Achieving a Competitive Wage Structure

CASE STUDY 7-1 In March 2007, the second largest retail consumer electronics company, Circuit City, announced a plan to terminate 3,400 employees out of an in-store work force of 40,000 (nine percent) in order to cut labor costs. The company stated the dismissals had nothing to do with individual employees' job performance but rather were simply designed to replace workers earning top pay rates with new employees who would be hired for less to do the same job. A terminated employee stated in an interview that he was told any employee who earned more than 51 cents above the pay rate established for their job at their store's location would be subject to termination. Terminated employees could reapply for any available positions after ten weeks. The terminations, along with other cost cutting actions, are expected to save the company $110 million in fiscal year 2008 and $140 million per year starting in fiscal 2009. Management believes the plan will enable Circuit City to compete better with rival firms such as Best Buy and RadioShack. Circuit City reported sales fell 4.3 percent in the quarter ending May 31, 2007, and sales at stores open at least one year fell 5.6 percent during ~~the same time period.~~

Questions

1. Discuss your opinion regarding the merits of Circuit City's labor cost-cutting strategy. How might the strategy affect the following competitive issues: ability to cut prices on goods sold, customer service, and recruitment and retention of retail employees?
2. Circuit City employees are not represented by a labor organization and have no collective bargaining contract specifying terms and conditions of employment. How might Circuit City's labor cost-cutting strategy be affected if its retail employees were union members in a bargaining unit covered by an existing labor agreement?

SOURCE: Ylan Q. Mui, "Circuit City Cuts 3,400 'Overpaid' Workers," *The Washington Post*, March 29, 2007, p. D-1; Doug Desjardins, "Circuit City Re-Org Results in 3,400 Layoffs," *Retailing Today*, 46 (5), April 9, 2007, p. 3; and "Circuit City's Harsh Layoffs Give Glimpse of a New World," *USA Today*, April 3, 2007, p. A-14.

A Change in the Medical Insurance Plan

CASE STUDY 7-2 ~~The employer designs, installs, and maintains~~ private telephone systems for customers. Employees in the bargaining unit have been represented for many years by the union. The parties' current collective bargaining agreement provides for the following medical insurance benefits:

"basic medical benefits covering reasonable and customary charges; and major medical benefits with an unlimited maximum benefit; a dental benefit plan; and long-term disability benefits. These benefits are described by the specific insurance contracts to be filed with the Union's district office."

The company had been experiencing declining profits for several months attributed to a general economic recession and the loss of a major client. In June, the management team reviewed the current situation and forecast for the firm's short-term future and decided to adopt a strategy of cutting operating costs. As part of this strategy, the three top managers of the firm, who were also its owners, agreed to eliminate their salaries and lay off two members of the administrative staff.

The company's principal source of capital funding was a loan arrangement with a local bank, which permitted the company to borrow up to 80 percent of the value of current accounts receivable. Whenever a customer paid a bill for which the receivables had been pledged to the bank as collateral for the loan, the payment had to be applied to reduce the amount of the outstanding loan. When new business was obtained, providing additional accounts receivables, the company could pledge these receivables to the bank and obtain additional loan capital to continue operations. The company's current loan was due to expire on September 1, and because of the company's current financial problems, the bank informed the company managers that the current loan must be fully paid by the end of September and no new loan would be issued by the bank.

At about this same time the company was notified by its current insurance carrier that medical insurance premium costs for the company's employee coverage would be increasing by 40 percent to a total of $28,000 per month. The insurance carrier also requested an advance payment equivalent to two months' premium expense to continue the coverage because the company had been late in making premium payments in the past. The company president did not believe the company could afford to make the higher insurance premium payments and, therefore, found another insurance company that would provide medical insurance coverage for employees at a cost of $22,000 per month. A meeting was requested by management officials with union representatives to inform the union about the new medical insurance plan.

The meeting occurred on October 8, at which time management explained the new medical insurance plan to union officials. The only significant difference between the old and new plans concerned the prescription drug benefit. Under the old plan employees were issued a prescription card that allowed the employee to fill any prescription for a cost of $4. The new plan would require each employee to pay a deductible amount before the insurance plan would cover any prescription drug expenses. Covered prescription drug expenses under the new plan would be reimbursed to the employee at the rate of 80 percent of the employee's actual cost. The company estimated the new plan would save the firm $26,000 annually in premium cost compared to the current cost of the existing medical insurance plan. Management further asserted that the new insurance plan complied with the parties' contractual language to provide medical insurance coverage. At this same meeting the company president also informed union leaders that management would like to reduce current employee wage rates by 20 percent to enable the firm to submit more cost-effective bids to obtain new customer orders.

Union representatives asked several questions about the medical insurance plan described by management officials, not all of which managers could answer. Company officials provided the union with the name and address of the new insurance carrier and suggested the union contact the carrier directly for detailed information about the plan. Union officials subsequently held a meeting with bargaining unit members at which the company's proposals to cut wages 20 percent and change insurance carriers was discussed. Employees voted unanimously to reject both proposed changes. Employees were particularly concerned about the lack of a drug prescription card under the new medical insurance plan. Union officials reported the results of the employees' vote to management.

Upon learning of the employees' negative vote, the company president told union leaders that they must not have explained the new medical plan to employees in the right way. Management requested that the union hold another meeting with employees at which management representatives could explain the new medical insurance plan to employees. Union officials agreed to the meeting, provided union officials were also present when managers spoke to the employees.

On the date of the scheduled employee meeting, the local union president was tied up on union business and did not arrive at the meeting until 25 minutes after it had begun. The local union president stated that when he arrived management officials were already in the process of explaining the new medical insurance plan to the assembled employees and had passed out enrollment cards for employees to fill out for the new plan. The local union president advised employees not to sign the enrollment cards because the union had not agreed to the new medical insurance plan. The company president replied that the change needed to be made quickly, and he had already decided to change carriers and adopt the new insurance plan.

Questions

1. In your opinion, was management's request to change the insurance carrier (plan) reasonable? Explain your reasoning.
2. In your opinion, was it reasonable for employees to oppose the new insurance plan because they perceived the prescription drug benefit would shift substantial new cost to them compared to the existing (old) plan? Explain your reasoning.
3. Is it the union's job to represent the views of the majority of its members to management or try

to change union member's views to be consistent with management's preferred business strategy?

4. Does the employer have a legal right to implement the change to a new insurance carrier (medical insurance plan) in this case without bargaining with the union? Why or why not?

Discontinuance of a Pay Practice

CASE STUDY 7-3 For a three-year period the employer granted no wage increases to employees due to the company's adverse financial situation. In July 1999, the employer implemented a new policy to provide an annual wage improvement for employees. Each employee's annual wage improvement was comprised of two components: (a) a fixed percentage of the employee's base hourly wage rate, which all employees received, and (b) an additional merit-based percentage increase, which varied depending upon management's evaluation of each employee's job performance. The employer considered factors such as the cost of living, the company's current and projected financial situation, and the amount granted by other employers in the industry to determine the amount of the across the board percentage increase.

On July 1, 1999 and 2000 employees received a three percent across-the-board increase and merit increases ranging from zero to two percent. On July 1, 2001 the employer granted a four percent across-the-board increase and merit increases ranging from zero to two percent.

In November, 2001 employees voted to elect the union as their bargaining representative. The union and company representatives began negotiations on an initial contract in January 2002. During 2002 the parties held 16 bargaining meetings, eventually reaching a final contract settlement in June 2003. The owner of the firm testified that some discussion had occurred among managers concerning whether to grant a wage increase on July 1, 2002. According to the owner, the company's attorney had advised against granting any wage increase as it might be interpreted as an unfair labor practice by the union. When union officials became aware that management was conducting employee performance evaluations in 2002, the union negotiator asked management if it intended to grant employees a wage increase on July 1, 2002 consistent with the firm's established past practice. The management negotiator responded that the parties were currently in negotiations over wages and the negotiations would take care of the wage issue. When employees asked the plant manager whether or not wage improvements would be granted on July 1, 2002, they were told by the plant manager that wages were frozen because of the negotiations with the union.

After the company failed to grant any wage improvement in July 2002 the union filed an unfair labor practice charge, alleging that the company's failure to grant the wage increase constituted a violation of the employer's duty to bargain in good faith. The union's position was that the employer had an established policy of granting a pay increase on July 1 of each year. According to the union, the failure to grant a wage increase on July 1, 2002 represented a unilateral change in an established term or condition of employment in violation of the employer's duty to bargain in good faith. The union had never agreed to suspend payment of the annual wage improvement plan nor had the parties already bargained in good faith to an impasse over the bargaining subject.

The employer maintained that the Labor Management Relations Act prohibits an employer from making a unilateral change in a mandatory bargaining subject such as wages for union-represented employees. The company was concerned that if management went ahead and

The Reinstatement Offer

CASE STUDY 9-3 On September 13 two employees went on strike to protest their employer's refusal to bargain in good faith. The two employees were approached on the picket line by the company's manager on September 13 and told they were fired for going on strike. On September 16, the company circulated a letter to building tenants stating: "Management has made it clear that any employee who decides to strike, his employment will be terminated immediately with no chance of reinstatement. The building superintendent has assured us he will continue to work. However, two porters have chosen their own demise. Their employment is hereby terminated!"

On September 23, ten days after the strike had begun, the company's manager sent a reinstatement offer to the two discharged employees by certified mail. The letter stated: "In view of your actions, management had no choice but to replace you. However, due to your fine performance at the position you held, management would be agreeable to reinstating you if you return to work immediately. Should you decide that you would like to return to work, please notify me within five (5) business days. If I do not hear from you I will have no choice but to search for permanent replacements." The two employees received the letter but made no response within the specified five business-day period or at any time thereafter.

The Union filed an unfair labor practice charge on behalf of the two employees, alleging that they had been engaged in an unfair labor practice strike and therefore the employer's discharge was illegal. Approximately two years and two months later, the NLRB upheld the union's unfair labor practice charge, finding the employer's discharge of the two employees was illegal.

At the unfair labor practice hearing, the employer argued that if it were found guilty of unlawfully discharging the two employees, any back-pay remedy should be limited to the first 15 days of the strike. The 15-day period covered the ten days prior to the date on which management sent the two employees the offer of reinstatement and the five business days in which the employees had the opportunity to accept the offer but chose not to do so.

Questions

1. Did the strike on September 13 by the two employees represent an economic or unfair labor practice strike?
2. Did the company make a lawful reinstatement offer to the two employees, thus terminating the employer's back-pay liability after 15 days from their original termination date? Explain your reasoning.

Denial of Health Care Benefits to Striking Employees

CASE STUDY 9-4 The employer operates two production facilities, one in Michigan and the other in Ohio. Employees at both plants are covered under separate, but similar labor agreements. On August 10, a lawful economic strike was initiated by local union members at the company's Ohio plant. The Ohio local union members established picket lines at both the Ohio and Michigan facilities of the employer. Picketing occurred at the Michigan plant on August 10–11; August 23–26; August 31–September 3; and September 7–9.

On August 5, the company sent a letter to all employees advising them of the status of negotiations at the Ohio plant and warning employees that "an employee's refusal to perform work under these circumstances could result in the immediate loss of all unaccrued benefits, including health care." The Michigan plant employees who honored the picket line established by the Ohio plant employees were subsequently denied health care benefits by the company on the days they participated in the strike by refusing to cross the picket line established at the Michigan plant.

Both the employer and union agree that the Michigan plant union members who honored the picket line established at their plant did not cease to be employees of the company as a result