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# Union Organisation: Its Costs and Benefits

**Trade Unions, Inequality and Pay Stagnation Conference**

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the London School of **Economics**  
and **Political Science**

# Unions As Organisations

- Delivering services to members who pay fees (dues, subscriptions)
- Reliant on employers to conduct their business:
  - On their premises
  - Access to workers
  - Access to facilities
  - Collective bargaining agreements
- Unions have balance sheets, assets, debts of their own
- Often in competition with other unions for same business
- Competition can hot up when:
  - State changes the rules of engagement
  - Market is in decline (“mature”)
- What we do for the UK:
  - Map organizational change in the market for the supply of union services
  - Examine the financial viability of unions as organisations
    - On balance sheet and off balance sheet resources
  - Point to the heterogeneity of unions as organisations
    - Some very successful
    - Some less so

# Key parameters

- Size of the market
  - Members - Unmet demand for membership/coverage/services
- N suppliers
- Substitutes
  - State benefits/regulation - Non-union voice
- The 'good' unions offer
  - Public goods (who should pay cf France)
  - Private goods. Often non-excludable under the law - > free-riding
  - Experiential
  - Multi-attribute (voice v monopoly; insurance)
- Resources
  - On-balance sheet and off-balance sheet
- Balance sheets
  - Income - Assets - Expenditure - Liabilities

# 1940s- early 1990s

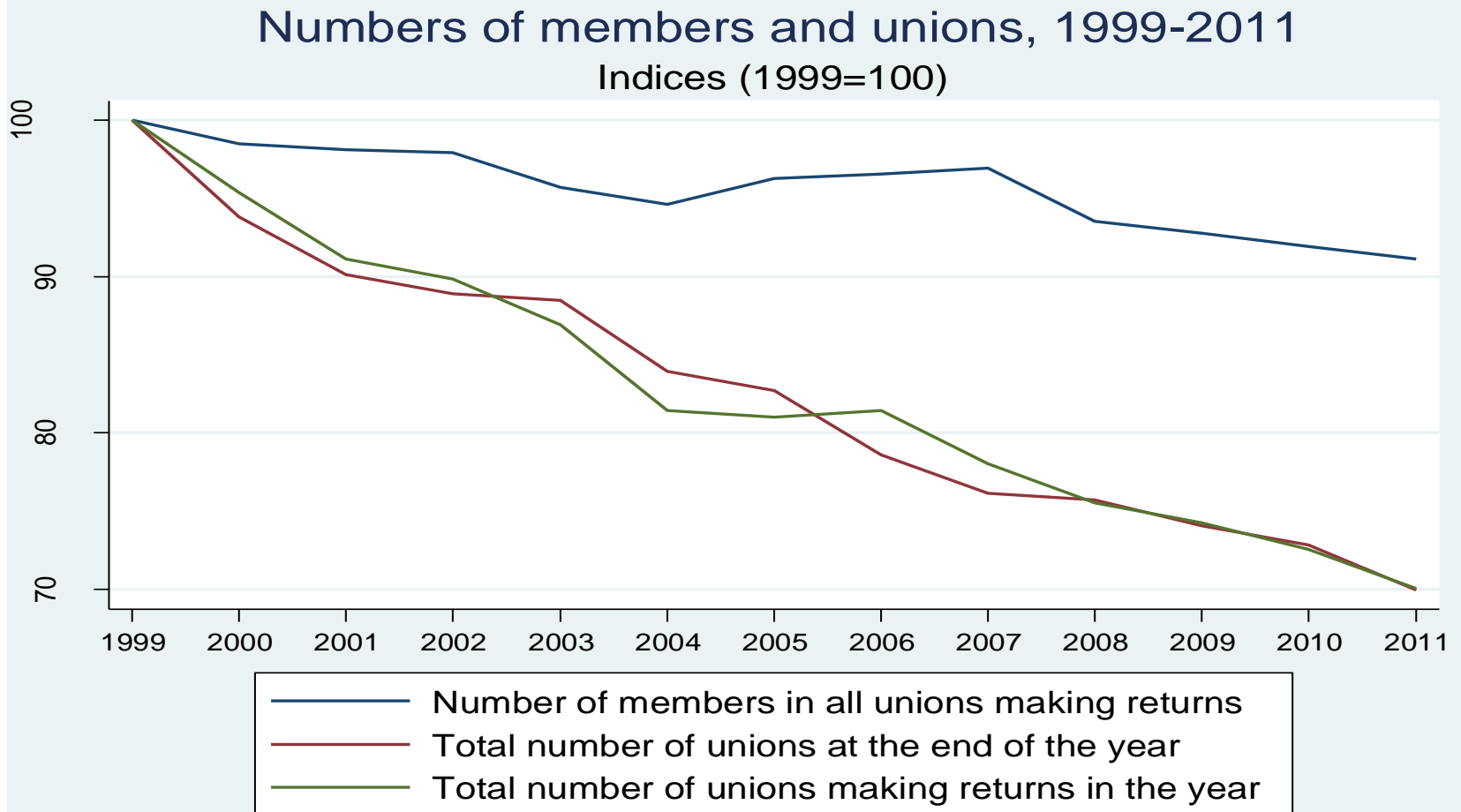
- Asset base and margins in decline since 1945 - Willman's book "Union Business" (1993)
- 1970's great for membership, terrible for finances –poor unions expanding, rich ones shrinking, neither subscription revenues nor assets could cope with inflation.
- May 1979: high point for membership but not financially.
- Thatcher – destruction of the manufacturing base indirectly impacts union finances – rich old unions continue to decline in size. Miners' strike = financial disaster.
- Mergers widespread but don't reduce inter-union competition – sometimes just make it more widespread
- Mergers don't generate operating efficiencies – soft deals.
- Determinants of revenue increase very different from expenditure increase.

# Union Finances

## As Reported to the Certification Officer

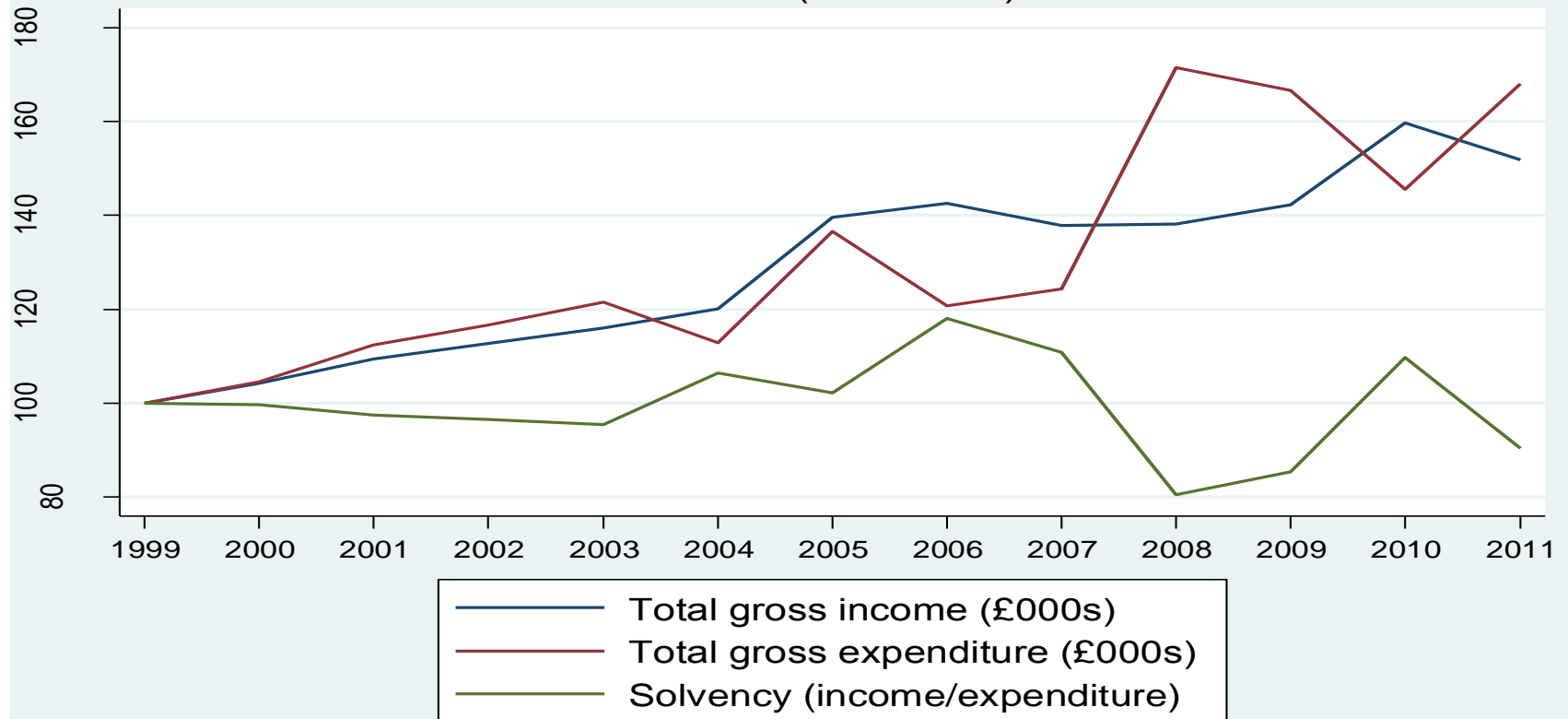


# N unions has fallen at a much faster rate than N members



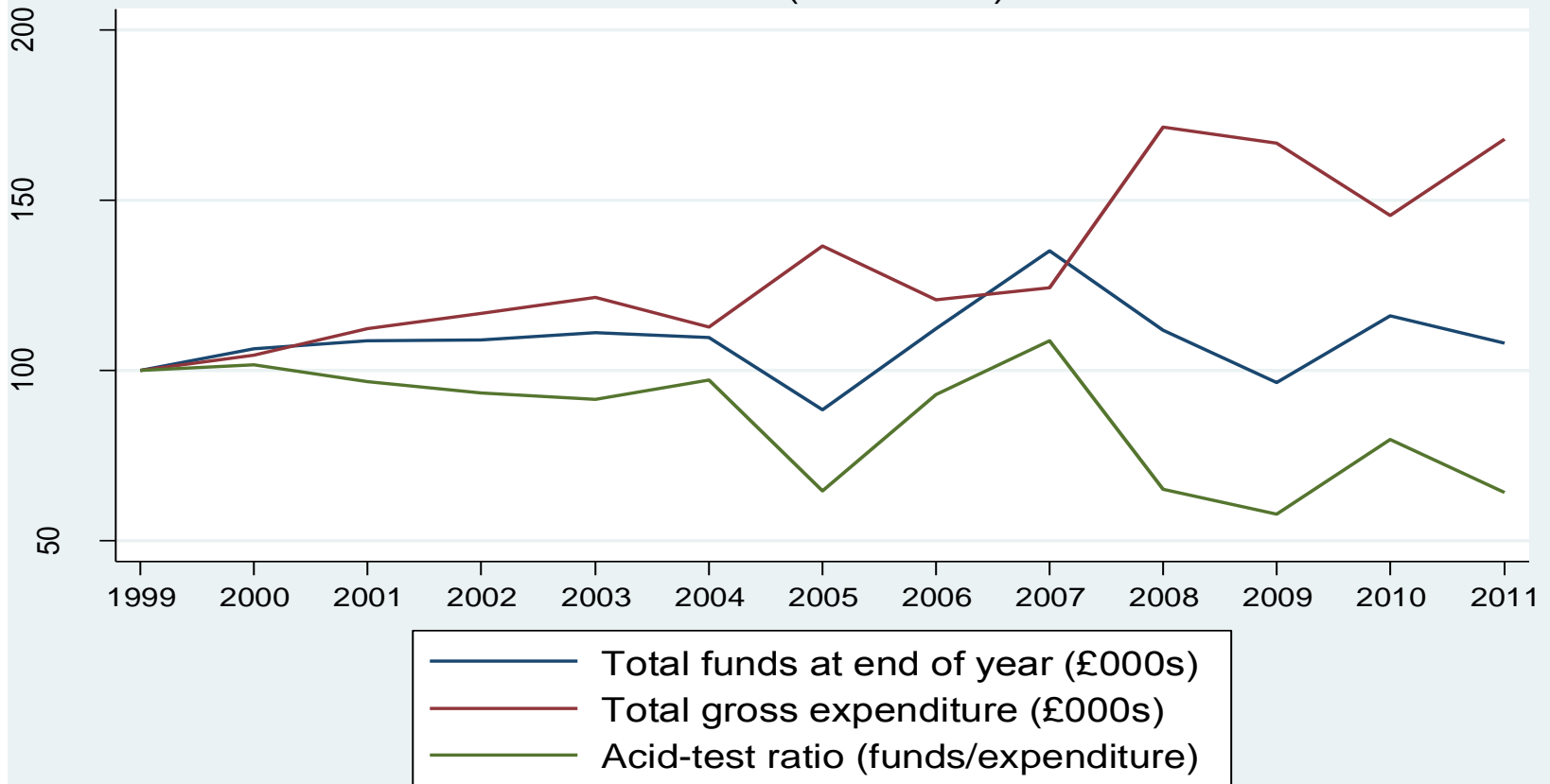
# Only Just Solvent

Income, expenditure and solvency, 1999-2011  
Indices (1999=100)



# Not meeting the acid test (funds/expenditure)

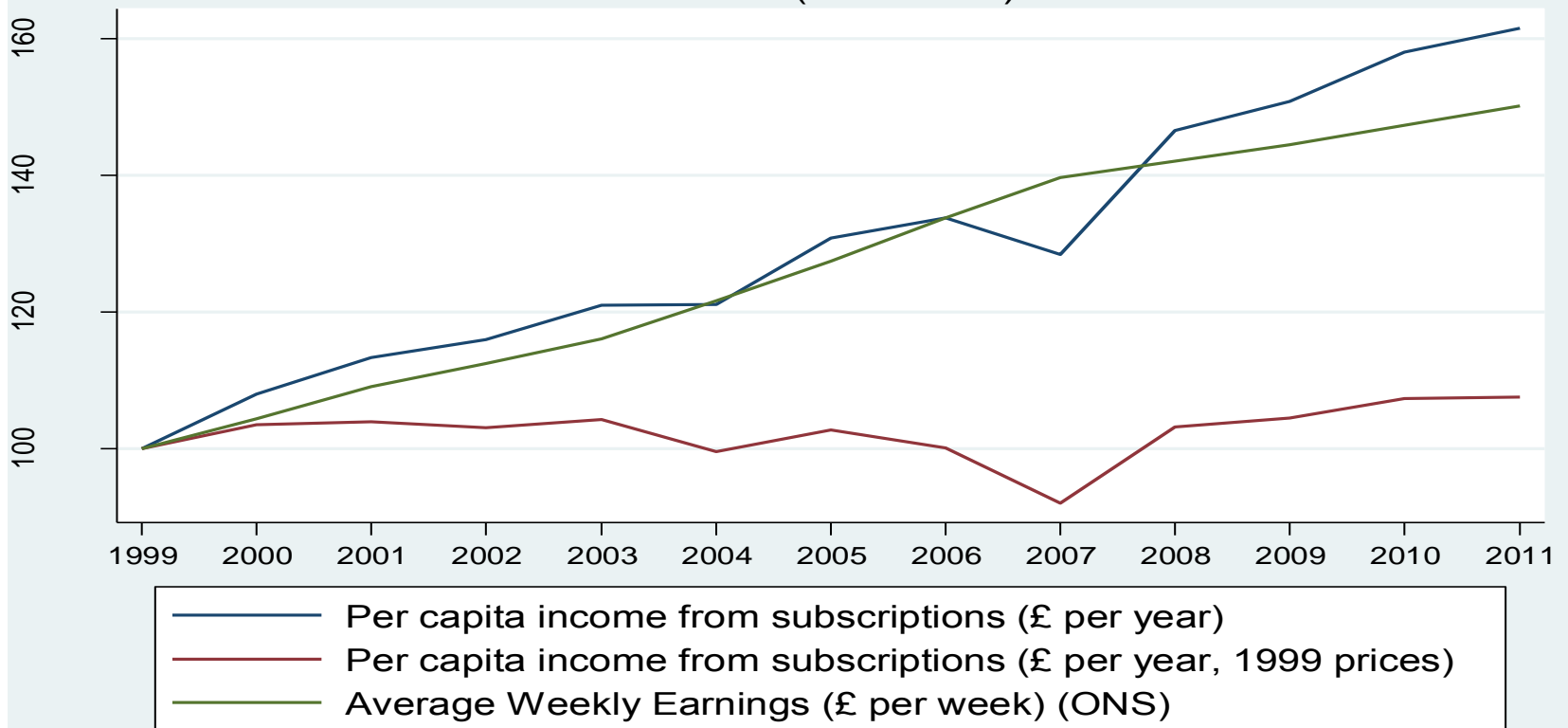
Total funds, expenditure and acid-test ratio, 1999-2011  
Indices (1999=100)





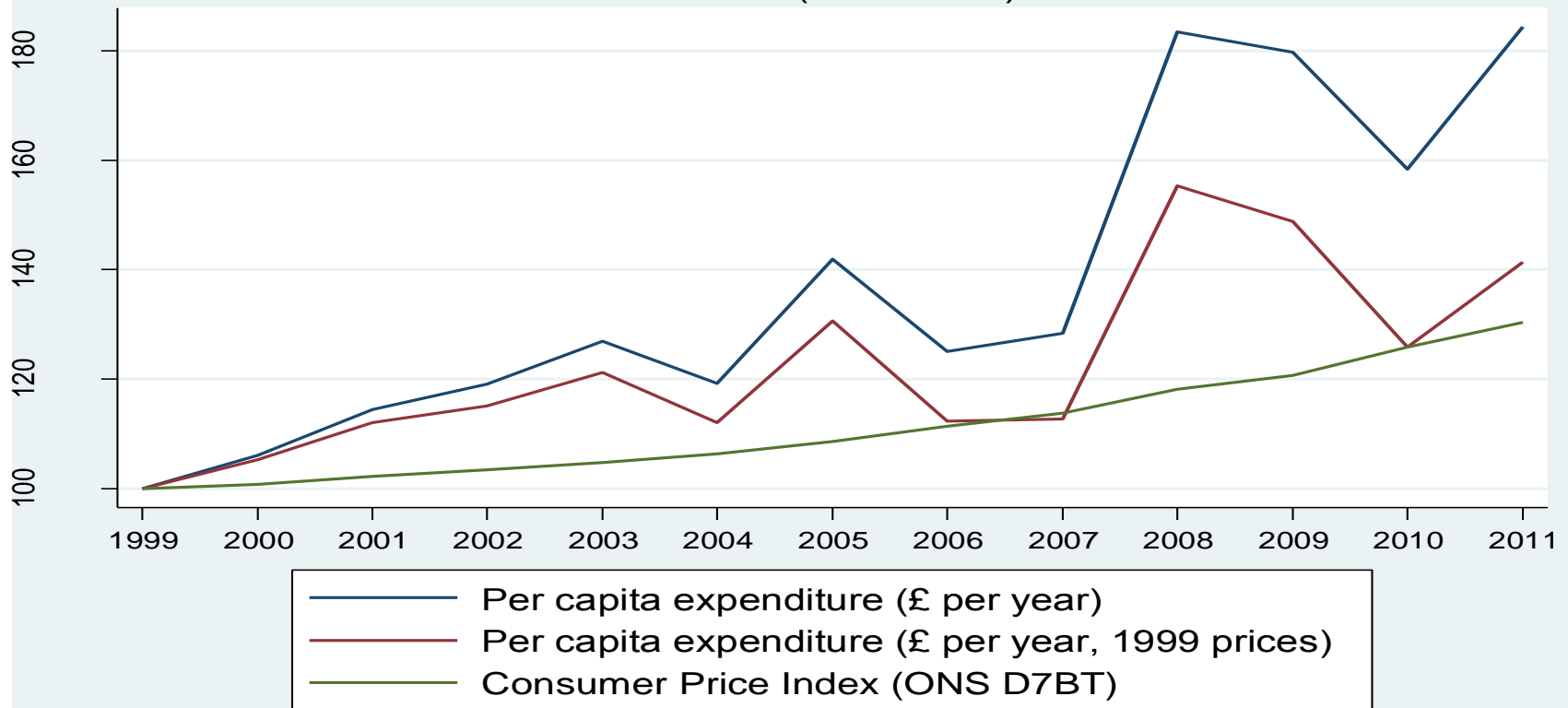
# Revenue Performance – broadly stable

Income per member and average earnings, 1999-2011  
Indices (1999=100)



# Expenditure Performance – rising real per capita expenditure

Expenditure per member and consumer prices, 1999-2011  
Indices (1999=100)



# Summary – what do these stats tell us about the noughties?

- Income performance sustained
- Solvency  $< 1$
- Expenditure  $>$  Assets, therefore acid test ratio at 0.8
- Asset performance?
- Expenditure volatility, but generally expenditure per capita runs ahead of CPI

## Half the story?

- On Balance Sheet; what appears in the 'formal' accounts (e.g. Certification Office Returns)
- Off- Balance Sheet; the 'informal, particularly workplace resources available to support union activity (e.g. WERS)

# Off-balance sheet resources

As Reported by HR  
managers in WERS

# Off Balance Sheet Resources (WERS)

- Employer-provided; recognition, facilities, check-off
- Lay representation; elasticity of supply
- Attitudes towards unionisation

## Union Recognition Down in Private Sector

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	1998	2004	2011
<b>All workplaces with 10+ employees:</b>	<b>33</b>	<b>26</b>	<b>24</b>
<b>Private manufacturing</b>	<b>31</b>	<b>21</b>	<b>11</b>
<b>Private services</b>	<b>18</b>	<b>12</b>	<b>10</b>
<b>Public sector</b>	<b>83</b>	<b>86</b>	<b>90</b>
<b>All workplaces with 5+ employees:</b>	<b>n/a</b>	<b>20</b>	<b>18</b>

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## **% workplace managers “in favour” of union membership is on the decline in private sector**

	1998	2004	2011
All workplaces with 10+ employees:	25	20	19
Private manufacturing	15	8	5
Private services	13	11	9
Public sector	69	70	69
Any recognised unions	59	63	62
No recognised unions	8	5	5
All workplaces with 5+ employees:	n/a	16	15



## **% workplace managers agree “would rather consult directly with employees than with unions”**

	1998	2004	2011
All workplaces with 10+ employees:	76	78	80
Private manufacturing	86	87	91
Private services	82	82	85
Public sector	52	55	53
Any recognised unions	55	56	56
No recognised unions	87	85	88
All workplaces with 5+ employees:	n/a	77	80

## Strong correlation between management attitudes and union density in private sector

	2004	2011
All <u>private sector</u> workplaces with 5+ employees:		
Management in favour	48	41
Management neutral	9	9
Management not in favour	2	2
All <u>public sector</u> workplaces with 5+ employees:		
Management in favour	59	58
Management neutral	51	42
Management not in favour	n/a	n/a

## Union Lay Representation where union recognised

	1998	2004	2011
All workplaces with <u>recognised unions</u> and 10+ employees:	57	46	49
Private manufacturing	59	58	73
Private services	42	51	50
Public sector	67	46	46
All workplaces with <u>recognised unions</u> and 5+ employees:	n/a	38	41

## Unions at this workplace take notice of members' problems or complaints

	1998	2004	2011
All employees in unionised workplaces with 10+ employees:	66	67	69
Private manufacturing	66	64	71
Private services	64	68	68
Public sector	68	66	70
Union members	71	70	74
Non-members	56	60	62
All employees in unionised workplaces with 5+ employees:	n/a	66	69

## ***Unions at this workplace make a difference to what it is like to work here***

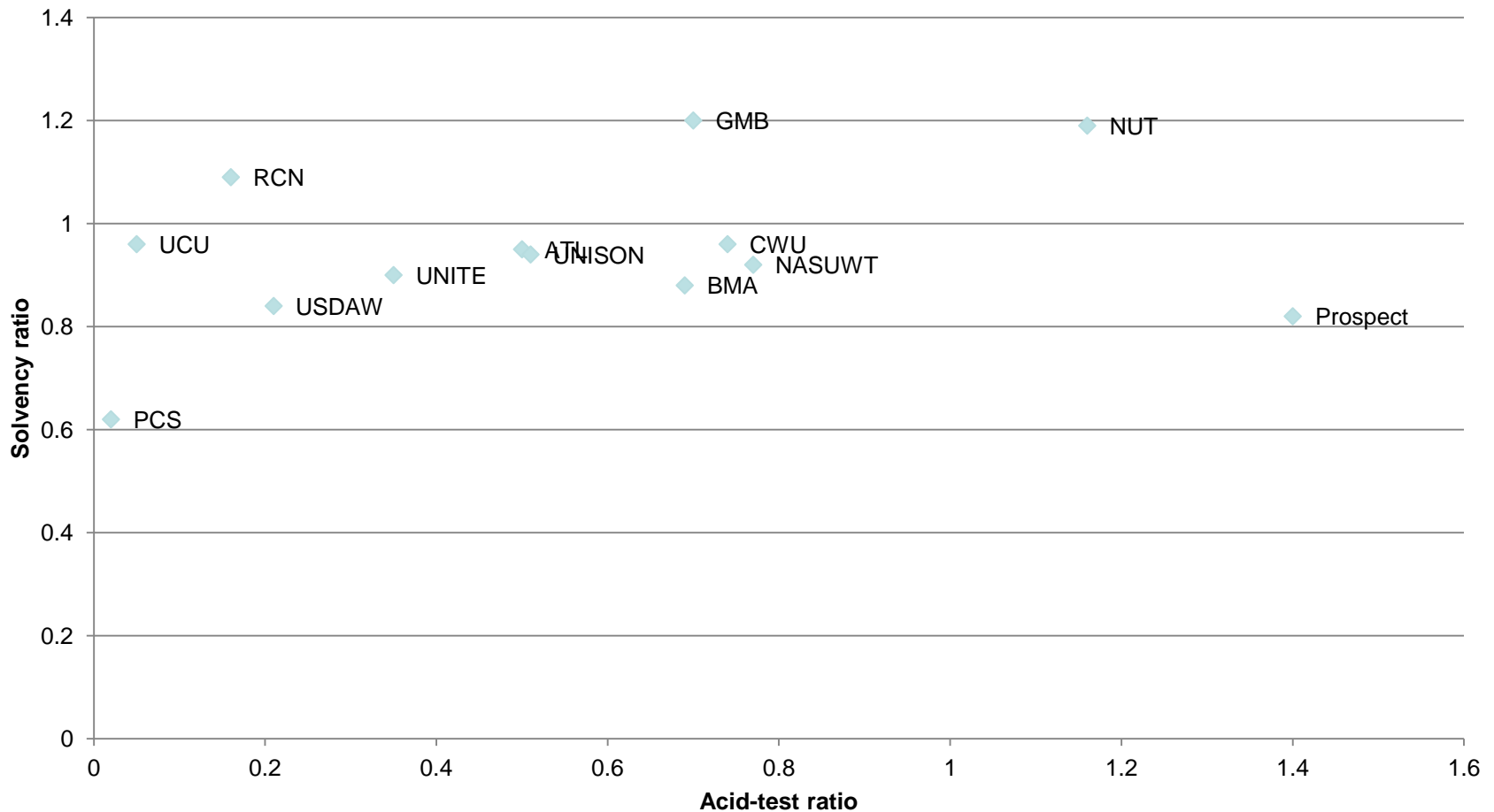
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	1998	2004	2011
All employees in workplaces with 10+ employees:	41	42	43
Private manufacturing	46	43	48
Private services	38	41	44
Public sector	39	42	41
Union members	46	46	50
Non-members	29	32	33
All employees in unionised workplaces with 5+ employees:	n/a	41	43

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# But Lots of Heterogeneity in Unions' Financial Performance in 2011

Financial performance of largest unions, 2011



# Different business models?

## 11 TUC Affiliates Over 100,000 members, 2013-4

	Subs Income per member	£ per annum Expenditure per member	Funds per member	Acid Test*	Solvency**
Max	164.4	200.5	202.3	1.09	1.72
Min	88.0	81.9	-12.0	0.00	0.77
Ave	113.2	129.0	74.0	0.57	1.10

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Source; Certification Office Returns

Notes \* Year End Funds/Total Expenditure

\*\* Total Income/ Total Expenditure

## Issues and Questions Arising

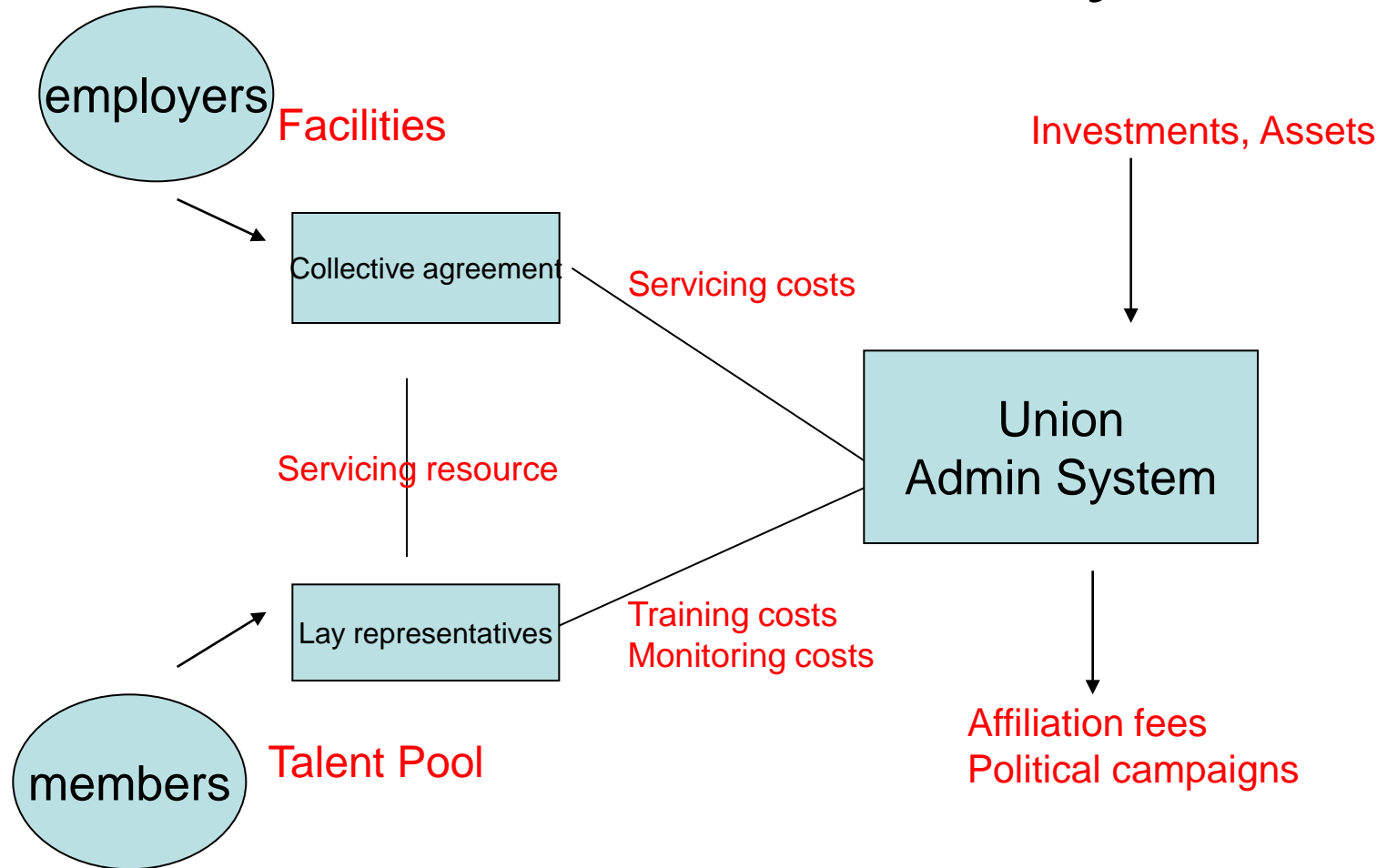
- Off and On Balance Sheet – additive or substitute?
- Price elasticity of demand for unionisation?
- Expenditure - effectiveness of internal management systems?
- Elasticity of supply of lay representation?
- Causes of variance between unions?



# Union Productivity in the United States (Breda, Bryson and Forth)

- Productivity dispersion across union locals is substantial - whether measured in terms of sales or units sold
- Union locals' Total Factor Productivity (TFP) is also a significant predictor of locals' survival.
- Aggregate TFP in the sector has fallen in the last decade or so and is increasingly dispersed.
- The nationals to which most locals belong account for roughly one-fifth of TFP growth, indicating that organisation-level factors do affect locals' efficiency.
- However, nearly three-quarters of TFP growth occurs within locals, rather than across locals, confirming the importance of local-specific effects.

# Union Administrative System



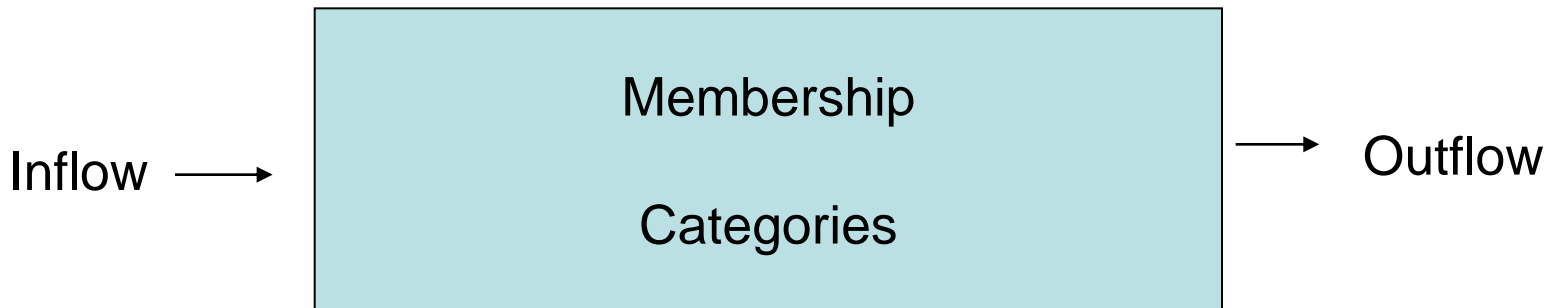
# Membership

What are the costs of membership acquisition?

What is the subscription yield?

What are the transaction costs of collection?

What are the costs of servicing by membership status and service category?



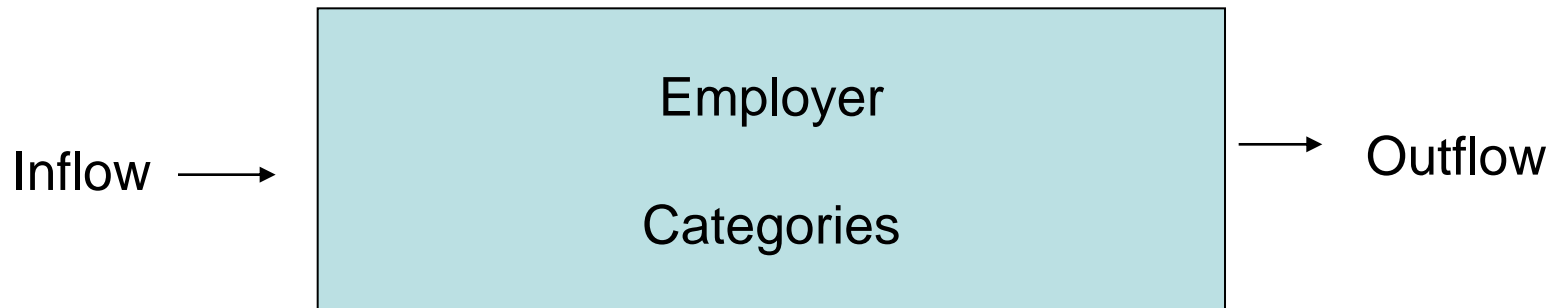
# Employers

What are the costs of employer acquisition?

What is the revenue yield by employer?

What are the transaction costs of revenue collection?

What are the costs of servicing the collective agreement?



# Union plc

Revenues; Membership revenues, diversification of revenue streams, volatility, pricing

Revenue Issues; cost of acquisition of customer, churn and retention, customer profitability analysis [servicing costs] – portfolio risk.

Costs; fixed vs variable, service levels, expectations and delivery mechanisms.

Assets; Book vs market value, liquidity, portfolio issues. Liabilities: debts and pension liabilities

Market positioning; market share, growth potential, segmentation.

Due diligence; quality of management team, off-balance sheet resource, brand value, 'goodwill', intellectual property.

# Unanswered questions

- What is the price elasticity of union membership?
- What are the major cost drivers in membership servicing?
- What cost benefit measures do we apply to organising activity?
- What drives membership churn?
- What drives the supply of lay reps?
- What performance measures apply to lay reps?
- What is the turnover of lay reps and what drives it?
- What considerations drive investment policy?
- How do we assess our asset management?
- Where do we get the data from to answer these questions?

# ADDITIONAL SLIDES



# TUC Affiliates with 100,000 or more members, 2011

Source; Certification Office returns

Union	Total number of members	Income per member	Expenditure per member	Total funds per member	Acid-test ratio	Solvency ratio
Unite	1,510,026	94.9	115.5	40.4	0.35	0.90
UNISON	1,317,500	132.3	165.2	85.0	0.51	0.94
GMB	610,116	96.9	89.8	62.5	0.70	1.20
RCN	417,821	106.3	98.8	16.3	0.16	1.09
USDAW	412,441	86.8	123.5	26.2	0.21	0.84
NUT	386,668	87.1	84.2	97.8	1.16	1.19
NASUWT	338,688	86.1	103.7	79.4	0.77	0.92
PCS	280,547	109.9	123.2	2.5	0.02	0.62
ATL	211,506	71.5	79.4	40.1	0.50	0.95
CWU	204,419	138.4	147.3	108.8	0.74	0.96
BMA	147,682	279.7	913.8	627.2	0.69	0.88
Prospect	118,843	137.9	176.7	248.3	1.40	0.82
UCU	117,039	156.6	169.7	8.5	0.05	0.96
		156.6	176.7	248.3	1.40	1.20
Maximum (excluding BMA)		UCU	Prospect	Prospect	Prospect	GMB
		71.5	79.4	2.5	0.02	0.62
Minimum		ATL	ATL	PCS	PCS	PCS
All unions with 100,000+ members	6,073,296	110.3	142.3	73.8	0.52	0.93
All unions with 100,000+ members, except BMA and RCN	5,507,793	106.1	124.9	63.3	0.51	0.94
All unions	7,197,415	121.3	168.6	125.9	0.75	0.94

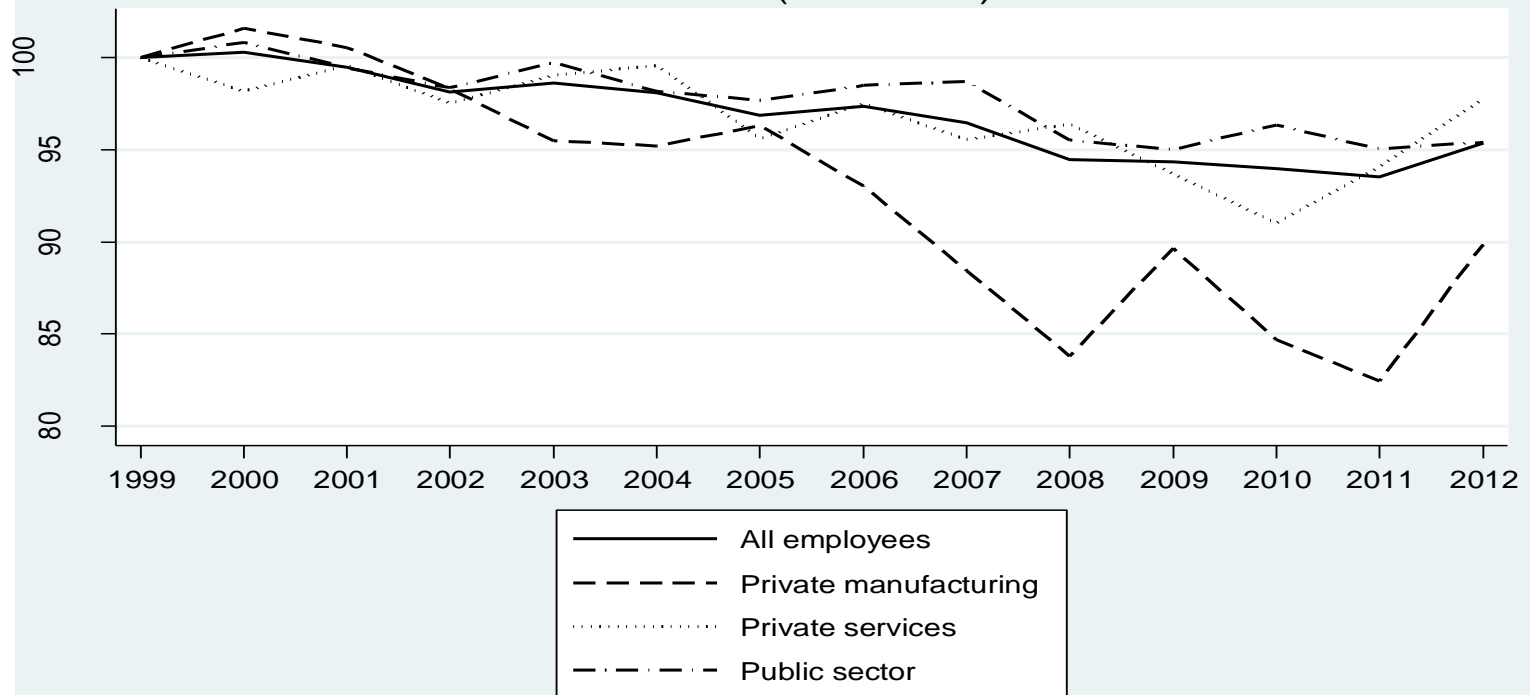


## **% workplace managers agree unions help find ways to improve workplace performance**

	1998	2004	2011
All workplaces with 10+ employees:	25	22	24
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# Growth in Free-riding

Membership density among covered employees, 1999-2012  
Indices (1999=100)



Source: Quarterly Labour Force Survey