No matter the competitive pay policy, it needs to be translated into practice. The starting point is measuring the market through use of a salary survey. For this, we turn to the next chapter.

Your Turn — Two-Tier Wages

In Chapter 7, we talked about the implications of different pay-level strategies for costs and revenues. We saw examples both of employers seeking to control/reduce pay levels and of employers increasing pay levels. Here, we continue our earlier discussion on how U.S. automakers have used two-tier wage structures to control labor costs and consider what might happen going forward. Also important is their use of profit sharing as a way to keep fixed labor costs under control and making labor costs move more in line with profitability, so that labor costs decline when profits decline and labor costs increase when profits increase. That reduces the problem of having high, fixed labor costs when the company is under financial duress.

As we saw earlier, a two-tier wage structure allows a company to pay new hires at a lower wage. The average hourly wage for Tier 1 workers is about $29 versus a maximum of $19.50 for Tier 2 workers. The average hourly total compensation is roughly $59 for Tier 1 workers versus about $35 for Tier 2 workers.

As recently as the late 1990s, the automobile industry (including both domestic and overseas owned U.S. producers) employed 1,000,000 people in the United States. That number dropped to 550,000 during the recession and bankruptcies of late last decade. Now, the Center for Automotive Research projects that employment could grow to 650,000 in 2012 and could be more than 750,000 by 2015.[68] Of course, the Big Three are expected to account for a minority share of that employment total, a big change from the old days. Currently, the Big Three have about 137,000 hourly jobs combined.

At the GM plant in Orion Township, Michigan, about 100 workers sort parts to be used on the assembly line to build the Chevrolet Sonic. What is notable is that these workers are not GM employees but rather (UAW-represented) employees of an outside supplier. Their average hourly labor cost is about $20/hour, lower not only than that of Tier I GM workers, but also lower than Tier 2 GM workers. As a result of using a significant number of lower cost Tier 2 workers and (even lower cost) outside supplier workers, GM is expected to be able to reduce the labor cost per vehicle from $1,160 to $710. All told, GM could save as much as $72 million per year.[69]

Here are some questions to consider:

1. To what extent is the renewed job growth in the automobile industry in the United States due to the use of two-tier wages?
2. To the degree job growth (and increased car sales that come from more competitive labor costs) is based on two tier-wage structures; how sustainable is this approach? Consider, for example, that Fiat and Chrysler CEO Sergio Marchionne stated in 2011 that "Long term, (the system) is not a viable structure. It creates two classes of workers within the plant. It doesn't work in the same direction we are working ... to get this organization to work in unison."[70] Why would Mr. Marchionne make this statement? What are the potential drawbacks of a two-tier structure? When would we expect any such drawbacks to materialize?

3. What about the use of non-GM workers at the Chevy Sonic plant? What might Mr. Marchionne think about that approach?
4. Will the two-tier wage structure go away in the near future? Summarize the pressures to eliminate it as well as the pressures to keep it. Be sure to consider labor costs and productivity of workers and plants at other companies and in other parts of the world. Auto worker Gary Walkowicz, a member of the UAW bargaining committee at Ford's Dearborn Truck assembly plant, estimates that Ford could convert its 14,685 Tier 2 workers to Tier 1 wages for $335 million per year. The UAW will likely point out that is a small fraction of the $6.9 billion North American profit earned by Ford the previous year. Your thoughts?
5. You may wish to do some research on the new Volkswagen plant in Chattanooga, Tennessee, the last one built in the United States. Also, consider that the *Automotive News* estimates that the Ford Fiesta (a competitor to the Chevy Sonic) plant in Cuautitlán, Mexico may have labor costs as low as $150 per vehicle.[71] Recall also our earlier discussion of where automobile production plants in North America have been built in recent years (as well as where they have not been built).
6. More recently, Fiat Chrysler CEO Sergio Marchionne referred to the two-tier wage structure as "impossible" and described it as "almost offensive." However, Mr. Marchionne's actual plan may not be to eliminate the two-tier structure entirely. As we saw earlier in the chapter, it appears that base pay differences will remain between the two tiers. However, consistent with suggestions made by Mr. Marchionne leading up to contract negotiations, Tier 2 worker pay may move nearer or even equal that of Tier 1 workers when the company's profits are high through larger profit sharing payments for Tier 2 workers. By the time you read this, details on the new contracts between the UAW and each of the Big Three American car companies should be available. Gather the key facts and evaluate how well the new contracts will serve the interests of the companies and those of the workers (which are similar, yet different).[72]
7. How do you think the UAW and the workers it represents will react to Mr. Marchionne's plan? Consider the global competitive market forces we have identified and consider also the degree to which worker interests in keeping and creating jobs and achieving higher wages (and/or total compensation) are in line with Fiat Chrysler's interests. How large have profit-sharing payments for workers been at Fiat Chrysler and at Ford and GM in recent years? Why would the companies wish to raise pay levels using these sorts of payments rather than via increases to base wages? How will the UAW and workers likely react? Explain.

Summary

One reviewer of this book told us that "There are three important contributions of this chapter: (1) that there is no 'going rate' and so managers make conscious pay-level and pay-mix decisions influenced by several factors; (2) that there are both product market and labor market competitors that impact the pay-level and pay-mix decisions; and (3) that alternative pay-level and pay-mix decisions have different consequences." That is a great summary of the key points.

The pay model used throughout this book emphasizes strategic policy issues: objectives, alignment, competitiveness, contributions, and management. Policies