In the UK and USA, bargaining representation requires recognition. In short, it is possible that an inviable pre-recognition position may persist for some time in which the union expends resources on members who receive only a fraction of the services available. Discounting subscriptions to encourage membership growth will eventually exacerbate the financial problem for the union and the membership position, under limited assumptions of rationality, will degrade.

Where the employer is opposed to unionisation, a third obstacle to union membership exists - the possibility of selective employer retaliation against members. There is evidence from several countries that employer action against activists can deter or destroy unionism in the workplace (Freeman, 1985; Franzosi, 1995; Kelly, 1998, 49-59). However, recognition of the union by the employer transforms the position. The prospect of recognition may encourage employees to persist in membership. Achievement of recognition allows the union to deliver its key service, collective representation. Collective representation is key for two reasons. First, it is the basis for low cost provision of individual representation by specifying due process in collective agreements. Second, it is arguably the least imitable service that unions offer. Other providers of bargaining representation are empirically scarce, and the absence of unions where employees desire representation usually results in a representation gap rather than the entry of alternative service providers². There is evidence from the USA that union members judge the effectiveness of their union primarily in terms of its effectiveness in bargaining (Fiorito *et al.*, 1991, 133).

The union therefore operates in two key markets; on the one hand, that for members and on the other that for recognition agreements (Willman, 1989). It may prefer to operate in the latter market first, for example by securing recognition on green field sites, or agreements with employers

¹ UK law contains a test of independence from the employer. Were it a test of independence from both employer and union, it would be much more stringent. I am indebted to Paul Davies for this observation.

² The introduction of statutory works councils might generate representational competition for trade unions.

to extend recognition to new employees. However, recognition is a necessary but not sufficient condition for viability. Recognition may be regarded as a process rather than an event. First, recognition often triggers further membership growth (Wood and Godard, 1999). Second, the scope of recognition may expand or contract over time (Brown *et al*, 1998, iii, 33-40) The viable bargaining unit depends on continued inputs from both members and employer.

Membership inputs come primarily in the form of participation in bargaining activity or union governance. Both rational-choice theorists and psychologists have identified this propensity. Hirschman (1970; 82) notes that, at least for some members of pressure groups, the perceived benefits of involvement are the sum of 'the hoped for result and the effort furnished', rather than the difference between them. Nicholson *et al* (1981) have identified stable individual propensities for different types of participation within unions, with a minority disposed towards participation for non-instrumental reasons (see also Flood *et al*, 1996, 2000).

The approach offered here does not require strong assumptions about individual rationality. Following Knoke's (1990) more general motivational model for voluntary associations, the assumption is that a mix of rational choice, affective concerns and normative motivations drive the individual decisions to join, to remain in membership and to participate. The motivational mix can vary inter-personally and intra-personally (*i.e.* over time, see Guest and Dewe, 1988). Mobilisation of members requires a match between organisationally provided incentives and individual motives. Resources are mobilised to provide private or public goods incentives for participation which in turn make resources available to the union. Among voluntary associations, unions appear to offer greater variety of incentives and to spend more resources on mobilisation (Knoke, 1990; 111, 119, 199).

Viability implies a match between participative incentives and membership needs at the bargaining unit level. Flood *et al* (1996, 2000) have characterised this in terms of an internal market within the union for participative opportunities in which the union leadership seeks to match the supply of participation to the membership demand for it. The proposition, based on UK financial data on trade unions (Willman *et al*, 1993) is that the cost of providing union services to members entirely based on paid officials is prohibitive and that some or all members must be prepared to 'act' as well as 'pay' (Offe and Wiesenthal, 1980). Three contingencies may inhibit participation. First, employers may target activists for punitive action; this may discourage some, but encourage others. Second, the opportunity costs of participation may be too high; this may particularly affect high income groups of potential members who see participation in terms of lost earnings opportunities and who may prefer higher subscriptions to expenditure of time. Third, following job-stake theories of trade union involvement, the level of commitment of members to both union and employer may be too low to justify activism; this may be particularly the case for situations where labour turnover is high. Where the majority of employees are part-time, both high opportunity costs and high turnover may discourage participation.

At least the first two contingencies may be modified by employer provision of facilities. The evidence from successive Workplace Employee Relations Surveys in the UK is that provision of such facilities in the form of extensive time off for trade union duties, provision of office space and facilities for union representatives and time for members to attend meetings appears to have been considerable, though declining in recent years (Cully *et al*, 1999). A minimum level of provision is required by law. Many such provisions are enshrined in 'facilities agreements' which may have significant but often uncalculated costs for the employer and allow the union some certainty in the planning of bargaining unit expenditure. Their net impact on the union is problematic. On the positive side, they are inconsistent with the employer taking punitive action against union activity and they reduce its opportunity costs; their impact on participation rates is thus likely to be positive. On

the other hand, they increase the financial dependence of the union on the employer. We explore this in more detail below.

The interaction of these five variables defines the necessary and sufficient conditions for bargaining unit viability. Figure 1 illustrates the argument. It plots union net revenue against membership within a hypothetical bargaining unit. Membership may be considered as a limited proxy for bargaining power. Net revenue is plotted as negative during the pre-recognition period. Recognition at the inflection point R is assumed to be in the domain of losses; the union would be irrational to agree to a loss-making equilibrium, but is likely to assume post-recognition membership growth based on the ability to offer the full range of services. Nonetheless, a set of post-recognition bargaining units is inviable in this model. Post-recognition viability depends on employer and membership mobilisation.

RA depicts the post-recognition path of a bargaining unit with high levels of participation and high levels of facility provision by the employer³. RD depicts that of a bargaining unit with low levels of both. Bargaining units B and C are intermediate positions discussed below. $V \hat{V}$ depicts the union's viability threshold. There is no dominant scale effect. Unit A is viable at x , units B and C at higher membership levels y and z respectively. At membership levels below x , bargaining units will require financial or other support from the union. They may generate revenue, but be unable to survive without full time official support on a regular basis. The viability of a bargaining unit is facilitated where there is a high level of participation supported by high levels of facilities from a co-operative employer; a level of membership sufficient to support recognition is a precursor. Unit D does not achieve viability. Attempts to unionise a passive or apathetic workforce without participation from those already organised generates a particular form of second order collective action problem where the costs of 'consolidatory recruitment' (Kelly and Heery, 1994) fall on full time officials and exceed the revenue gains generated. RD slopes down at higher membership levels.

The implications of applying this simple model to union behaviour are explored below. Several points are worth immediate emphasis. First, recognition does not per se generate viability and post-recognition membership growth enters the union's recognition calculus concerning positive net revenue. Second, membership gains based on offering the full range of services must for viability be generated by employer encouragement or peer pressure rather than by paid union organisers. Long term dependence on officials generates curve RD. In practice, since 100% union membership is rare, it may be that all curves slope down at very high membership levels in the absence of compulsion to join. The relationship between the inflection point and $V \hat{V}$ is crucial. Fourth, because of the employer's ability to affect members' participation costs, employer co-operation is more important to viability than membership participation; the dynamics are explored below.

3. Organisational Viability: Portfolio Issues

Most large trade unions contain many bargaining units. Although trade union viability does not require every bargaining unit to be viable, the viability of the union as a whole will be a function of its bargaining unit portfolio. Union viability is defined in terms of the union's ability to sustain collective

³ For the sake of simplicity, subscription levels are assumed constant across all four paths. Subscription increases move all curves to the left.

bargaining without external support from apex organisations, government or other unions (Streeck and Visser, 1997)⁴.

We can pursue the idea of organisational viability using Figure 2. The figure attempts to typify the circumstances underlying the family of curves A-D from Figure 1. Condition A is typified as an employer-co-operative union heartland, combining at the bargaining unit level financial surplus, stable organisation and political influence within the union. The workplace organisation studied by Batstone *et al* (1978) would be an exemplar (see also Boraston *et al*, 1975). Condition B typifies some stable white collar bargaining units with co-operative employers but memberships with high opportunity costs for participation and consequently with higher full-time official ratios. In the UK, banking and parts of the civil service may be exemplars (Morris, 1986; Willman *et al*, 1993). Single union agreements on green field sites may also fall into this category. In Offe and Wiesenthal's (1980) terms, willingness to pay is greater than willingness to act. Condition C is high risk for the union, with high potential returns if an active membership can establish facilities agreements but high costs involved in the funding of membership action. It typically arises where unions are forcing recognition in non-union sectors, for example financial services (Morris 1986; Willman *et al*, 1993). Condition D is probably not stable since there are disincentives for employer, union and membership for its continuation.

We may consider any union to be a portfolio of these typified conditions. Figure 3 illustrates. It plots, again for a hypothetical union, a cumulative frequency distribution of bargaining units ranked by contribution to net revenue. Units under condition A would cluster to the left and those under condition D to the right. Different forms of agency for administration of collective agreements would prevail. The fixed costs of administration are generally spread such that a reduction of the tail (x) would result in a move of the inflection point leftwards, but most administrative expenditure would in practice also fall in the tail. A concern with union viability will constrain the size of the tail; organisation of previously unorganised employees will, other things equal, increase the size of the tail (Willman, 1989).

Simple portfolio analysis may be applied, considering the set of bargaining units within the union in terms of risk/return relationships. An extreme case is a union with all members in one, condition A bargaining unit; industry unions typify. The union is likely to appear financially healthy but its dependence on the employer or employer coalition is extreme and problems may arise simply from a change to employer policy on facilities. An example from the UK would be the consequences for the rail union, RMT, of the employer's decision to withdraw 'check-off' (*i.e.* deductions of union subscriptions from salary at source) following strike action (Willman and Morris, 1998).

A second case is the industry union involved in company or enterprise bargaining with competing firms in one sector. Co-ordinated employer recalcitrance is less likely, but recession or industrial decline affecting all employers generates a risk because there is covariance in the factors affecting bargaining unit viability. Relatively low levels of covariance may result in relatively high risk to the portfolio as a whole (Donaldson, 1998).

A third case is the general union, with condition A bargaining units with different employers in different industries. Co-ordinated employer recalcitrance is unlikely. The union is likely to be attracted by growth opportunities. In viable units or pre-recognition positions can be seen as a series of bets on expansion, only some of which need eventually to enter condition A. The first two cases

⁴ It assumes the union will at the margin accept a range of revenue/membership combinations as viable. The precise shape of VV' is not critical to the argument.

correspond to the idea of an ‘encompassing’ organisation (Olson, 1982) which is likely to be concerned with externalities such as the inflation or unemployment consequences of its behaviour. The third, though perhaps larger, need not (Crouch, 1993; 20); indeed, to some extent, its growth strategy depends on the absence of such concerns. It may seek to move out of the core industry or sector to reduce the combined risk faced by the portfolio. It follows from portfolio theory that, in order to reduce covariance risk, bargaining units with high levels of uncorrelated risk may actively be sought (Donaldson, 1998). The general union is, at any point, likely to have diversified risk in its bargaining unit portfolio and, in consequence, to contain all four types of condition.

4. Applications

The approach sustains six empirically testable propositions about union behaviour.

Proposition 1. *There are no important minimum scale effects in union organisation.*

We may analyse union viability as a function of the viability of its constituent bargaining units. Membership levels are misleading indicators. A union becomes inviable when its bargaining unit portfolio becomes unserviceable, not when membership falls below a certain level. This has clear implications for the debate on union growth. It is theoretically entirely possible for a union to develop an inviable portfolio while membership is expanding. Triggers that reduce the contribution of members or employers, for example reduction of facilities, may generate inviability at constant membership. Conversely, it is theoretically possible for a union to achieve a viable portfolio through contraction, either purposively through expulsion of inviable units or as the result of closure of establishments that contain them.

This helps explain the size distribution of unions in the UK, with the persistence of viable small unions during a long period of increasing union concentration (Buchanan, 1981; Willman and Morris, 1988; Willman *et al*, 1993). It is also consistent with the argument of Streeck and Visser (1997; 322-4) for Germany and the Netherlands. Arguing that organisational viability is a function of scale, they nevertheless note that:

‘in both countries, there are examples of unions that seem to be organisationally viable in spite of comparatively small size’ (324)

A bargaining unit approach explains the apparent anomaly.

Proposition 2. *Membership growth need not enhance organisational viability.*

The corollary is that contraction need not reduce it. The crucial issue is the mechanism for growth. Unions may deploy various mechanisms well or badly (Fiorito *et al*, 1995), but the choice of mechanism remains crucial. Acquisition of type A bargaining units is optimal but this occurs by merger and does not generate aggregate union growth (Willman, 1989). Acquisition of type C or D bargaining units by conglomerate unions is risky and the risk is increased by jurisdictional competition (Streeck and Visser, 1997).

Low cost growth is by extension, combination or acquisition of conditions A and B. Considerable risk attaches to inclusion of conditions C and D within a union. The risk is not only

financial but political, since such growth involves subsidising activities in units C and D from `profits` from A and B. We may consider any union to be a portfolio of these typified conditions and its growth strategy to be viable to the extent it is able to accommodate new combinations of conditions. In the UK, the most rapid period of post-war union membership growth coincided with the most severe period of financial decline; but the bargaining units acquired in this period, many in white collar and public sector areas, survived the early 1980s recession which arguably claimed many type A bargaining units of manual workers in manufacturing (Willman *et al*, 1993).

Proposition 3: *Statutory recognition provisions will have no necessary effect on viability.*

Provisions which require employers to recognise unions at given levels of membership will not necessarily generate viable bargaining units. This can be illustrated by reference to Figure 1. A recognition provision which acts to lower the recognition threshold moves R to the left but not vertically. Moreover it has no implications for the intersects of AD with VV'. It is a form of compulsion on the employer. Its consequences for unions may be negative; a greater acquaintance with employer recalcitrance, a reduction in the proportion of viable bargaining units within the union and financial difficulty. This acquaintance may discourage unions from using it.

Recognition provisions may help the union to resolve first order collective action problems but they need not provide a right to representation for the employee even if they impose a duty to bargain on the employer. In the US, the Dunlop Commission (1994) noted the inability of approximately one third of the units concerned to achieve a first bargained agreement under enforced recognition; a duty to bargain is not a duty to agree. In the UK, with no duty to bargain, Brown and Gregory (1998) find that approximately one third of workplaces with recognition had no meaningful collective bargaining. In Australia, where unionised workplaces are equated to the presence of union members with whom employers must deal, only 41% of union workplaces were classified as 'active' (meaning that negotiations took place) in 1990 (Callus *et al*, 1991; 156). It may be the case that, empirically, there are substantial numbers of condition C and D bargaining units and that extension of recognition without extension of employer co-operation will increase that number.

The obvious question to ask is why unions would want a statutory route to recognition which increases the number of inviable bargaining units. There are five ingredients to an answer. First, the existence of a statutory route may have a general effect on the employers' propensity to co-operate (Townley, 1987); the legislation may cast a shadow. Second and more generally, recalcitrance may not be a stable attribute of an employer. Unions may reasonably believe it can be overcome. Many large employers in the UK, for example in the car and financial services industries, were non-union in the 1930s but subsequently granted recognition⁵. Third, expansionary unions may regard such routes as described above - as 'bets' on growth. Fourth, overall financial exposure from this source may be low. Wood and Godard (1999; 267) report for the statutory recognition process in the UK from 1974 to 1980 that in total 65,000 employees, less than 1% on average of union members across the period, were directly involved in the procedures. Fifth, the existence of a statutory route serves to reinforce the social and political legitimacy of trade unions and so serves a symbolic purpose in sustaining union organisation⁶.

⁵ I am indebted to John Kelly for this observation.

⁶ I am indebted to Colin Crouch for this observation.

It may be, as Wood and Godard (1999; 234) note, that the impact of a statutory route may depend on its design, with the Canadian model more capable of delivering collective bargaining than those used in the USA. However, there remain issues about securing post-recognition co-operation from the employer which is crucial to the development of type A bargaining units. In the UK, the Central Arbitration Committee has statutory powers in the recognition procedure to impose a 'method of bargaining' after a recognition award, involving union facilities 'where resources permit' (Statutory Instrument on Terms and Conditions of Employment, June 2000, 21-6).

Proposition 4. *Unions seeking growth will seek to reduce risk through portfolio diversification.*

There are few obvious benefits of portfolio diversification for existing members. Evidence from the USA implies that membership acquisition outside existing collective agreements has little effect on members' bargaining power (Voos, 1984). There are unlikely to be wage benefits for existing members from cross-sectoral recruitment. In many cases, resource transfers of subscription income will take place from type A to type C and D bargaining units. The growth of conglomerate unions, well documented for UK, Germany and Netherlands (Undy *et al*, 1981; Streeck and Visser, 1997), follows from leadership pursuit of growth. The issue for the leadership is to devise governance structures that reconcile divergent membership interests while preserving leadership discretion.

The proposition does not apply to unions not seeking membership growth. From proposition 1, such single industry or occupation unions with predominantly type A bargaining units may flourish. In the UK, such unions exist for train drivers (ASLEF), pilots (BALPA) and prison officers (POA and SPOA). However, proposition 4 does imply that such unions will be targeted for absorption by larger conglomerates and the UK evidence is that such absorption takes place (Willman, 1996).

Proposition 5. *In conglomerates, a modified 'M-form' governance structure emerges.*

In many countries the growth of diversified unions has occurred in the context of bargaining decentralisation from industry to firm or establishment level (Katz 1993; Visser, 1990; Soskice, 1990). One consequence, as Jarley *et al* (1997) have noted for USA, is that representative and administrative functions are uncoupled and respond to different environmental pressures. Representative structures tend to cluster around the bargaining unit, itself the main focus of participative opportunities (Flood *et al*, 1996, 2000). Increasingly, the role of the centre is portfolio management involving cross-subsidy of activities and centralised service provision, in which limited activity set there may be scale economies (Willman *et al*, 1993).

Cross-subsidy is crucial. For illustration, contrast a union in which all bargaining units fall under condition A with another of the same size in which there is even coverage of all conditions. The analysis above implies that, other things equal, the former would have the following. First, a lower number of full time officials because of, second, a higher rate of lay participation in bargaining units. This would sustain, third, a higher rate of membership participation in governance. Fourth, the former would possess a higher financial surplus due to the absence of inviable units and, fifth, a lower propensity for non-merger growth than the latter due to the lack of managerial discretion to impose cross-subsidy. The bargaining unit portfolio in a conglomerate reinforces the emergence of managerial discretion to deploy surpluses in ways that involve benefit transfers away from existing members.

The emerging structure approximates the ‘M-form’ structure evident in diversified firms. Viable bargaining units develop substantial autonomy, but may coexist within the union with units highly dependent on the formal union.

Its ingredients have been well documented. The relationship between unit and union has been characterised by Hemingway (1978; 172-3) as a bargaining process dependent upon the ‘balance and efficacy of resources’ available to both sides. The contingencies which constitute these resources and affect the level of bargaining unit independence have been well documented by Boraston *et al* (1975; 153-88); those endogenous to the unit include size, organising experience and unity, while exogenous ones are management facilities and union policy.

More generally, the reasoning here is similar to that of Kochan and Katz (1988, 123-31). They argue that union goals, bargaining structure and organisational structure are fairly tightly coupled. Decentralisation of control over bargaining structure is likely to be efficient, in the sense of reducing transaction costs, where members have diverse interests (Fiorito *et al*, 1991). However, there is a second necessary condition – viability. Co-operative employers will encourage decentralisation, Fiorito *et al* argue, because they share efficiency gains with employees and support local activism (1991; 123). Central union attention and resources are, as argued above, disproportionately consumed by recalcitrant employers. This leads directly to the final proposition.

Proposition 6. *Structural factors predispose conglomerate unions to pursue co-operative relationships with employers.*

Both leadership motives and organisational considerations may support co-operation. As Martin notes (1980; 103), in the non-proprietary union, co-operative relations with employers may be a source of utility traded off by union managers against the higher rents for members which they would not, in any event, share. This form of trade off is facilitated by the emergence of managerial discretion at low levels of membership participation.

Organisational considerations encourage co-operation in several types of bargaining unit. In types A and B, the main factor is resource dependence on the employer. In type C units, co-operation is preferred as a ‘tit for tat’ strategy to encourage employer co-operation. Only in cases of continued employer recalcitrance (type C) or as a last resort (type D) is it in the interests of organisational viability to generate conflict. Bargaining unit viability and thus union viability depend to a very high degree on employer co-operation. The pursuit of partnership with employers may have membership benefits, but it will also serve the organisational interests of a conglomerate union because it is efficient.

These propositions all rest on the model of employer-dependent viability outlined in Section 2. Employer co-operation is crucial to the model and in the next section, we develop the argument to discuss the dynamics of employer co-operation.

5. Generating Employer Co-operation

The foregoing argument implies that the union which embraces all four conditions will move resources from bargaining units with co-operative employers to those with recalcitrant ones.

We may consider the issues using a simple game theoretic framework. Consider Figure 4. It depicts a notional two-firm industry, in which the firms compete. There is one industry union. In Figure 4a both firms are unionised under condition A from Figure 2. The nature of unionisation

offers no differentiation and thus no comparative advantage. Equilibrium exists. Collective action by both firms may move to a condition other than A, but this depends on feasibility and identifiable benefits. In Figure 4b, firm 1 is unionised under condition A and firm 2 under condition C; recall, the memberships in both are active, the only difference is employer recalcitrance. In this circumstance, the union transfers resources from firm 1 to firm 2. In practice, the union will subsidise conflict situations from co-operative ones.

The incentive structures facing the two firms in Figure 4b are of some interest. They may be elaborated using the formal approach developed by Crouch (1993). Firm 1 enjoys the benefits of co-operation with the union, less the costs. We may see the benefits as the presence of ‘voice’ (Freeman and Medoff, 1984) and the absence of conflict. Adapting Crouch’s notation,

$$A_C = V + b_C - F \quad (1)$$

where A_C is the net gain to the co-operating firm, V the value of voice, F the real cost to the employer of facilities provision and b_C represents the costs of conflict with the union which the co-operating firm eliminates⁷. However, we must identify a further element, X , from Figure 4b which is the surplus the union generates from this condition A bargaining unit from reducing direct costs by relying on membership participation and employer subsidy; X may be considered a tax on employer co-operation. (1) then becomes

$$A_C = (V + b_C) - (F + X) \quad (2)$$

where $(F + X)$ is the actual cost of facilities provision.

Firm 2 is recalcitrant. It makes no expenditure on facilities, enjoys less voice and experiences the costs of conflict. It also receives a subsidy, X . Hence recalcitrance (A_R) becomes an attractive strategy where the voice and peace benefits are less than the actual costs of facilities provision, *i.e.* where

$$(V + b_C) < (F + X) \quad (3)$$

Logically, firm 1 will defect from co-operation where $A_R > A_C$. Firm 2 will become co-operative where $A_C > A_R$. This argument affects other conditions in Figure 2 and, by extension, the co-existence of unionised and non-union firms. The rational firm will consider the benefits of co-operation with unions versus other forms of employee management. Co-operation may yield substantial benefits but typically it involves facilities costs. It also, in the conditions of Figure 4, involves subsidy – albeit small - to competitors.

An objection here might be that the ‘co-operation tax’ on firm 1 may not be used to build a viable unit in firm 2; rather it may be a ‘conflict subsidy’. As such, it generates no benefit to firm 2 but imposes greater costs. In this case, A_R is attractive only where

$$F > (X + V + b_C) \quad (4)$$

⁷For simplicity, the union mark up is assumed not to vary across unionised firms.

This means that the incentive is for firm 2 to co-operate in most cases. However, since the union will rationally want to generate a further co-operation tax revenue from firm 2, it is not in its long-term interests to maintain a conflict subsidy. The key point here is that the union may be in a position to alter the pay-off structures to co-operation and defection within an industry. The argument is consistent with the phenomenon noted elsewhere that, while strike activity may be ex post inefficient for both firm and employee, it may benefit the union; *i.e.* a strike which moves an inviable bargaining unit into condition A is beneficial for the union where the revenue increases defray the union's strike costs, even though firm profits and members' earnings may be adversely affected (Willman *et al*, 1993; 101-121).

Since both firms in Figure 4 are unionised, we have omitted by assumption consideration of wage gains. However, the approach raises issues concerned with the balance of payoffs to union on the one hand and to members on the other. To employ Crouch's notation once more,

$$A_L = A_{Le} + A_{Lr} \quad (5)$$

Where A_L is the total return to labour from employer co-operation and the subscripts denote the shares of employees (members) and representatives (the union) respectively. If we assume further that A_L is related to the total costs to the employer of co-operation, then the union has an incentive to keep A_L under control. It also has an incentive to generate and sustain a level of activism in the bargaining unit. Third, it wishes to generate net revenue. The rational union will depress A_{Le} in favour of A_{Lr} to resource activism which sustains viability. A union pursuing viability will discount substantive membership wage gains in favour of provision by the employer of facilities to fund continued organisation.

This approach has important implications. Both employers and members have an interest in minimising A_{Lr} . Employers have no obvious wish to subsidise competitors or to spend on union facilities what could be spent on employee wages. Members may similarly see immediate wage gains as preferable to organisational subsidies, particularly if that subsidy has no long term impact on wage gains. Arguably, however, the union has an interest in maximising A_{Lr} since it has an impact on its own financial viability. Other things equal, employers and members will choose a union which minimises A_{Lr} at the bargaining unit level. A union with the majority of members in one condition A bargaining unit is likely to be able to achieve low A_{Lr} per member. It thus has a comparative advantage in the market for members. A union with the majority of members in a number of condition A bargaining units is likely to be able to achieve low A_{Lr} per member and per employer. It is thus provided with a comparative advantage both the market for employers and the market for members. A union with the majority of members in a number of condition A bargaining units in different sectors can achieve low A_{Lr} per member and per employer while hedging its risk in both markets. If this argument is correct, general conglomerate unions will prevail.

A final implication concerns a comparison of unionised and non-union firms within a given industry. Returning to Figure 4b, if firm 1 can sustain voice levels without unionisation, both firm and employees should benefit through the eradication of cross subsidy. This might be evident either in lower subscriptions to a company-based union or in lower facilities costs to sustain participation. Flood and Toner (1997) have argued that firms which adopt 'human resource management' as a non-union option do so at the cost of paying higher wages than do unionised firms and that it is, in effect, a false economy. This is a specification of Kochan's (1980) argument about the union substitution effects of sophisticated human resource policies. However, this cost of non-unionism needs to be set against the costs of facilities and cross-subsidy identified here. Much depends on

whether unions are a cost-efficient means of generating voice, compared with employer-constructed channels; some UK evidence (Brown *et al*, 1998), implies that they are. A second implication is that in firms where $A_R > A_C$ non-union, non human resource management policies may be the rational employer choice (Guest and Hoque, 1994).

6. Summary and Conclusions

The paper has presented a simple model of bargaining unit viability based on five conditions - membership levels, union services, employer recognition, membership participation and facilities - and explored its implications. The argument at the bargaining unit level is that the union achieves viability by mobilisation of the employer and the membership. At the union level, the prime contention is that union survival depends on the inclusion of a threshold level of viable bargaining units. Seeing the union as a portfolio of units explains certain internal issues such as aspects of governance and it also explains certain features of union growth. Although the argument may only apply to unions predominantly concerned, as in the UK, with collective bargaining, it is an approach to the study of union behaviour that has yet to be fully explored.

In some ways this is surprising. The question 'what do unions do' (Freeman and Medoff, 1984) is answered by economists in terms of the impact of union activity (*i.e.* what do unions do to markets or firms on behalf of members). A more behaviourally based analysis might conclude that what unions do, at least in the UK, is to seek, sign and then administer collective agreements. They represent members, but primarily through collective agreements. The nature of the union might then be some function of the sum of agreements it seeks, signs and administers.

The analysis presented here has used a simple rational choice approach to the problem. Others are available. This approach naturally emphasises collective action problems. The key issues are as follows. First, the union needs to resolve certain key collective action problems in order to achieve recognition. It does so by mobilising the members to participate. It then needs to secure its presence within the firm to negotiate. It does so by mobilising the employer. Third, it must make the bargaining unit so formed viable; it does so by continued mobilisation of both employer and members. The most viable bargaining units hardly depend on the formal union at all. This is compatible with the findings of many who have studied shop-floor organisation. Unions which generate the best bargaining unit portfolio will, in competitive circumstances, be most appealing to members and employers. They may be able to compete with non-union voice generators.

This is the central paradox to emerge here; that an important consequence of formal union organising success is its own operational marginalisation. In viable bargaining units, the formal union taxes co-operating employers and participating members to fund activities elsewhere. This tax may be worthwhile for co-operating employers if the value of voice is high enough or if it is subsidising damaging conflict in competitors; the latter consideration may encourage the union to maintain some conflict-prone units. For members, it may be that the tax is worthwhile as a form of insurance against employer defection. For the active minority of participating members, the tax may be the entry price to the market for participation. However, where the members and the employer see no added value from the union, defection in the form of membership loss and de-recognition respectively is relatively easy.

The approach explains union conservatism in the face of employment shifts. The union is not neutral between the loss of a condition A bargaining unit and the gain of a condition C unit of the same size. Unions may gain financially from membership loss.

The union spends most resources where it bears the full costs of mobilisation; *i.e.* where it is least welcome. In these circumstances of employer recalcitrance and employee indifference, it seeks support, notably from governments in the form of legislative support for membership rights and recognition provisions. However, legislative support does not mobilise and there is a high probability that a widely used recognition procedure would deliver large numbers of inviable bargaining units. There is limited evidence of historical precedent in the 1970s. This may be an argument against such a procedure or for an augmented one involving a statutory route to facilities, particularly through provisions reducing membership participation costs.

The approach also offers insights into the dynamics of inter union competition. One possible view of the formal organisation of a trade union is that it represents the sum of the transaction costs involved in establishing viable bargaining relationships between employer and employee. Other things equal, the successful union will minimise A_{Lr} per member and per employer. We have argued that general unions are most likely to do so.

In summary, then, the study of unions as portfolios of viable and inviable bargaining units offers insights into union behaviour and some testable propositions about future conduct. If research in this area is to develop, it will require the collection of data hitherto ignored by researchers and, often, by employers and unions themselves. A key statistic is the number of bargaining units within a union and their financial performance. Such data should be relatively easy to collect. The costs of employer facilities and their value to the union might be more difficult, as might data on the costs and value of membership participation of different forms. However, with such data, it might prove possible to build a robust economic and strategic model of a trade union. Unions themselves might reanalyse their behaviour with respect to current and prospective job territories leading to substantial changes to structure and to growth strategies.

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