

The Cost of Unionization
09-16-09

The Cost of Unionization:

A Cost-comparison analysis of unionized vs. non-unionized worksites

As the uncertainty of the current economic crisis wages on, union representation may seem more appealing than ever to workers who are concerned about job security, wages, and benefits. The truth of the matter is, unions target companies that are profitable and while many of these companies have had to make changes to remain competitive they are still in the sights of unions. However, when they cannot seem to make headway into well-run companies, unions will vilify a company working to maintain profitability by engaging in orchestrated corporate campaigns.

Most employees do not realize how the presence of a union and even their external activities can negatively impact the business – and their job security, especially in today’s competitive and recovering market. Now is the time for companies to proactively take measures to protect their company and their employees by remaining union free. The cost of doing nothing is too great a risk.

Some research, such as the work done by John E. Dinardo and David Lee at the National Bureau of Economic Research, has led many to believe that increased wages and benefits have an insignificant impact on the market value of an organization.^[1] If this is the case, why did unionization play a significant role in the automobile industry crisis? The United Auto Workers (UAW) still preach to everyone that will listen about “The Union Advantage in Pay and Benefits”--that unionized workers receive higher wages and more benefits than non-union workers.^[2]

A March 2009 study released by the Bureau of Labor Statistics supports these claims.^[3] The study found that union-free employers paid an average of \$19.06 per hour (wages and salary), while union employers in the same sector were obligated to \$22.76 per hour. Additionally, unionized workers received \$13.82 per hour in benefits, whereas union-free workers received \$7.33 per hour in benefits. Of course, the argument could be made that union dues are not accounted for in this study, but does any of that matter if the company - or entire industry - collapses under the strain?

Why do so many organizations, such as Wal-Mart, FedEx, Citigroup, Associated Builders and Contractors, even the US Chamber of Commerce, take such a strong stance against unionization? In his landmark text, “Unions Are Not Inevitable!,” author Lloyd M. Field explained, referencing multiple studies conducted in the 5-year period following unionization. The findings, according to Field, were that newly organized company’s operating costs increased by more than 25 percent of their gross payroll and benefit costs. In his book, Field

provides an example of a company with a gross payroll of \$18 million, for whom unionization would then result in \$4.5 million in additional annual operating costs. [\[4\]](#)

Jim Gray, president of Jim Gray Consultants, a firm that specializes in helping business leaders with human resources and business transitioning issues, found that businesses could expect to spend approximately \$400,000 to more than \$2,000,000 on a single unionization campaign. [\[5\]](#) These costs includes items such as attorney's fees, travel expenses, meetings with employees, video presentations, lost productivity, and other items that are often hard to quantify but can add up to thousands – even millions – lost.

As far as annual expenses for an organization with a union presence, Gray estimates that the total additional operating costs (over a union-free company) range from \$900,000 for a company with 100 employees to more than \$4,000,000 for a company with as many as 2000 employees. These amounts do not include wages and benefits, but do include items such as additional training for managers, additional Human Resources support, attorney's fees, cost of arbitrations and handling of grievances, plus negotiations, lost productivity, strike planning, security, and lost sales margin, as well as a number of other items.

Extending the research out to 10 years post-unionization, the Employment Policy Foundation (EPF) stated that a unionized company's output per employee would be 2.4 percent less than a union-free competitor, if that unionized company experienced just a .25 percent reduction in productivity. Their conclusion was that unless the unionized company could sell their product at a higher price or other cost savings could be attained, the unionized company is likely to see 14 percent less in profits per labor hour than their non-union competitor. [\[6\]](#)

Research by David Lee and Alexandre Mas, which used a similar methodology to Lee's earlier study with DiNardo, found that unionization reduced an organization's market value by approximately \$40,500 per worker eligible to vote in a unionizing campaign. [\[7\]](#)

In his book, "Union Proof – Creating Your Successful Union Free Strategy," author Peter J. Bergeron notes that the cost of operating a unionized organization is estimated to be 25 to 35 percent higher than a union-free organization. [\[8\]](#) This is because unionized organizations lead to larger human resources staff, increased legal counsel, increased involvement with regulatory agencies, loss of flexibility, and increased labor costs due to rules on overtime, grievances and arbitration processing, and many other requirements.

With extensive operational costs and potential loss of market value, organizations must be diligent in their strategies to avoid unionization. An integral part of any successful union avoidance strategy is communication with employees. As noted by Bergeron, "Companies that are afraid of the 'U-word' are the unions easiest targets. If your employees aren't knowledgeable about unions, make sure that you are the one to provide that information – otherwise, the union will do it for you, and not in a good way. Employers need to provide useful information. In short, employees need to see current, relevant factual information. They need

to know about the things that can affect them, and they need to know that upper management really is aware of the challenges they face on a daily basis.”

The bottom line is that unionization can have a serious impact on the agility and profitability of any company. It’s vital that every union-free employer takes preventive action now - building relationships with employees to let them know how much they are valued, not just for their output, but for their skills and input as well. Employers should consider it their responsibility to educate and inform employees of the reality of union representation. Times are hard; stay union-free to avoid making them harder.