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NEW MODEL UNIONS: OPTIONS FOR THE 21ST CENTURY

NEW MODEL UNIONS; OPTIONS FOR THE 21ST CENTURY

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Authors

Paul Willman

Paul Willman is Emeritus Professor of Management at LSE. He has written extensively about union finances and resources for the last thirty years. He is a former arbitrator and ACAS Council member.

Alex Bryson

Alex Bryson is Professor of Quantitative Social Science at UCL and a research fellow at IZA (Bonn), NIESR (London) and WISERD (Cardiff). His research focuses on employment relations, particularly the role of trade unions and their impact of workers and firms.

John Forth

John Forth is a Senior Lecturer in Human Resource Management at Cass Business School, City University of London, and a research fellow at NIESR (London) and IZA (Bonn). His research focuses on the organisation of firms and its implications for employee well-being and organisational performance.

Unions 21

Unions 21 exists to support unions to increase their influence, impact and effectiveness within the world of work. We will do this by working with unions, supporters and stakeholders to create an open space for research, innovation and activity to assist unions to secure a better life for working people. This paper is part of its work on Innovation and change.

Unions 21
77 St John Street
London EC1M 4NN

www.unions21.org.uk

INTRODUCTION

Union financial measures do not tell us what unions are for, but they are a key indicator of the viability of the union movement. The Webbs, in their classic 1907 study, were probably the first to lay this out. They talked about the 'new model' unions of the 1840s as the first robust and permanent union organisations in the UK, based on securing financial viability and supported by clear rules and responsibilities. It was based on negotiated agreements rather than repeated strikes, more centralised control over collective action, and the presence of some full time officials. Secure revenues, some financial reserves and rules over expenditure were seen as necessary conditions to secure both the social and economic objectives of collective organisation. Broadly followed subsequently by the general unions, these principles provided an organisational model adopted by most major unions in the UK.

This model required that income balanced expenditure in the long term but exceeded it in the medium term to provide some buffer of funds to cover expenditure spikes, such as the funding of strike action. Most income came from membership subscriptions. Expenditures included the costs of collective organisation plus benefits for members, particularly before the establishment of the welfare state. The surplus of income over expenditure in good years went into bonds and buildings, and in bad years funded the costs of industrial action.

By the 1930s at the latest, the model was in trouble. The reason was that income from members was not in the aggregate keeping pace with expenditure and the shortfall was being covered by use of returns on assets or – worse – sales of assets. The problem was not primarily membership, although this dipped during the great depression, but the proportion of members' income taken as subscriptions.

Let's illustrate this by looking at the 'golden age' of union membership from 1950 to 1979. Union membership increased every year and, on average, income was approximately 14% greater than expenditure. But income *from members* averaged 97% of expenditure and across the period union reserves crashed as they were used to fund operating expenditures. In 1950, the union movement as a whole had about 4.5 years' of expenditure in reserves; by 1979, it was under 1.5.

Across the whole period, union subscriptions in the aggregate never exceeded *half of one per cent* of average earnings in real terms.

The 'new model' business model was thus not as robust as it had seemed. In the 1970s, one of the most successful decades for the union movement in terms of membership growth, in real terms, union net worth (funds) collapsed and income stagnated. Real expenditure rose at its fastest post-war rate. The inflation that was driving white collar workers into unions, as George Bain argued, was also causing a collapse in real asset prices and stagnation in real earnings, both of which damaged union finances. Moreover, the money that was left was concentrated in manual unions that were not expanding fast, not in white collar ones that were. Some of the latter were effectively collective action Ponzi schemes that could only survive if membership growth continued. When winter came in 1979, the union movement had only summer clothes.

The purpose of this short paper is threefold. First we ask, what are the underlying properties of the dominant organisational model that looks to be in some trouble, and what do they imply? Second, we look at options for thinking about how unions might change their organisational models. We conclude by looking at what this might imply.

WHAT DO UNIONS DO?

The dominant organisational model for unions in the UK has entailed the provision of collective bargaining based on the organisation of collective action. Historically, this has dominated over participation, benefit provision or administration of state social security, all of which have featured in other countries. To make this work, the successful union has amassed members and then negotiated with employers; this has been more common than the reverse. Bargaining and individual representation for members (for which they pay subscriptions) usually depends on collective agreements, which in turn generate resources for union organisation (facilities and time off for union lay representative to perform union duties, check-off, procedure agreements) for which, ultimately, employers pay. We term the latter 'off balance sheet' resources, on the basis that they appear on neither the union's nor the employer's accounts. It's difficult to estimate the total value of off balance sheet resources, but we argue they are both considerable and vital for many unions where lay representation is important.

Generically, this view places unions in the broader category of intermediary organisations that sit between two markets. Consider the analogy of a newspaper. The newspaper needs readers to get advertisers and advertisers to keep the cost down for readers. Historically, the UK union has needed members to get recognition from employers and recognition to keep members.

Let's pursue the analogy a little further. Some newspapers are free. The advertising pays for everything. In the UK, *Metro* is an example; so is the *Evening Standard*. Some are expensive, and don't have a lot of advertising, such as the *FT* and *Economist*. The free ones don't employ a lot of journalists and the expensive ones do. The free ones have high readership (or at least print a lot of copies) and the expensive ones don't. So let's imagine two hypothetical unions, of identical size and with the same number of collective agreements with employers.

- **Union A** relies entirely on full time officers to provide membership services. It has high costs and high subscriptions. There is a clear distinction between its democratic structures, run by members, and its operations, run by employees of the union.
- **Union B** relies almost exclusively on networks of lay representatives supported by facilities agreements. It has much lower costs and probably lower subscriptions. The democratic and operational activities in the union are likely to be member controlled.

Unions A and B have both made choices which have very different risk outcomes. Their financial structures and issues will differ markedly. Probably, most UK unions are somewhere in between, so both 'markets' – employers and members - are very important. An example close to union 'A' would be the Inland Revenue Staff Federation in the 1980s, who raised membership income to fund an increase in full time officials during the civil service disputes, because generating high levels of membership activism proved hard. An example close to union 'B' would be the car industry in the 1970s, with heavy reliance by several unions on shop stewards, many of whom were full time. A final point about this; newspapers are ancestors of the modern 'platform' business that succeeds by providing connections between independent groups. A few newspapers are evolving into platforms; we explore the implications for unions in the next section.

Before that we need to look at a second property of the dominant model in UK unions. This is the tendency for expenditure to rise faster than income in the long term, as we described above.

Economists, notably William Baumol, call this the 'cost disease'. It doesn't come across as an attractive term, so let's look at what they mean. It is essentially an argument about productivity and technology. In some service industries, rapid and sustained productivity improvements are difficult to achieve, costs rise inexorably and so do prices, so people need to spend a greater part of their income on such services. Baumol's own examples are education, health care and the arts. Consider the relative prices of a computer and an opera ticket since 1980. In 1980, you could buy several opera tickets for the price of a computer, and now the reverse is the case. In computers, technological advances generating massive improvements in productivity cause real costs to fall, but if you cut the costs of an opera you cut the quality too. Opera companies try to mitigate the cost problems by seeking state sponsorship and philanthropy. But they also have to try to convince consumers that higher prices are worth it.

Since unions suffer similarly from cost disease problems – and there are no obvious sources of massive labour productivity increases in the provision of collective action under the existing organisational model – we might ask what the implications are here. The first option is to raise the price to members. Historically this has proved difficult in real terms, but UK union subscriptions are low by international standards as a percentage of earnings. The standard explanation has been inter-union competition. Inter-union competition is probably not what it was, given the declining number of unions, but the real competition is probably non-membership. The second is to try to find external subsidy for the provision of collective action; this probably involves addressing the content of industrial relations legislation. The third and most radical approach is to address the underlying organisational model.

A NEW MODEL?

We noted that productivity and technology are at the heart of the cost disease model and we noted that unions have some similarities to platform businesses. In this section, we look at some of the properties of platform businesses and ask if there is anything that could be borrowed or adapted to solve the cost disease problem in UK unions.

A business model is essentially a promise of future revenue that has three things in it:

1. A reason why people should want to engage with the organisation (the 'value proposition')
2. A plan to turn this into revenue.
3. A cost model. Bluntly, it says why revenue will fly ahead of costs. 3. makes no sense without 2.

In the dot.com boom, the business model often involved the establishment of a platform to connect companies with customers via an online network. Access to the platform was typically free (and usually enabled via an 'app'), but the anticipated scale effects of the network provided the promise of future revenue which encouraged investors to put their money into businesses that were losing it.

We all know the names of the most successful ones – Amazon, eBay, Uber, Airbnb – and if you put money in you probably got a lot out. There are thousands of others we don't recognise for good reasons. Here are four things the successful ones do. We'll just use two examples.

1. They use spare capacity at marginal cost. Uber uses idle cars and Airbnb empty rooms.
2. They thus have very low fixed costs. Uber owns no cars and Airbnb owns no hotel rooms.
3. They generate huge network effects. Specifically, the more cars on the road the more customers for Uber, the more rooms available, the more buyers for Airbnb.
4. They create data bases. Both companies know more about their suppliers and customers than anyone else.

We know that unions can do some or all of these things, not least because some examples already exist. First, resources generated at marginal cost are mainly those we have described as 'off balance sheet'. They arise from the interaction between facilities clauses for union activity in collective agreements and the willingness and opportunity of members to engage in activism. Where subscription income trails operating expenditure, unions can close the gap by applying the decision rule that anything that could go off the balance sheet should do so.

Unions already make use of technology to communicate and coordinate action. There is a growing academic literature on this, particularly from USA, where unionisation is low but social media use is very high. There is a smartphone app with a chat interface developed for Walmart workers now used on license in several unions. This exploits network effects – the more app users, the better. In some cases, such as the recent teachers' strike in West Virginia, social media use was initiated by members and adopted by the union. There is a clear role for union recruitment too; we would argue it is far more cost effective for unions to attempt to be service providers for existing self-organised social media groups than recruiting individual workers in pre-recognition situations. In the language of 'platforms', unions become 'complementors' facilitating exiting user groups.

The key to exploiting network effects is for a platform to attract as many users on the one hand and providers on the other, and they do it by removing price barriers. At a time when 'never membership' – the proportion of workers who have never been in unions – on the one hand and the percentage of non-union establishments on the other are both at historic highs in the UK, a strategy of growing the union platform network is at least worth examination. The price barrier for employers has already fallen as the union wage premium has shrunk. A union platform strategy needs to look at subscriptions.

Recall the historic costs disease problem; subscription income has not for the best part of a century covered total expenditure and since the end of WW2 reserves as a multiple of expenditure have fallen from nearly 5 to under 1; in 2017 the movement in the aggregate had 10 months expenditure in reserve. Solving the cost disease problem involves the following options. They may be very difficult to reconcile.

1. The core of the subscription shortfall problem is not profligate expenditure but the very low- by international standards- percentage of members' earning taken as subscriptions. So, strategy 1 is to test out the price elasticity of demand for union membership by a concerted rise in real subscriptions. The bet would be more income would be generated than lost through membership turnover. There is a long list of problems here, but the two most formidable practical ones might be, first, co-ordinating action across unions and, second, getting anything through any conference.
2. The second generic option is diversification of revenue streams. In 2017, subscription revenue was about 70% of total revenue. This would be regarded as very risky if the union movement was looked at as a business, since erosion or disruption of the single revenue source becomes life-threatening, particularly where reserves are low.

One reason why these options might be difficult to run together is that the standard platform response here would be, first, to give the app away (i.e. offer union membership for free – as happens for new entrants to teaching) and use the growth in membership to construct data sets about organisations, skills, labour market dynamics and employee attitudes and preferences that could then be used to enhance services to members and, perhaps, commercially (i.e. advertising). Union membership would then move from the current, essentially insurance, model where the subscription buys access to a variety of services, to transactional, where members would buy services through the app.

Finally, we need to address the centrality of collective bargaining for UK unions. The provision of collective representation has been at the heart of the union offering since the new model unions were founded. It has nearly always been based on gaining recognition from employers for the right collectively to represent a given group of workers, and the resultant agreements are the engines for both on balance sheet resources (subscriptions) and off balance sheet resources (lay representation). Before the new models, unions would set a price for labour and strike if necessary until the employer conceded.

Collective bargaining has generated enormous benefits for union members, but it does have the disadvantage of making the union's resources dependent on continued employer willingness to sustain the agreement. Again, let us illustrate the issues with a hypothetical union 'A' and 'B'.

- **Union A** has a comprehensive collective agreement with one employer, who employs all union members. The agreement is comprehensive and generates a large set of union facilities.
- **Union B** has a large set of collective agreements with diverse employers in different sectors, who do not have common interests. Again, the agreements generate large amounts of union resource.

Union A is likely to have a much more efficient cost structure, but it is very vulnerable to changes in employer policy. Union B has uncorrelated revenue streams, and is more efficient in portfolio terms; specifically, it generates the same level of revenue at a lower level of risk. At worst, union 'A' may evolve a somewhat feudal mutually dependent relationship with its single employer.

We would argue that union A has strong business incentives to diversify away from collective bargaining rights as the underpinning for all revenues. The standard platform response here would be the construction and use of membership databases that could be used for revenue generation. These might include:

- Aggregating membership data to feedback information to members, for example on wage rates or job opportunities;
- Selling advertising based on data analytics;
- Using social media to connect members with each other.

These might support the development of an array of additional services to members on the basis of which revenues are generated.

CONCLUSION

This short paper started with the argument that British unions suffer from the cost disease problem. They are not alone – most arts and health organisations are affected. Cost disease sectors have to take up a greater proportion of consumer expenditure over time to survive, unless they get external subsidy. If they cannot, they must apply technology to reduce costs. So, as the costs of going to an opera escalate, we buy CDs then we stream.

Unions are intermediate organisations between employers and members, so the obvious technologies to exploit systematically are platform technologies. In the second, more speculative, part of the paper, we have tried to show how this might work. We would say very firmly that it is likely to work in different ways for different unions.

One alternative to not exploiting platform technology is to raise the price of union membership; we think this is risky and difficult to implement across the board. A second option is to do nothing. After all, one might argue, the cost disease problem has been around for a hundred years and unions are still here. The analogy we would deploy here is that jumping off a skyscraper probably feels OK for most of the trip. We might be around the second floor.