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**Skill-Based Pay  
in a Unionized Environment:  
A Case Study**

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## Executive Summary

In response to the pressures of globalization and higher levels of international competition, many organizations are moving to more dynamic compensation systems such as skill-based pay (SBP) plans, in an effort to maintain competitive advantage. Under SBP, employees are encouraged to build their skills and knowledge in a range of jobs within the organization, rather than remaining within a single, rigid job description. While most of the research documents the advantages of SBP in non-unionized organizations, very little is known about its application in unionized environments. This study begins to fill that gap by offering a detailed account of the operation of SBP in a unionized mining company in Eastern Canada. Drawing on his research into the company's problems and successes, the author identifies the pitfalls and benefits of SBP and gives practical advice for implementing a plan that will work.

- If properly managed, SBP can benefit both union and management by increasing worker productivity, lowering production costs, improving quality, and reducing absenteeism and quit rates.
- Unions are likely to resist SBP, however, since it goes against their strong desire for standard wages for all workers within the same classification.
- Unions are likely to react more positively when they are directly involved in the design, implementation, and operation of the plan and when it is part of an overall cooperative relationship between union and management.
- Because the union was in a relatively weak position in the mining company under scrutiny here, it was unable to oppose implementation of SBP. It is nevertheless concerned about the threat to the seniority system, which it believes should have a strong presence in any compensation system, about the increased discretionary powers of management, and about its weakened bargaining power.
- Both union and management agreed that collective bargaining had become more difficult with the implementation of SBP. Issues such as wages, promotions, transfers, and training were

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## About the Author

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more ambiguous, and it was difficult to determine where employees fit in terms of knowledge and skills.

- However, after only three years' experience with SBP, the union agreed that there were valuable benefits for employees. The new emphasis on training had raised the overall wage level of workers. And job satisfaction had increased, since employees could train in different areas, thereby increasing their chances of finding a job that interested them. Management applauded the increased productivity of the workforce.
- The author concludes that, contrary to some conventional wisdom, SBP plans can work effectively in unionized settings. The key to success is to involve unions directly in designing and implementing the plan. If the union feels that it can have a significant influence, it will probably support SBP, because it will be able in that case to provide real benefits for the membership.

## Introduction

Like all other aspects of business, the compensation practices of organizations throughout the world are under pressure from higher levels of international competition. In an effort to maintain their competitive advantage, many organizations have moved to more dynamic compensation systems such as skill-based pay (SBP). SBP plans differ considerably from traditional compensation systems since employees are paid for their ability to perform a range of jobs within the organization, rather than remaining within a single, rigid job description.

While most of the research on SBP plans documents their performance in nonunionized organizations, very little is known about their development, operation, and performance in unionized organizations. At present many important questions remain unanswered: How do unions feel about skill-based pay? How does skill-based pay affect union policies? Can skill-based pay plans operate effectively in a unionized organization?

Basing its findings on interviews with representatives of a unionized mining company which implemented skill-based pay in 1996, this study begins to fill the gap in the research by examining the union's attitude towards skill-based pay, the issues surrounding its implementation, and its impact on union-management relations. Some guidelines for the implementation of skill-based pay are also offered, along with practical examples of its operation.

## Implementing Skill-Based Pay

Because SBP is not as common as other variable compensation systems, such as profit sharing or pay for performance, human resource practitioners may not be familiar with its key characteristics. As mentioned, under SBP plans employees are paid for their ability to perform a range of jobs within an organization at a given time. SBP plans therefore encourage employees to build their skills and knowledge about the organization's operations, rather than remaining within a rigid job description. Employees are compensated for developing three types of skills: depth skills, breadth skills, and vertical skills: depth skills are characteristic of a particular job category, breadth skills allow employees to perform other jobs within the production process, and vertical skills are self-management skills that allow them to work autonomously (Celani and Weber 1999, 2).

### Skill Blocks

When designing an SBP plan, organizations must arrange skills in blocks or clusters of skills relating to some aspect of production. Employees must master a block of skills in order to receive an increase in pay. While the exact number of blocks that an organization creates will depend on the complexity of the production process, organizations with fewer skill sets have had more success with SBP than those with more. Management must in any case be sure to establish a minimum and maximum number of skills that can be acquired, so that employees can be self-managing and avoid learning skills they will not be able to retain and perform effectively (Gupta, Schweizer, and Jenkins 1987, 2).

### Price Levels

Once the skill blocks have been established, management must determine the price level that will be assigned to each block. However, since very few organizations have SBP plans, it will be difficult to find benchmark jobs in the market. Furthermore, it will be difficult to determine starting wage levels for new hires, who tend to start at a lower wage than they would in traditional organizations, since under a skill-based pay plan, they usually end up earning a higher wage than workers who are paid through traditional methods (Celani 1997, 8).

*Under SBP plans employees are paid for their ability to perform a range of jobs within an organization at a given time.*

## **Job Rotation**

When implementing an SBP plan, organizations must also determine how employees will progress through the skill blocks and the job rotation schedule, and they must organize the blocks in a way that is conducive to production efficiency (Celani 1997, 9). For example, management might arrange the blocks so that the complexity of the skills increases as employees progress through the system, or they might concentrate first on the core competencies of the organization and then provide training for lower level skills. Management must also determine how much time employees need to spend to learn each job and retain the necessary skills for future use. Employees should not, however, spend too long in one particular job if other employees who would like to acquire the skills are thereby prevented from doing so. Clearly, it is in the firm's best interest to control job rotation, since production may be adversely affected if employees are unable to perform the skills they were trained for or if too many employees are rotating jobs at a given time. Under most SBP plans employees typically spend three to nine months in one job before being rotated to another (Celani and Weber 1999, 3, 5, 7).

## **Assessments**

Upon completing a skill block, employees are assessed to determine if they qualify for an increase in pay. In many cases, work samples provide the most effective basis for assessment because they are indicative of the work actually being performed on the job (Celani 1997, 10). Assessments should obviously be conducted by individuals who are knowledgeable about the work process, such as supervisors, experienced team members, or job analysts from the human resources department (Dewey 1994, 40). Organizations may also find that self-assessments yield more accurate evaluations than assessments by peers or supervisors if proper safeguards are built into the plan. For example, abuse of the privilege could be avoided if salary increases were limited to a predetermined level or if employees were subject to a penalty for inaccurate assessments. In either case, self-assessments are usually more conservative, since most employees do not want to be perceived as dishonest by their peers. Self-assessments can also help foster good employee-management relations, since they illustrate the goodwill and trust of the employer.

## **Can Skill-Based-Pay Work in Unionized Organizations?**

Many researchers contend that SBP plans cannot work in unionized settings and, as a result, are not commonly found there. While SBP plans may be rare in unionized organizations, they are by no means non-existent (Curington, Gupta, and Jenkins 1986, 581, 582). In their study of 154 American corporations using skill-based pay, Curington, Gupta, and Jenkins found that as many as 7 percent of the employees surveyed were covered by a collective agreement. Since the level of unionization in Canada is more than twice that in the United States, it is likely that a greater percentage of unionized employees receive skill-based pay in Canada.

How well have SBP plans worked in unionized organizations? What little research has been done reveals that SBP plans can benefit both union and management. Curington, Gupta, and Jenkins (1986, 586) found that unionized firms with SBP plans had higher output per hour worked (75 percent of respondents), lower unit production costs (70 percent), fewer defects (80 percent), and lower quit rates, layoff rates, and absenteeism rates (70 percent each). They also found that these organizations benefited from better employee-management relationships and higher overall worker productivity.

Tosi and Tosi found similar results in their study of CARCO, a unionized firm that has experimented with SBP at several of its plants. SBP was so successful that CARCO intend-

*While SBP plans may be rare in unionized organizations, they are by no means non-existent and can benefit both union and management.*

ed to adopt it at two new plants, which would also be unionized. Among the advantages are lower costs related to turnover and absenteeism, enhanced flexibility for the organization, and higher income opportunities and greater job security for employees (1985, 57, 63). The authors also found that SBP led to better union-management relationships when the parties worked together in the development and implementation of the plan (62).

### **Union Opposition to Skill-based Pay**

In spite of the advantages, unions are likely to resist skill-based pay because it strengthens the relationship between management and employees and focuses on individual effort rather than overall group performance (Kumar 1995, 29). Furthermore, skill-based pay conflicts with the wage-rate policies endorsed by most unions, which strongly advocate a standard wage for all workers within the same classification (Freeman and Medoff 1979, 85). Because employees are paid differently in accordance with their knowledge, skills, and abilities, most unions believe that skill-based pay creates inequality between employees. On the other hand policies that use seniority, job-posting, and bidding to determine wages, transfers, and promotions are believed to reinforce equality and uniformity in the workplace. As a result of union opposition, forms of compensation like skill-based pay were prevented from becoming widespread in the United States during the 1970s and early 1980s (85-6).

### ***Wage Rates***

Curington, Gupta, and Jenkins also suggest that wage rates become more contentious in collective bargaining when an SBP plan is in operation. In traditional collective bargaining, the parties negotiate general wage increases for all workers based on the content of their job. This is not possible in an organization that uses SBP, since employees have some control over improving their skills, and ultimately their pay level. Collective bargaining must therefore focus on the pay increments associated with different skills rather than on general wage levels (1986, 582). But unions such as the Canadian Auto Workers, for example, are strictly opposed to such contingent forms of compensation because, as mentioned, they create competition and disparity among workers (Kumar 1995, 69-73).

### ***Job Control Unionism***

Union-management competition for control over job assignments can hamper the flexibility that results from a successful SBP plan. This struggle is often referred to as job control unionism, which is centred on the creation of work rules designed to limit management's ability to take arbitrary action against employees: the two most prominent examples are the seniority system and the grievance procedure. Unions will resist any form of work change or reorganization that serves to 'weaken the efficacy of seniority rights, diminish the role of the grievance procedure or marginalize [shop] stewards, [since] the effect is to alter the balance of power to the advantage of the employer' (O'Grady 1995, 7). Under SBP plans, the seniority system will no longer be able to operate as it did in the past, because wage increases, rather than length of service, will serve as an adequate incentive for employee training. This will clearly be a serious concern for the unions, although the parties may be able to agree on areas where seniority will continue to apply, such as vacations, layoffs, and shift assignments.

The authority to delegate job assignments under SBP may be a major source of tension between the union and management, because it may weaken labour's power in the workplace. Job assignments themselves may also cause problems. Employees may acquire various skills that extend across the jurisdiction of more than one union. The result may be jurisdictional conflicts between the unions themselves and further conflict between the unions and management (Curington, Gupta, and Jenkins 1986, 583).

*SBP leads to better union-management relationships when the parties worked together in the development and implementation of the plan.*

*Unions will generally be concerned with the time that is allotted to learn a skill and with decisions about when a skill has been learned.*

### ***Weakening the Union***

If skill-based pay is used in conjunction with team-based production, it may happen that team members have as many skills as, or even more skills than a first-line supervisor, thus making the supervisor's position obsolete, blurring the distinction between management and labor, and bringing uncertainty into the definition of the bargaining unit, which both unions and management rely on to establish their negotiating positions (Curington, Gupta, and Jenkins 1986, 583). This could lead to legal disputes over the exact constitution of the bargaining unit. When determining whether or not a bargaining unit is proper, labour boards will try to separate employees from management because of their inherent conflict of interest (Arthurs et al. 1993, 233), but if an employer can use its skill-based pay plan to illustrate that employees with more skills are in fact representatives of management, it can prevent the certification of the unit, or effectively weaken the bargaining power of the union.

### ***Other Union Concerns***

Unions will generally be concerned with the time that is allotted to learn a skill and with decisions about when a skill has been learned. To maintain equality in the workplace it is in their best interest to have definite standards for the length of training periods and the methods of assessing employee skills. By standardizing procedures in each classification throughout the organization, unions can ensure that all employees have equal access to training and that personal bias in worker evaluations is minimized (Curington, Gupta, and Jenkins 1986, 585).

Unions will also be concerned about who has the final authority to decide when an employee has mastered a skill block. Although unions would ultimately like to have equal union-management decision-making power here, if the union has played an active role in the development and operation of the plan it is likely that it will at least have some responsibility for assessing employee skills and abilities (Curington, Gupta, and Jenkins 1985, 585).

### **Union Participation**

In general, it would seem that union misgivings about skill-based pay are directly linked to the union's ability to participate in the development and operation of the plan, to the conditions surrounding the plan's implementation, and to the nature of labour relations at the organization. Unions will react more positively when they are directly involved in the design, implementation and operation of the plan (Curington, Gupta, and Jenkins 1986, 586; Tosi and Tosi 1985, 62-3). In addition, local union representatives are more likely to have positive attitudes when the plans are part of an overall cooperative relationship between the union and management:

When management and users get along well and when there is trust between the parties, the use of pay-for-knowledge may pose no problem, but, when labor-management relationships are antagonistic, the use of pay-for-knowledge in unionized settings may lead to severe difficulties. (Curington, Gupta, and Jenkins 1986, 586)

Thus, while it is true that skill-based pay is not yet widely used by unionized organizations, if the plan is properly managed, it can result in the same benefits that have been enjoyed by non-unionized firms. This has proved to be the case with the SBP plan that has operated successfully in the unionized firm that is discussed in detail in the next section of this study.



# Skill-Based Pay at ABC Mining

## Research Methodology

ABC Mining was one of only three organizations with SBP plans that were willing to participate in this study (to preserve confidentiality, the real name of company is not used here). ABC Mining was chosen above the other two for three main reasons. First, because skill-based pay is relatively new at ABC Mining, the issues surrounding its development, operation, and administration are still fresh in the minds of management and the union. Second, the individuals who were involved in the collective bargaining negotiations that resulted in the implementation of skill-based pay, were actually available for consultation. Finally, ABC Mining was excited about the study and was willing to allow full access to their plan and to any other pertinent information.

Over a two-week period from 28 June to 8 July 1999 telephone interviews were conducted with five participants in the study—three from management (two human resource managers and a plant manager) and two from the union (the local union president and the USWA area representative for Eastern Canada). The interviewees were chosen because of their knowledge of skill-based pay as collective bargaining issue in the 1996 round of negotiations. Three of the participants were directly involved in those negotiations, while the other two worked in positions that were involved in the administration of the plan.

## The Company

ABC Mining, a subsidiary of a large multinational that is one of the world's leading manufacturers of gypsum-based products such as ceiling tiles, operates two gypsum mines and a shiploading operation at three separate locations in Eastern Canada. The Canadian division of the multinational has done extremely well over the last decade despite a lower Canadian dollar and higher manufacturing costs than its U.S. counterparts. ABC Mining, one of three corporations in the Canadian division, has 129 employees who work in various classifications including quarry (32), mill (37), operators/maintenance (18), maintenance (25), shop (7), storekeepers/route drivers (4), and electrical staff (6).

## Labour Relations at ABC Mining

Labour relations at ABC Mining are not typical of most unionized workplaces in Canada. The bargaining power of the union (the United Steelworkers of America) is effectively limited by two key factors. First, because ABC Mining has always operated as an open shop and new employees are not therefore required to become union members, the union has suffered financially. Usually only 60 percent of employees belong to the union. Unlike other Canadian provinces, the Eastern Canadian province where ABC Mining is located does not require the employer to deduct union dues from the pay of all employees. Many employees therefore choose not to join the union because they know they can benefit from the union's presence without actually paying dues. The union has attempted to pressure management into changing ABC Mining into a closed shop, but without success. It must therefore work hard at recruiting members to ensure its survival.

ABC Mining's designation as an open shop creates an inherent conflict of interest for the union, which is bound by a duty of fair representation and prohibited from differentiating between employees when dealing with the employer (Arthurs et al. 1993, 412-14). The union at ABC Mining is therefore required to speak on behalf of all employees in the bargaining unit even if they do not belong to the union.

*In each area, employees start off in an entry-level position and move up the job ladder as their skills and abilities improve.*

The union's bargaining power has been further reduced by management's determination to deal directly with employees at every available opportunity and to show employees that management is willing to meet employee demands without being pressured by the union. For example, management has voluntarily improved working conditions in some areas as a gesture of good will to the workers.

### **Problems with Compensation before 1996**

While ABC Mining has always paid employees in accordance with their knowledge, skills, and abilities the company's compensation plan could not truly be regarded as skill-based until 1996. Before then, it had serious flaws. Many provisions prevented employees from making any substantial progress in the pay scale. For example, decisions over who would receive training were made exclusively by management, with little or no input from employees. Because management had no formal system for determining which employees would receive training and when they would do so, the decisions were usually made by supervisors, who simply used their judgement. Ill feelings between employees and management often resulted, since in many cases individuals were chosen because of their relationship with management, rather than their skills, ability, and seniority.

The plan also contained so many wage classifications in each skill area that it was often difficult or impossible for some employees to reach the plant rate. In some parts of ABC Mining's operations the skill areas contained more than six wage classifications. When combined with management's arbitrary decision-making power over training, the large number of wage classifications meant that employees could be held at a particular wage rate for long periods of time, or in some cases indefinitely.

### **The Collective Agreement of 1996**

A new skill-based pay plan, referred to as the Operator Rate plan, was implemented at ABC Mining in the collective agreement ratified by management and the union on 14 June 1996. It contains many of the characteristics of a typical SBP plan outlined above. The plan is composed of eleven different skill areas, including mill worker, mill tester, machinist, electrician, and mechanic/welder. In each area, employees start off in an entry-level position and move up the job ladder as their skills and abilities improve. For example, employees begin work in the quarry as quarry utility operators and, with improvement in their skills, eventually end up in the highest designation, quarry operator 4.

#### ***Wage Rates***

According to article 14 of the 1996 collective agreement, wage rates continue to be based on the employee's skill and ability in the skill area to which he or she is currently assigned. Employees are paid at a rate that corresponds with their level of skill in a skill area, regardless of whether or not they perform a job that would pay a lower rate. For example, a qualified operator 3 working in the loading operation would continue to earn \$14.65 per hour even if that employee was performing work designated for an operator 2, who would be paid \$14.32 per hour. In addition, when employees are transferred to new skill areas, the collective agreement states that they are to be paid at the highest rate they qualify for in the new area. Similarly, if an employee begins a shift at a certain wage rate and is moved to a job that pays a lower wage rate, the employee will be paid the higher wage rate for the remainder of his or her shift.

#### ***Training***

The 1996 collective agreement also states that management at ABC Mining will make all decisions about training. Although ABC Mining still has no formal system for determining which employees are eligible for training or when they are eligible, the opinions of the 6 workforce are now carefully considered when these decisions are made

When opportunities for training arise, employees fill out a 'request for training' form, and they are awarded access to training in accordance with their skills, abilities, seniority, and performance. Management, however, does reserve the ultimate right to control training so that it can regulate the number of employees who are absent from production at any given time. While supervisors do most of the training on the job, changing government regulations, particularly concerning the operation of heavy equipment, have led the company to send many of its employees to external agencies to obtain certification.

### *Seniority*

Although the SBP plan at ABC Mining is centred on skills, abilities, and performance, the 1996 collective agreement does state that the company will endeavour to accord weight to seniority when providing opportunities to advance to higher skill levels or in job placements. In practice this means that when two employees are relatively equal in their skills, abilities, and performance, promotions and transfers will be determined according to seniority. Moreover, seniority is also used along with the other factors in determining demotions, layoffs, recalls, and vacation rights.

The union would prefer seniority to carry more weight in decisions affecting the work of employees, particularly when performance is taken into consideration. Unlike skills, abilities, or seniority, performance can be difficult to measure and is almost never the same for two employees. Management can therefore exercise greater discretion in making decisions on training, promotions, or transfers. However, the limited bargaining power of the union has prevented it from persuading management to lend more weight to seniority.

*Unlike skills, abilities, or seniority, performance can be difficult to measure and is almost never the same for two employees.*

### *Employee Skills: Assessments and Inventories*

The collective agreement of 1996 did not contain any provisions that outlined a time frame or methodology for testing employee skills. At present, all assessments are conducted informally by management, which monitors the progress of employees through training time logs. Employees are given access to training work on a particular piece of equipment under the guidance of a supervisor, until that supervisor decides that those employees have obtained a level of expertise that warrants an increase in pay. But because supervisors have different standards of qualification, some employees may receive certification earlier than others. And without a formal assessment process, improperly trained individuals may be allowed to operate dangerous equipment. Employees may also perceive their assessment to be unfair, which would lead to grievances or unnecessary tension between management and the workforce.

The SBP plan at ABC Mining also needs to be better structured to determine how employees will progress through the defined skill areas. Currently, management has no formal outline indicating what skills will be needed most in the future and which employees are best suited to acquire them. This deficiency could cause future problems if the order in which skills are learned has a direct impact on production efficiency or on the competitiveness of the company (Celani 1997, 9). Management at ABC Mining should determine whether it would be beneficial for employees to concentrate on the firm's core competencies or simply to learn progressively more difficult skills.

Although the union and management of ABC Mining ratified a new collective agreement on 14 June 1999, the SBP plan agreed upon in 1996 remains virtually unchanged, except for a provision that entitles employees to fill out as many 'request for training' forms as they desire, instead of a maximum of two per worker. The union welcomed this amendment, since it will help reduce the arbitrariness in management's decisions on how to award training.<sup>1</sup>

<sup>1</sup> This information was not explicitly written into the 1999 collective agreement; it was obtained from the HRmanager during a discussion on 28 June 1999.

## Union Attitudes to Skill-Based Pay

### A Policy Vacuum

In early June 1999, as part of this study, major labour organizations such as the United Steelworkers of America (USWA), the Canadian Auto Workers (CAW), the Ontario Federation of Labour (OFL), and the Canadian Labour Congress (CLC) were contacted by telephone and e-mail to ascertain general union attitudes towards skill-based pay. Surprisingly, although they recognized that skill-based pay is now being more widely used, none of them had a defined policy on how their affiliate unions should deal with the implementation of SBP plans. Moreover, the research staff openly admitted that they have no documentation whatsoever relating to their unions' positions on skill-based pay. These findings are astonishing for two reasons. First, it was expected that these unions would have some sort of policy or guidelines pertaining to skill-based pay, since it was first used in the manufacturing sector, the most heavily unionized sector of the Canadian economy until the early 1980s. Second, their failure to define a position is inconsistent with the notion that 'unions have realized that they must be both defensive and proactive in the management of change' (Kumar 1995, 55). If unions really are serious about playing an active role in workplace change in Canada, they should have an established position on an increasingly popular compensation system.

*If unions really are serious about playing an active role in workplace change in Canada, they should have an established position on an increasingly popular compensation system.*

Only one interviewee offered any explanation for the lack of a position. A representative from the USWA explained that the central organization does not take a firm stance on skill-based pay because most plans are tailored to the context of the organization. In other words, the USWA has not decided for or against skill-based pay because it recognizes that it can benefit employees if it suits the structure of the organization and the nature of its production process. According to Kumar (1995, 69) the CAW, on the other hand, does not have a defined position on skill-based pay because that union is generally opposed to any form of compensation that is linked to factors that are determined by management. As mentioned, under an SBP plan in most cases, management has considerable discretion in decisions over training, which has a direct impact on the pay level of employees.

### Local Indifference

At ABC Mining the union's attitude towards skill-based pay is one of indifference. Both the local president and the area representative explained that the union does not oppose or support the plan because it does not have the bargaining power to make management concede to any of its demands. According to the area representative, the union has not developed a solid position on the plan because management can implement changes without seeking the union's input. According to the president, it is more beneficial for the union to go along with the plan and try to create the best possible situation for employees than to make an unsuccessful attempt to oppose the plan. This sentiment was echoed by one of the HR managers, who stated that regardless of the union's position on the plan, its development, operation, and administration would be 'business as usual.' The area representative, who works with other USWA locals in Eastern Canada, added that the union would have had a more definite position on skill-based pay if labour relations at ABC Mining had been typical of most other unionized organizations. But the union's relatively weak position at ABC Mining gave them little choice but to make the best of any changes that management saw fit to implement, including skill-based pay.

## **Advantages for Employees**

Despite the lack of a formally defined position, it was possible to arrive at a general impression of the union attitude towards the plan. When asked to comment on aspects of the plan that the union liked and disliked, the local president and area representative said the plan has not exhibited any real problems but has resulted in some valuable benefits for employees. The local president praised the plan for raising the overall wage level of workers, pointing out that the relatively high seniority level of employees and management's determination to have a highly trained workforce has permitted workers to achieve the top rate in only a few years. The area representative also praised the plan for increasing the job satisfaction of employees by allowing them to learn and work in different skill areas. As he pointed out, workers can apply for training on different pieces of equipment, thereby increasing their chances of finding and remaining in a job that interests them. While these opinions may not indicate the union participants' overall attitude, it is clear that they were pleased that their members had benefited from the plan.

## **Conditions for Union Support**

Many of the major labour organizations listed above have had experience with SBP and, as a result, they were able to say what sort of plan they could support. In an e-mail conversation with a representative of the USWA it was learned that for USWA locals to support an SBP plan, it had to be restricted to non-trade job classes, had to enhance traditional collective agreement language, reinforce seniority, be well-defined, and form a part of the collective agreement itself. If any of these conditions were not met, the central organization would instruct the local to oppose the plan.

### ***Seniority***

Although employees at ABC Mining have always been paid according to their knowledge, skills and abilities, the new plan is markedly different from the previous plan and, as a result, has raised many questions for the union. The union is concerned about the continued application of seniority, a central union principle, and believes it should have a strong presence in any compensation system implemented by management. Five of the six interview participants stated that the union is concerned that older employees who have been with the organization for a long time and have worked in only one job will be laid off because their positions can be filled by younger workers who have had more opportunity to build their skills and abilities. For example, many of the quarry workers, who are the most senior employees at ABC Mining, have the ability to operate only a few pieces of equipment, while many of the younger workers can operate many others as well. The union therefore feels that seniority should be used to determine the wage level and position of older workers. Fortunately, the seriousness of this concern is also recognized by management, who, wanting to act in the best interest of the employees, has decided to protect the jobs of older workers.

The union is also concerned about the relative weight given to seniority and performance in determining job assignments, promotions, transfers, and wages. According to article 14 of the 1996 collective agreement, employee seniority should have precedence over performance, since seniority is listed before performance in the relevant clause. However, the union is concerned that management does not intend to follow the list in any particular order and that if it benefits the organization, performance will be given more weight than seniority. The union contends that unlike seniority, the relative performance of employees is difficult to measure because assessments usually involve subjective judgments.

*Many major labour organizations have had experience with SBP and were able to say what sort of plan they could support.*

Furthermore, in most cases, younger workers tend to perform better on the job than older workers, but it is not likely that management will allow for the fact that younger workers usually have superior physical health, which allows them to work more strenuously.

At present, management has done little to address these concerns. They have only agreed to accord weight to seniority when making decisions relating to promotions, transfers, job assignments, and wages. This means that if the skills and abilities of two workers are the same and their years of service are relatively close, management can use performance to differentiate between the employees.

#### ***Wage Classification***

The union is also concerned about the difference between paying for the content of the job and paying for the knowledge, skills, and abilities of workers. According to the local president, the area representative and one of the HR managers, the union and many of the members feel that some of the wage classifications do not reflect the difficulty of the work being performed. For example, in quarry operations, truck drivers and loader operators are paid the same rate even though operating a loader is a much more demanding job. In the union's opinion, management should recognize the difference between these jobs either by creating a new wage classification exclusively for loader operators or by providing them with some sort of bonus. However, management is against paying for the content of the job or further complicating the SBP plan by adding new wage classifications. The HR manager said that rectifying this situation was not a priority for management, since employees had not yet lodged any formal complaints.

#### ***Training Time***

The union was also concerned about the time logged for training on equipment. As the president of the local explained, the union was concerned that employees who worked on equipment that is reserved for training purposes would be permanently removed from their positions even after the training was completed. In the union's opinion, management needed to minimize the displacement of employees where possible, since it was in the best interest of the workers to allow them to return to their positions. Fortunately, management supports the union here, since it is in the organization's best interest to have the most knowledgeable and experienced employees in any position, and in most cases they tend to be the employees who have worked in the positions the longest.

#### ***The Impact on Collective Bargaining***

Interview participants were also concerned about the potential impact of the SBP plan on the collective bargaining process. As mentioned previously, the union's relative weak bargaining position at ABC Mining already makes negotiations challenging and difficult. Union participants complained that with the implementation of the new plan, collective bargaining issues had become even more difficult to understand and discuss. Similarly one HR manager said the new plan had added more ambiguity to bargaining issues such as wages, promotions, transfers, and training. Both the union and management found it hard to determine where the employees fit in terms of their knowledge and abilities. Both parties were left with little choice but to accept that there would be many unanswered 'what ifs' until the plan was fully implemented and all effects on the workplace could be determined.

It was expected that the chore of determining wage rates and placing employees in wage classifications based on their knowledge, skills, and abilities would bring added tension to bargaining over monetary issues. But surprisingly, none of the interview participants indicated that the implementation of skill-based pay made monetary issues more sensitive in collective bargaining. As the local president explained, the union is genuinely pleased 10

with most of the monetary changes that have come with the new plan, in particular the increasing number of employees who have succeeded at achieving the top rate.

The union is concerned, however, that the new plan may further undermine its bargaining power. Because of the unique nature of labour relations at ABC Mining, employees who are dissatisfied with the new pay structure or with the union's inability to influence the actions of management can revoke their union membership and still benefit from union representation. In the union's opinion, this could further degrade its ability to bargain collectively with management, since it already has difficulty maintaining a membership that is representative of the workforce.

### ***Layoffs***

Studies have shown that some organizations with SBP plans eventually require fewer employees because the workforce has become more efficient as a result of continuous training: positions within the bargaining unit are therefore eliminated, and employees are permanently laid off. While layoffs have not yet taken place at ABC Mining, the union participants made it clear that if the new plan does result in layoffs within the bargaining unit, the union will pressure management into amending it. Management might be pressured to guarantee that bargaining unit jobs will not be displaced because of increased efficiencies resulting from skill-based pay or simply to agree to find reasonable, alternative work for employees facing layoff.

At the time of the interviews, management at ABC Mining had not made any genuine attempts to address any of the issues raised by the union. In the words of one HR manager, despite 'minor tinkering' management had implemented the plan as it was presented. Management's ability to make such a profound workplace change without the input or cooperation of the union is further evidence of the relative strength of management's bargaining power at ABC Mining.

## **A Workable System for Unionized Companies**

This study was intended to determine whether an SBP plan is a feasible alternative for unionized organizations in Canada. As would be expected from an analysis of the literature, the case study of ABC Mining shows that in principle unions are opposed to SBP systems because they are inconsistent with the central tenets of organized labour, namely seniority, job control, and the standard wage rate. However, the strength of union opposition is directly linked to the union's ability to bargain with management. If a union has the power to bargain effectively, it may choose either to support or to oppose SBP, depending on its ability to exercise control over the plan's development and operation. If a union feels that it can influence the terms and conditions of the plan, it will likely support it because it can in that case provide real benefits for the membership. On the other hand, if a union cannot bargain effectively with management, the union's position will have little impact on the plan's development, because the company will be able to implement the plan unilaterally. This was the case at ABC Mining, where the union, aware that it could not effectively oppose the decisions of management, decided to support the plan and help create the best possible environment for employees.

In contrast to the opinions of some commentators, the experience at ABC Mining appears to support the idea that skill-based pay can work effectively in unionized settings. While it is true that the most unionized organizations have not yet recognized the advantages that this type of pay structure can offer, it is likely that it will become more prevalent as the pressure to restructure the Canadian workplace increases. Many of the inter-

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viewees from ABC Mining, both union and management, applauded the SBP plan for improving the financial welfare of employees, making workers' jobs more satisfying, and raising the overall productivity of the workforce. In addition, several participants stated that the new plan had actually helped reduce management subjectivity in decisions over training, promotions, transfers, and pay increases.

As mentioned, the findings of this study may not apply generally, because of the unique nature of labour relations at ABC Mining. The union's lack of bargaining power has allowed management to develop, operate and administer the SBP plan on its own terms, with little or no contention from the union. Clearly, given the diversity of labour relations in Canada, the nature of the relationship between management and the union will do much to determine the climate that surrounds the development of skill-based pay. In organizations that have more balanced union-management relations, the union's attitude towards this type of pay structure will have a greater impact.

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