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Management Attitudes Towards Two-Tier Pay Plans:  
An Analysis

by

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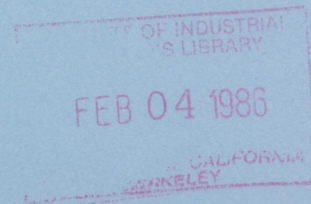
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It is possible to identify two clusters of variables which illuminate the seeming paradox of short-term optimism and long-term pessimism concerning two-tier plans. The questions listed on Table 3 related to "usefulness" and "problems" were coded as indexes ranging from +2 (strongly agree) to -2 (strongly disagree). A similar coding was applied to the "consequences" questions.\_25\_/ This permitted a matrix of correlation coefficients to be generated across the questions, an excerpt from which appears on Table 5.

Table 5 reports that there is an "optimism cluster" which revolves around the statement that two-tier plans are an important new method for labor cost control. Managers who agreed with the statement were inclined to think that two-tier plans were useful in many situations; that the number of plans would increase in the near term; and that it was unlikely that permanent two-tier plans would be terminated in some future negotiation. On the other hand, there is a cluster of pessimistic statements associated with the idea that two-tier plans create political problems for unions as a result of friction between new hires and current employees. Those who agreed that two-tier plans create this friction also believed that the plans negatively affect employee morale; that unions would try in the future to raise pay for new hires; and that two-tier plans were likely to be terminated in some future negotiation. In brief, optimism concerning two-tier plans was based on perceived labor cost savings, which begin almost immediately, whereas pessimism centered on the workforce frictions that can arise over a longer period of time.\_26\_/

Table 5

## Optimistic and Pessimistic Management Attitude Clusters

|   | Correlation Coefficients |             |              |
|---|--------------------------|-------------|--------------|
|   | Two-Tier Firms           | Other Firms | Total Sample |
| -----   |                          |             |              |
| I. Optimism Cluster   |                          |             |              |
| Believes two-tier plans are an important new method for cost control and that:  |                          |             |              |
| (1) Two-tier plans are useful in many situations, not only in distressed industries.  | *<br>.19                 | ***<br>.47  | ***<br>.44   |
| (2) The number of plans will substantially increase over the next few years.  | *<br>.23                 | ***<br>.51  | ***<br>.46   |
| (3) Permanent two-tier plan will be terminated in some future negotiations.   | **<br>-.28               | ***<br>-.37 | ***<br>-.39  |
| -----   |                          |             |              |
| II. Pessimism Cluster   |                          |             |              |
| Believes two-tier plans create internal political problems for unions due to tensions between existing workers and new hires, and that: |                          |             |              |
| (1) Two-tier plans improve employee morale.   | ***<br>-.37              | ***<br>-.32 | ***<br>-.40  |
| (2) Unions with permanent plans will try to raise the pay of new hires in the future.   | ***<br>.46               | **<br>.22   | ***<br>.40   |
| (3) Permanent two-tier plans will be terminated in some future negotiations.  | **<br>.33                | ***<br>.34  | ***<br>.40   |
| -----   |                          |             |              |
| ***Two-tailed test, significant at the .0001 level.   |                          |             |              |
| **Two-tailed test, significant at the .01 level.  |                          |             |              |
| *Two-tailed test, significant at the .10 level.   |                          |             |              |

Finally, respondents whose firms had two-tier plans were analyzed. Two groups of managers who were especially sanguine about two-tier plans were identified. These were, first, those from the retail/wholesale sector, and second, those managers who had less than ten years' experience in the personnel/industrial relations field. In the first group, 61 percent of retail/wholesale managers (versus 41 percent from other industries) did not believe that permanent two-tier plans would be eliminated in some future negotiation. Since managers in this sector were among the earliest to push for two-tier plans, it is possible that other managers over time will come to share their optimistic views. In the second group, 67 percent of managers with under ten years' experience in the personnel field (as opposed to 41 percent of those in the field for more than ten years) similarly did not agree that permanent two-tier plans would be terminated in the future.

The data provide no ready explanation for this second finding. Perhaps experienced managers are more attuned to the long-term problems inherent in the two-tier approach or, alternatively, they may view two-tier plans as but another faddish innovation. Perhaps the less experienced -- and presumably younger -- group represents a new breed of management which developed in the early 1980s, a breed more willing to adopt an aggressive stance with unions.

## VII. Conclusions.

The managers surveyed generally had a positive image of two-tier plans. Those managers whose firms employed such plans were more enthusiastic about their net effect than other managers. Thus, it is likely that this enthusiasm will add momentum to the two-tier movement, a movement the respondents expect to spread in the near term.\_27\_/\_

However, some managers -- especially those whose firms have not installed two-tier plans -- expressed concern about the departure from the principle of equal pay for equal work. They saw problems in the areas of morale, productivity, and labor-management relations connected with the two-tier approach. It is these doubts -- combined with union resistance -- that probably accounts for the greater frequency in implementation of temporary (rather than permanent) two-tier pay plans.

At this stage, despite anecdotal information from the few cases in which two-tier pay plans have been in existence for many years, there is little hard evidence on how the two-tier system will operate in practice. The vast majority of plans were spawned by the concession bargaining movement of the 1980s and are too new to provide clear guidance concerning effects on morale, productivity, and industrial relations. But since the push for two-tier plans comes from the management side, the generally positive views of the respondents suggests that two-tier plans will outlive the era of concession bargaining.

## FOOTNOTES

\*The authors would like to thank Maury Pearl and Gwang-Gi Baek for research assistance on this study.

1. Jane Seaberry, "Two-Tiered Wages: More Jobs vs. More Worker Alienation," WASHINGTON POST (April 7, 1985), pp. G1-G3; Irwin Ross, "Employers Win Big in the Move to Two-Tier Contracts," FORTUNE (April 29, 1985), pp. 82, 84, 88.
2. John Hoerr and Dan Cook, "A Pioneering Pact Promises Jobs for Life," BUSINESS WEEK (December 31, 1984), pp. 48-49; "Lifetime Employment, Lower Pay for New Hires Accepted Under IUE Pact at GM Packard Plant," DAILY LABOR REPORT (December 17, 1984), p. A8.
3. The Teamsters' National Master Freight Agreement of 1985 was narrowly ratified by the membership and was initially challenged by a dissident group. An earlier attempt to modify the Teamsters' 1982 contract to include a two-tier plan was overwhelmingly rejected. See "Teamsters Announce Approval of Master Freight Pact, Part-Time Workers Sue to Protest Exclusion from Vote," DAILY LABOR REPORT (May 20, 1985), pp. A10-A11; "Contract Rider Endorsed by Presser Overwhelmingly Rejected by Teamsters," DAILY LABOR REPORT (September 16, 1983), pp. A7-A8.
4. Aaron Bernstein and Zachery Schiller, "The Double Standard That's Setting Worker Against Worker," BUSINESS WEEK (April 8, 1985), pp. 70-71. A representative of the United Food and Commercial Workers union argued that workers in the lower tier would "feel sold out before they even became union members." See Beth Brophy, "Two-Tier Pay Plans Stir Debate," USA TODAY (June 12, 1985), pp. 1B-2B.
5. For example, a Los Angeles area retail foodstore chain in early 1985 began substituting lower-paid general merchandise clerks for higher-paid food clerks. Although not strictly a two-tier arrangement, the food/merchandise division is a close cousin of two-tier wage plans which has existed for many years in some markets. See Harry Bernstein, "Labor," LOS ANGELES TIMES (May 1, 1985), Part 4, p. 6. In some cases, the substitution incentive has induced employers to offer financial rewards for early retirements of workers in the upper tier. See "Northwest Offers Senior Flight Attendants Cash, Travel Benefits for Early Retirement," DAILY LABOR REPORT (October 5, 1984), pp. A5-A6.
6. Archer Cole, "The Two-Tiered Wage System is Damaging," NEW YORK TIMES (September 14, 1984), p. A31; Roy J. Harris, Jr., "More Concerns Set Two-Tier Pacts with Unions, Penalizing New Hires," WALL STREET JOURNAL (December 15, 1983), p. 33.
7. Malcolm H. Liggett, "The Two-Tiered Labor-Management Agreement and the Duty of Fair Representation," unpublished paper presented at the December 1984 meetings of the Industrial Relations Research Association; Oral presentation of Marc Rosenblum, chief economist,

Equal Employment Opportunity Commission, at the same meetings; Steven Flax, "Pay Cuts Before the Job Even Begins," FORTUNE (January 9, 1984), pp. 75-77.

8. The Delta arrangement is referenced in Charles M. Rehmus, "The National Mediation Board at Fifty," unpublished paper dated December 1984 available from the National Mediation Board, p. 58. Note that the predominance of two-tier plans in the union sector is evidence of the political mechanism in the union decision making process. With a two-tier plan, existing workers avoid wage freezes or cuts (and possibly layoffs) at the "expense" of future new hires (who do not have a voice in the decision). This outcome is an extreme form of the more general "median voter" model which is often applied to union decisions to explain the important voice of senior workers. See, for example, Richard B. Freeman and James L. Medoff, WHAT DO UNIONS DO? (New York: Basic Books, 1984), p. 18.

9. As with other features of union-management contracts, it is difficult -- if not impossible -- to determine when a contractual device first was used. One article claims that two-tier plans can be found as far back as the 1930s. See Flax, "Pay Cuts Before the Job Even Begins," op. cit. The BNA data used for Table 1 was drawn from "Two-Tier Wage Systems Found More Common in Nonmanufacturing Sector," DAILY LABOR REPORT (February 20, 1985), pp. B1-B4. Two-tier wage plans were found in less than 4 percent of the contracts featuring first-year wage freezes and cuts in 1982, according to the authors' tabulations. Since such contracts accounted for only 12 percent of the settlements in that year, the overall two-tier proportion would have been less 1 percent. However, within that group are the GM and Ford settlements which provided for lower wages for new hires on a temporary basis.

10. Information drawn from computer files maintained by author Mitchell based on the biweekly survey of union settlements reported in the DAILY LABOR REPORT. See also footnote 9, above.

11. Daniel J.B. Mitchell, UNIONS, WAGES, AND INFLATION (Washington: Brookings Institution, 1980), pp. 149-151.

12. Data from the Current Population Survey can be used to calculate the ratio of pay of craft workers to nonfarm laborers and operatives to nonfarm laborers in the union sector in 1970 and 1980. The 1970 ratios (based on annual pay of year-round, full-time workers) were 1.28 and 1.01, respectively. In 1980, the ratios (based on usual weekly earnings of full-time workers) were 1.27 and 1.02, respectively. Thus, no trend is apparent in skill differentials. See U.S. Bureau of Labor Statistics, SELECTED EARNINGS AND DEMOGRAPHIC CHARACTERISTICS OF UNION MEMBERS, 1970, report 417 (Washington: GPO, 1972), p. 13; U.S. Bureau of Labor Statistics, EARNINGS AND OTHER CHARACTERISTICS OF ORGANIZED WORKERS, MAY 1980, bulletin 2105 (Washington: GPO, 1981), p. 30.

13. Mitchell compared wage rates of skilled and unskilled plant workers in ten highly unionized metropolitan areas using area wage survey data for manufacturing establishments. During 1975-79, both groups experienced average annual wage increases of 8.6 percent. See Daniel J.B. Mitchell, "Shifting Norms in Wage Determination," UCLA Institute of Industrial Relations, working paper number 84, April 1985, pp. 22-22a. The wages of male janitors, porters, and cleaners rose more SLOWLY than those of more skilled male electricians and motor vehicle mechanics over 1970-80 according to the area wage surveys. This tendency also was apparent in the highly-unionized north central region, although in north central manufacturing, the relationship was reversed. (Janitor's pay rose faster than the others). Source: U.S. Bureau of Labor Statistics, HANDBOOK OF LABOR STATISTICS, bulletin 2175 (Washington: GPO, 1983), pp. 256-257.

14. Industry wage surveys for the airline industry provide wage dispersion data for pilots and flight attendants of certified air carriers. The gap between the upper and lower quartiles of the wage distribution rose from 14 percent to 26 percent during 1975-80 for captains (pilots). The comparable ratios for flight attendants during 1970, 1975, and 1980, were 32 percent, 33 percent, and 43 percent. (No pilot data are available for 1970). There was little trend apparent for ticket agents or aircraft cleaners. Source: U.S. Bureau of Labor Statistics, CERTIFIED AIR CARRIERS, SEPTEMBER 1980, bulletin 2129 (Washington: GPO, 1982), pp. 5, 8, 10, 15; U.S. Bureau of Labor Statistics, SCHEDULED AIRLINES, AUGUST-NOVEMBER 1975, bulletin 1951 (Washington: GPO, 1977), pp. 6, 9, 11, 13; U.S. Bureau of Labor Statistics, SCHEDULED AIRLINES, AUGUST 1970, bulletin 1734 (Washington: GPO), pp. 7, 9, 11.

15. Relatively high proportions of workers under major union agreements (those covering 1,000 or more employees) were reported as of 1980, i.e., prior to the two-tier movement, in such industries as retail foodstores, air transportation, and transportation equipment (including aerospace). See Edward Wasilewski, "Scheduled Wage Increases and Escalator Provisions in 1980," MONTHLY LABOR REVIEW, vol. 103 (January 1980), p. 10.

16. Audrey Freedman, THE NEW LOOK IN WAGE POLICY AND EMPLOYEE RELATIONS, report 865 (New York: Conference Board, 1985), p. 12.

17. The authors wish to thank Rosalind Schwartz, Assistant Director for Management Research and Education of the Institute for making the mailing list available.

18. A total of 947 questionnaires were mailed. Thirty-three were returned by the Postal Service as undeliverable. Two-hundred and eighty-six responses were received (156 in the first wave; 130 in the second wave). Because of changes in career status of addressees, it is likely that many questionnaires did not reach their targets.

19. A Conference Board survey found that the firms included in the sample deal with a median of four national-level unions. Twenty percent of the companies surveyed dealt with a dozen or more unions. Source: Audrey Freedman, MANAGING LABOR RELATIONS, report 765 (New York: Conference Board, 1979), p. 2.

20. In many cases, BNA data do not permit distinction between temporary and permanent two-tier plans, because of the information sources used. However, BNA provided the authors with a tabulation of 35 contracts in which information was available as of late 1984. Of these, 15 (43 percent) were of the permanent type; the rest were temporary. The authors wish to thank Mr. John Schappi and Mr. Kurt Fernandez of BNA for their assistance.

21. Respondents who indicated that concessions by management were made were asked to describe them. Examples included wage increases for current employees, an employee stock ownership plan, employee nominees to the corporate board of directors, and a freeze on managerial salaries. Obviously, in the context of a complex negotiation, there are conceptual problems in specifying what item was traded for another.

22. Typical of what was found are the following two regressions that predict a person's response to the statement on Table 3, "Permanent two-tier plans are likely to be terminated in some future negotiations":

$$\begin{array}{rcccccc} \text{i) TERM} = & .85 & -.030 \text{ EMP} & +.34 \text{ EXP} & +.92 \text{ DUM1} & R^2 = .16 \\ & (4.88) & (-.249) & (2.12) & (6.62) & \end{array}$$

$$\begin{array}{rcccccc} \text{ii) TERM} = & 1.15 & -.008 \text{ EMP} & +.29 \text{ EXP} & + 1.00 \text{ DUM2} & R^2 = .19 \\ & (7.39) & (-.07) & (1.83) & (7.55) & \end{array}$$

(t-statistics in parentheses)

The dependent variable (TERM) is an index created from responses to the above statement, with values ranging from +2 (strongly agree) to -2 (strongly disagree). The independent variables include the number of employees in the respondent's organization (EMP), the respondent's years of experience in the personnel field (EXP), and two dummy variables, one (DUM1) coded "1" if the respondent's firm engaged in collective bargaining and "0" if it did not; the other (DUM2) indicating whether his/her firm had a two-tier plan (coded "1") or not (coded "0").

23. Because the duty of fair representation issue is largely of concerns to union, the only question relating to legal matters put to the managers dealt with EEO.

24. This view indicates that despite recent research evidence suggesting that the labor relations climate and productivity are interconnected, many managers are not convinced such a linkage exists. See Harry C. Katz, Thomas A. Kochan, and Kenneth R. Gobeille, "Industrial Relations Performance, Economic Performance,

and QWL Programs, INDUSTRIAL AND LABOR RELATIONS REVIEW, vol. 37 (October 1983), pp. 3-17.

25. The "consequences" questions on the original questionnaire required responses of "large improvement," "some improvement," "no effect," "some decline," and "large decline." These were coded +2, +1, 0, -1, and -2, respectively. Table 3 presents a condensed version of these responses for expositional convenience. Note that the coding for the "usefulness" and "problems" questions of Table 3 does not include a "0" response. This was done because there is no neutral response to those questions in contrast to the "consequences" questions.

26. Rather than being mutually exclusive beliefs, most respondents (64 percent) think that two-tier plans create political problems for unions AND that they are an important labor cost control innovation.

27. At a conference in late 1984, Peter J. Pestillo, Vice President of Employee Relations at Ford Motor Company, was asked to comment on two-tier pay plans, which the automobile industry briefly adopted in 1982. Pestillo indicated that he viewed such plans as "the wave of the future" but indicated that the automobile industry was not yet ready for further steps toward a two-tier system. See his comments in James H. Ballagh, ed., EMPLOYEE RELATIONS OUTLOOK: IMPACT OF FOREIGN AND DOMESTIC COMPETITION (Los Angeles: UCLA Institute of Industrial Relations, 1985), sect. 5, p. 2.

# **MANAGEMENT ATTITUDES TOWARDS TWO-TIER PAY PLANS: An Analysis**

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### ABSTRACT

Two-tier pay plans -- under which new hires are paid on a lower pay scale than existing employees -- have been used with increasing frequency in union-management contracts. The two-tier phenomenon appears to be associated with the wider concession bargaining movement which began in the early 1980s. In this study, management attitudes toward, and forecasts about, two-tier pay plans are explored by means of a questionnaire survey.

In general, the management community is found to be optimistic about the spread and utility of two-tier pay plans in the near term. Managers in firms which actually have two-tier plans are more enthusiastic about their impacts than other managers. Over a longer horizon, however, the managers surveyed tend to believe that separate wage scales under two-tier plans will eventually be merged into a unified scale.

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The collective bargaining sector has been undergoing a painful process of readjustment since the early 1980s.\* Union membership rolls declined by over 2 million between 1980 and 1984, and a substantial fraction of the unionized workforce -- mainly in the private sector -- was involved in various forms of concession bargaining. One of the outgrowths of this period was the development of two-tier wage plans from an obscure contractual anomaly to a common feature in the union contracts of several industries.

#### I. Defining Two-Tier Plans.

Two-tier wage plans are usually classified in one of two categories. Under "permanent" plans, workers hired after a particular date -- typically the starting date of a new contract -- are paid on a separate and lower wage and/or benefit scale than existing employees. Regardless of how long the new hires subsequently remain with the employer, they can never catch up with the wage scale of the incumbents. Under "temporary" two-tier plans, new hires enter at a lower wage rate but -- if they remain with the firm for a specified period -- their scales eventually will merge with the scales of existing employees.

In actual fact, the lines between permanent and temporary plans are blurred. First, since union contracts are finite -- generally two to three years in duration -- the meaning of "permanent" is ambiguous. Wage scales could be merged in some future negotiation, even if no provision for doing so exists in the current contract. Second, if the period required for merger

under a temporary two-tier plan is made sufficiently lengthy, few employees may actually remain long enough to attain the higher tier wage. Third, if the merger date arrives after the contract expiration, it could always be further postponed, possibly indefinitely, in future negotiations.

Real world examples of these cases are easy to cite. A Michigan supermarket chain has received considerable journalistic attention because it has had a two-tier plan long enough for workers in the lower tier to outnumber those in the upper. As a result, the union has been pressured to push for a narrowing of the wage gap, and has done so with some success. Such continued pressure might eventually bring a return to a single wage schedule.\_1\_/

In another case, a General Motors electrical equipment plant negotiated a temporary two-tier plan which provides for a merger with the higher scale after ten years of seniority. Thus, there will be no actual new hires working at the incumbent scale for ten years and many new hires will turn over before reaching the ten year merger date. Because of the long merger period this plan may turn out to be indistinguishable in practice from a permanent two-tier system.\_2\_/

Finally, a recent trucking contract provided for lower rates for new hires, while the union insisted that no two-tier plan was involved because the new, lower scale would merge with the incumbent scale the year after the contract expired. Doubts about the arrangement (workers had previously overwhelmingly rejected a

reopener with a permanent two-tier plan) led to a close ratification vote. Some workers were apparently skeptical as to whether the merger of the two tiers would actually take place.\_3\_/

## II. Questions about Two-Tier Plans.

Various objections have been raised to the use of two-tier plans, typically from the union side. Unions fear the divisiveness that will occur as significant numbers of lower-tier workers begin to accumulate. Lower-tier workers might resent the union for having sacrificed their interests. News accounts suggest some justification for these fears.\_4\_/ Unions also fear creating an incentive for management to substitute lower-paid new hires for incumbents. Again, there is anecdotal evidence that such substitutions may be attempted.\_5\_/ Finally, it has been argued that having a two-tier system will adversely affect morale and productivity as lower-tier workers work side by side with higher paid people at the same jobs.\_6\_/

There have also been legal issues raised in objection to two-tier plans. Unions have a duty of "fair" representation (DFR) to employees in their bargaining units. Could workers in the lower tier successfully sue their unions for unfair representation of their interests? If the lower tier is disproportionately composed of women or minorities, say, because of an affirmative action plan, could equal employment opportunity EEO complaints arise?

To date, these issues have not been directly tested although legal scholars discount the viability of DFR or EEO suits based on

two-tier arrangements.\_7\_/ But strict legal interpretation may not be the key issue. Lower-tier workers might feel unfairly represented, even if they could not successfully sue their union for redress. Women and minority workers -- if concentrated in the lower tier -- might sense discrimination, even if courts would not share their perception.

### III. Incidence of Two-Tier Plans.

Two-tier pay plans have been basically a phenomenon of the union sector. Occasionally, nonunion plans are reported -- for example, nonunion flight attendants at Delta Airlines have a two-tier scale -- but almost all two-tier arrangements have been contained in union contracts.\_8\_/ Although some two-tier plans have long histories, most were developed during the period of union concession bargaining in the 1980s.

Table 1 summarizes data based on Bureau of National Affairs, Inc. (BNA) files for 1983-1984. Five percent of the non-construction union wage settlements in 1983 and 8 percent in 1984 had two-tier components. But these figures obscure the association of two-tier plans with certain kinds of settlements. If the data are confined to contracts involving wage freezes or cuts in the first year, the proportions are substantially higher. Moreover, the two-tier movement in the 1980s tended to originate in those concession bargains involving freezes and cuts, and then spread to other settlements.\_9\_/ About half of all two-tier settlements in 1983-84 emerged from contracts providing first-year wage freezes and cuts, although such contracts accounted for only

Table 1

Incidence of Two-Tier Pay Plans  
in Non-construction Settlements  
(percent)

| : Proportion of Settlements with Two-Tier Plans |                      |                          |  |
|---|----------------------|--------------------------|--|
| :-----  |                      |                          |  |
| Year  | : All Settlements_a_ | : Wage Freezes & Cuts_b_ |  |
| :-----  |                      |                          |  |
| 1983  | : 5%                 | : 13%                    |  |
| 1984  | : 8%                 | : 15%                    |  |
| :-----  |                      |                          |  |

\_a\_/Reported directly by Bureau of National Affairs, Inc.

\_b\_/Based on count derived from biweekly reports of  
Bureau of National Affairs, Inc. appearing in DAILY  
LABOR REPORT.

a little more than one-fourth of all non-construction settlements.\_10\_/ Thus, the linkage of two-tier arrangements and concession bargaining suggests that the causes of the two phenomena are closely related.

In addition, there may be a connection between wage compression in the 1970s and subsequent use of two-tier plans. For example, there is some evidence that use of cost-of-living escalators -- which typically provide flat cents-per-hour wage increases to all workers, regardless of pay level -- may have contributed to a compression of the percentage skill differential in certain union situations.\_11\_/ It might be hypothesized, therefore, that some two-tier wage plans were initiated to correct the internal pay structure.

Although this suggestion is intriguing, it must be added that the evidence on compression is ambiguous at best. Current Population Survey data do not suggest a GENERAL narrowing of union-sector skill differentials in the 1970s.\_12\_/ Nor do data from area wage surveys in highly unionized locations.\_13\_/ Data for the airline industry -- an industry in which many two-tier plans have been negotiated -- suggest that wage dispersion WIDENED among pilots and among flight attendants during 1970-80.\_14\_/ Thus, wage compression was not a pervasive characteristic of the union sector, nor was it necessarily characteristic of those sectors prone to install two-tier plans. For that reason, it does not appear that two-tier plans can be interpreted merely as a new-fangled way to correct problems of the internal wage

structure. However, the fact that escalation was common in some of the industries with heavy incidence of two-tier plans suggests that wage compression may SOMETIMES have been an explanatory factor.\_15\_/

Concession bargaining began in the 1980s among industries which were especially economically depressed by the business cycle downturn, import competition, nonunion competition, and de-regulation. From the employer viewpoint, the chief negotiating objective was reducing or restraining labor costs. A 1983 Conference Board study indicated that among firms which succeeded in obtaining union acquiescence to early contract reopening for concessions, about 30 percent proposed two-tier plans. And about 80 percent of these proposals were eventually implemented.\_16\_/ It is probably best, therefore, to view two-tier plans primarily as labor cost control devices.

#### IV. A Survey of Management Attitudes.

The history of two-tier bargaining suggests that the initiative on this issue comes from the management side. Unions certainly do not press for such plans, although they may reluctantly acquiesce to them. Thus, management attitudes are critical in determining the future of two-tier arrangements.

There are various issues related to the implementation and operation of two-tier plans and it is important to know how the management community feels about each. It would be especially useful to distinguish the attitudes of those managers whose firms

have used two-tier plans from those whose companies have not had first-hand experience with them. A more positive attitude toward two-tier plans on the part of those with experience suggests that over time the phenomenon will spread. In contrast, if managers in firms with experience in implementing two-tier plans reported negative results (say, with employee morale or productivity), then the spread of two-tier pay plans would be likely to halt of its own accord.

In addition, it is important to know if managers view two-tier plans as expedients to be used only under dire economic circumstances, or if they see them as useful cost controllers even when conditions are not severely adverse. Were two-tier plans viewed by management mainly as suitable for crisis situations, the spread of two-tier pay plans might well halt -- and even recede -- after a period of economic expansion. But if management views two-tier plans as more generally useful, then the two-tier movement could outlive the concession bargaining movement that spawned it.

To answer these kinds of questions, a survey of managerial attitudes concerning two-tier plans was conducted in late 1984 and early 1985. Questionnaires were sent to over 900 private-sector personnel and industrial relations managers in the Los Angeles area. The managers were selected from a mailing list normally used to announce management education programs conducted by the UCLA Institute of Industrial Relations.<sup>17</sup> A second wave of questionnaires was sent to those managers who did not respond to

the first wave and whose forms had not been returned as undeliverable. A response rate of slightly over 30 percent resulted.\_18\_/\_

i. Respondent Characteristics.

Various biases are present in the responses received. First, the mailing list used overrepresents managers in large firms and in unionized firms; such managers are more likely than others to be interested in university-sponsored programs related to personnel and industrial relations. Second, the respondents tended to be employed disproportionately in manufacturing firms, as many are headquartered in the Los Angeles area. Third, comparison of the second wave of respondents (the reluctant responders) with those in the first wave suggests that firms with two-tier plans and with unions were more prone to answer the questionnaire than others, probably because the topic was of special interest to them.

Despite these biases, the questionnaire produced much useful information. The respondent pool showed a high degree of awareness of two-tier plans. Virtually all of the unionized respondents knew of the phenomenon as did over three-fourths of the nonunion managers who replied. Table 2 summarizes the characteristics of the respondents. As can be seen, most reported considerable experience in the personnel and industrial relations field. Thus, the opinions expressed can be viewed as those of informed and influential personnel managers.

Table 2  
 Characteristics of Respondents and of Two-Tier  
 Pay Plans Reported

|  | : Unionized<br>: Firms | : Nonunion<br>: Firms |
|--|------------------------|-----------------------|
| -----  | -----                  | -----                 |
| Mean Size of Firm<br>(employees)                                     | : 10,071               | : 3,961               |
| Years of Experience in<br>Personnel Field of<br>Respondent (mean)    | : 17.1                 | : 15.6                |
| Percent of Respondents<br>Aware of Two-Tier Plans<br>Prior to Survey | : 95.7%                | : 77.0%               |
| Employer has Two-Tier<br>Plan(s)                                     | : 52.3%                | : 6.0%_a_/            |
| -Permanent   | : 29.6%                | : -                   |
| -Temporary   | : 51.0%                | : -                   |
| -Both Types  | : 19.4                 | : -                   |
| Total  | : 100.0%               | : -                   |
| -Management Conces-<br>sions made to obtain                          | : 21.2%                | : -                   |
| -Management Conces-<br>Not Made to Obtain                            | : 78.8%                | : -                   |
| Two-Tier Plan  | : 100.0%               | : -                   |
| Total  | : 100.0%               | : -                   |
| -----  | -----                  | -----                 |

\_a\_/See text for discussion of these plans.

## ii. Reported Use of Two-Tier Plans.

Over half of the union-sector respondents reported implementation of two-tier plans in their companies. In contrast -- but as expected -- very few nonunion managers reported such implementations. When telephoned for further information, the nonunion managers typically indicated that they had reported either routine readjustments of the pay structure or unusual arrangements which were not really two-tier plans. As a result, data reported below regarding firms with two-tier plans refer ONLY to unionized situations. (Such companies are termed "two-tier firms" in subsequent text and tables).

The fact that over half of the union sector respondents reported two-tier pay plan implementations partly reflects response bias. However, it should be noted that the questionnaire's two-tier implementation rate cannot be directly compared with data from the BNA contract surveys (cited above), which indicate much lower rates. The unit of observation on the questionnaire is the FIRM; in the BNA survey it is the CONTRACT. There is a critical difference between the two approaches, since some firms sign more than one contract.\_19\_/ If ANY contract their firms signed had a two-tier feature, respondents would indicate an implementation. Hence, apart from reporting bias, the two-tier implementation rate reported on the basis of the questionnaire would be expected to be higher than the rate reported by BNA.

About half of the unionized firms with two-tier plans reported use of only the temporary variety, in which new hires can eventually work their way up to the old (higher) pay scale. Just under 30 percent reported use of only permanent two-tier plans, in which the pay scales of new hires and current employees never merge. The remainder reported having both types of plans. BNA has not published data on the permanent vs. temporary breakdown of the two-tier plans it has surveyed. However, a special tabulation supplied to the authors indicates that the questionnaire's finding that temporary plans outnumber permanent is also supported by the BNA sample.\_20\_/

Generally, managers reported that their companies did not make concessions to their union(s) to obtain two-tier plans. Only about one-fifth reported that management gave up something to obtain the two-tier arrangements. However, the proportion was higher (37%) for those firms obtaining the more drastic permanent form of plan. Still, the perception by management that no tradeoff was involved supports the association of two-tier pay plans and concession bargaining. Relatively few managers reported that company demands for two-tier plans were rejected by unions, a finding in keeping with the Conference Board's survey cited earlier.\_21\_/

#### V. Management Views Concerning Two-Tier Plans.

As noted earlier, there is reason to segregate the views of managers from firms with experience in operating two-tier plans from the views of others. In general, statistical tests suggested

that there was indeed a dichotomy between managers from two-tier firms and those from other firms. However, since the two-tier phenomenon is so largely concentrated in the union sector, the possibility was considered that the dichotomy was really between unionized versus nonunionized companies. Because of the collinearity between unionization and having two-tier experience, it was not possible to reject this supposition.\_22\_/ The "swing" group consists of managers from unionized firms which do NOT have two-tier pay plans. Hence, in the remaining tables this group is shown separately where statistical tests indicate its attitudes differ significantly from those of its nonunion counterparts.

i. Initiation and Utility of Two-Tier Plans.

The respondents generally viewed two-tier pay plans as an important new way to control labor costs. As will be seen to be a consistent pattern, the managers from two-tier firms were more impressed with the importance of two-tier plans, more willing to see them applied in a variety of circumstances, and less likely to see adverse consequences than managers from other firms. But as Table 3 shows, managers generally perceived two-tier plans as important cost-controlling innovations of use in circumstances which go beyond short-term economic distress. The difference between the two groups (managers from two-tier firms versus managers from other firms) was often INTENSITY of beliefs rather than strong opposing viewpoints.

Table 3

**Management Attitudes Concerning Usefulness,  
Problems, and Consequences of Two-Tier Pay Plans**

|  | Strongly<br>Agree | Agree<br>with<br>Reser-<br>vations | Disagree<br>with<br>Reser-<br>vations | Strongly<br>Disagree |  | Strongly<br>Agree | Agree<br>with<br>Reser-<br>vations | Disagree<br>with<br>Reser-<br>vations | Strongly<br>Disagree |
|--|-------------------|------------------------------------|---------------------------------------|----------------------|--|-------------------|------------------------------------|---------------------------------------|----------------------|
| <b><u>USEFULNESS OF TWO-TIER PLANS</u></b>   |                   |                                    |                                       |                      | <b><u>PROBLEMS WITH TWO-TIER PLANS</u></b>   |                   |                                    |                                       |                      |
| Two-tier plans are an im-<br>portant new method for con-<br>trol of labor costs  |                   |                                    |                                       |                      | Legal problems for employers<br>are created by 2-tier plans<br>if new hires are dispropor-<br>tionately female & minority<br>workers.          |                   |                                    |                                       |                      |
| Two-tier firms   | 56%               | 38%                                | 5%                                    | 1%                   | Two-tier firms   | 14%               | 37%                                | 32%                                   | 17%                  |
| Other firms  | 26                | 48                                 | 19                                    | 7                    | Others   | 37                | 41                                 | 17                                    | 5                    |
| Two-tier plans are easier<br>for management to 'sell' to<br>union negotiators than<br>across-the-board pay freezes<br>or cuts                    |                   |                                    |                                       |                      | Two-tier plans create in-<br>ternal political problems<br>for unions, due to tensions<br>between existing workers and<br>lower-paid new hires. |                   |                                    |                                       |                      |
| Two-tier firms   | 56%               | 38%                                | 3%                                    | 3%                   | Two-tier firms   | 22%               | 44%                                | 21%                                   | 12%                  |
| Other firms  | 39                | 46                                 | 10                                    | 6                    | Others   | 42                | 49                                 | 8                                     | 2                    |
| If a two-tier pay plan is<br>negotiated, it is best to<br>confine the lower rate of<br>compensation to fringe<br>benefits                        |                   |                                    |                                       |                      |  |                   |                                    |                                       |                      |
| Two-tier firms   | 1%                | 3%                                 | 47%                                   | 49%                  |  |                   |                                    |                                       |                      |
| Other firms  | 6                 | 27                                 | 39                                    | 27                   |  |                   |                                    |                                       |                      |
| Two-tier plans are useful<br>in many situations; not<br>only economically distressed<br>industries   |                   |                                    |                                       |                      |  | Improve           | No Effect                          | Decline                               |                      |
| Two-tier firms   | 58%               | 34%                                | 7%                                    | 1%                   |  |                   |                                    |                                       |                      |
| Others   | 32                | 46                                 | 16                                    | 6                    |  |                   |                                    |                                       |                      |
| Two-tier plans are of use<br>mainly to employers who find<br>themselves in desperate<br>financial circumstances due<br>to excessive labor costs. |                   |                                    |                                       |                      | <b><u>CONSEQUENCES OF TWO-TIER<br/>PLANS</u></b>   |                   |                                    |                                       |                      |
| Two-tier firms   | 58%               | 34%                                | 7%                                    | 1%                   | Effect of two-tier plans on<br>employee morale:  |                   |                                    |                                       |                      |
| Others   | 32                | 46                                 | 16                                    | 6                    | Two-tier firms   | 5%                | 45%                                | 50%                                   |                      |
|  |                   |                                    |                                       |                      | Others   | 6                 | 15                                 | 79                                    |                      |
|  |                   |                                    |                                       |                      | Unionized a/   | 4                 | 10                                 | 86                                    |                      |
|  |                   |                                    |                                       |                      | Nonunion   | 9                 | 22                                 | 69                                    |                      |
| Two-tier plans are of use<br>mainly to employers who find<br>themselves in desperate<br>financial circumstances due<br>to excessive labor costs. |                   |                                    |                                       |                      | Effect of two-tier plans on<br>employee productivity:  |                   |                                    |                                       |                      |
| Two-tier firms   | 13%               | 24%                                | 36%                                   | 28%                  | Two-tier firms   | 13%               | 63%                                | 24%                                   |                      |
| Others   | 18                | 43                                 | 29                                    | 10                   | Others   | 7                 | 49                                 | 44                                    |                      |
|  |                   |                                    |                                       |                      | Unionized a/   | 1                 | 53                                 | 45                                    |                      |
|  |                   |                                    |                                       |                      | Nonunion   | 14                | 45                                 | 42                                    |                      |
| Two-tier plans should be<br>implemented only when an<br>employer's current level of<br>pay is high relative to the<br>local labor market.        |                   |                                    |                                       |                      | Effect of two-tier plans on<br>the climate of union-<br>management relations:  |                   |                                    |                                       |                      |
| Two-tier firms   | 16%               | 40%                                | 30%                                   | 14%                  | Two-tier firms   | 13%               | 52%                                | 36%                                   |                      |
| Others   | 22                | 41                                 | 29                                    | 9                    | Others   | 13                | 22                                 | 65                                    |                      |

a/ Unionized group significantly different from nonunion using chi-square test at .009 level for morale question and .020 for productivity question.

NOTE: Details need not sum to 100 percent due to rounding.

For example, if the two agreement categories used on the questionnaire (strongly agree and agree with reservations) are combined, 94 percent of managers in firms that have two-tier plans viewed them as important cost controllers, as did 74 percent of the managers from other firms. Ninety-four percent of the managers from two-tier firms also explained the spread of two-tier plans as resulting from the comparative ease of selling them to unions compared to the alternatives of wage freezes or cuts for all workers. Eighty-five percent of managers from other firms shared this interpretation. Very few managers from two-tier firms (only 4 percent) wanted to confine the two-tier approach to fringe benefits. A larger minority (33 percent) -- but still a minority -- of the managers from other firms believed such confinement to be appropriate.

Both groups were not disposed to confine two-tier plans to economically distressed INDUSTRIES. However, there is some disagreement with regard to EMPLOYER condition. Managers from two-tier firms generally disagreed with the proposition that such plans should be used only by employers in desperate circumstances due to labor costs. But just over three fifths of the other managers accepted that proposition. On the other hand, both groups generally agreed with the view that two-tier plans should be used only if the employer's wages were above those in the local labor market.

ii. Perceived Problems and Consequences.

Respondents were also probed on their attitudes toward problems that have been suggested as associated with use of two-tier pay plans: legal problems<sub>23</sub>/, problems relating to productive efficiency, and industrial relations problems. A majority of respondents -- including respondents from two-tier firms -- felt that EEO-related legal problems might result from two-tier plans. (As has already been noted, this is NOT the general view of lawyers in the EEO field). Those respondents in two-tier firms were somewhat less prone than the others to hold this view, perhaps because their firms were more likely to have researched the issue. Yet it is interesting that despite the PERCEPTION of legal difficulties, the management community -- as seen in responses to questions discussed earlier -- is generally quite favorable to the use of two-tier plans. In effect, the view seems to be that whatever problems may be entailed in the two-tier approach are outweighed by the benefits of lower labor cost expenditures.

Managers in both groups -- those in two-tier firms and those in other firms -- generally agreed with the proposition that two-tier plans would create internal political problems for unions which agreed to establish them. The two-tier group was somewhat less in agreement with this view than the other. It is not possible to determine whether the management community views potential internal union problems as a "plus" for the management side; such union problems could conceivably spill over into

greater labor-management friction and into a deterioration of employee morale and productivity.

The questionnaire responses do not provide a clear causal channel between two-tier plan implementations, internal union political problems, and morale/productivity. However, respondents were asked about the effects of two-tier plans on morale and productivity through whatever channels seemed relevant. There was little sentiment among the respondents that morale and productivity would IMPROVE due to a two-tier plan. Basically, opinions varied between no effect on productivity and morale and a negative effect. Almost half of the respondents from two-tier firms believed the effect of a two-tier pay plan on morale would be negative, but only about one fourth held the same view towards productivity. It can therefore be deduced that a significant minority of respondents from two-tier firms do not believe that lowered morale due to two-tier implementations will translate into lost output.

Over a third of respondents from two-tier firms and almost two thirds of respondents from other firms thought that two-tier plans would lead to a deterioration in the climate of union-management relations. Thus, it must be the case that a significant minority did not believe that such a climate deterioration would hinder productivity.\_24\_/ Possibly, some managers responded to this question in a relative sense; they may have felt that without a two-tier plan, labor-management relations would have deteriorated