Arbitration No 60

1025

UNITED STEELWORKERS OF AMERICA (Local Union 1010)

VERSUS

INLAND STEEL COMPANY (Indiana Harbor Plant)

Before: HAROLD R. NISSLEY, Sole Arbitrator, Friday, March 14, 1952

ISSUE, FACTS, DECISION, REASONS, ADDENDA

ISSUE

Has a change in a job method rendered an old piece work rate obsolete and in violation of the union-company contract? Specifically has the change in charging furnaces from five trays to four trays injured the incentive earnings of 22 Furnace Operators and Loaders of #2 Batch Anneal? The Union affirms the incentive earnings of these men have been adversely affected by the change in method and pleads for relief granted under the Union-Company Contract based on the following points:

"a. The new incentive is not equitable in relation to other incentives in the department.

"b. The new incentive is not equitable in relation to incentives earned in other like departments.

"c. The new incentive is not equitable in relation to the previous job requirements.

"d. The new incentive is not equitable in relation to the previous incentive earnings."

FACTS

1. The contract provisions about which this arbitration revolves is Article V, Section 5 of the May 7, 1947 AGREEMENT BETWEEN INLAND STEEL COMPANY AND UNITED STEELWORKERS OF AMERICA (C.I.O.), Local Union No. 1010 and Local Union No. 64:

"Incentive Plans. Wherever practicable, it will be the policy of the Company to apply some form of incentive to the earnings of the employees when their efforts can readily be measured in relation to the overall productivity of the department or a subdivision thereof, or on the basis of individual or group performance. In this connection, the

Union recognizes that the Company shall have the right to install incentive rates in addition to existing hourly rates wherever practicable in the opinion of the Company. It is also recognized that the Company shall have the right to install new incentives to cover (a) new jobs, or (b) jobs which are presently covered by incentives but for which the incentive has been reduced so as to become inappropriate under and by reason of the provisions of the aforesaid Wage Rate Inequity Agreement.

"In such cases or in cases where an incentive plan in effect has become inappropriate by reason of new or changed conditions resulting from mechanical improvements made by the Company in the interest of improved methods or products, or from changes in equipment, manufacturing processes or methods, materials processed, or quality or manufacturing standards, the Company shall have the right to install new incentives, subject, however, to the provisions of the aforesaid Wage Rate Inequity Agreement. Such new incentives shall be established in accordance with the following procedure:

"1. The Company will develop the proposed new incentive.

"2. The proposal will be submitted to the grievance committeemen representing the employees affected for the purpose of explaining the new incentive and arriving at agreement as to its installation. The Company shall at such time furnish such explanation with regard to the development and determination of the new incentive as shall reasonably be required in order to enable the grievance committeemen to understand the method by which the new incentive was developed and determined, and shall afford to such grievance committeemen a reasonable opportunity to be heard with regard to the proposed new incentive.

"3. If agreement is not reached within thirty (30) working days after the meeting at which such incentive is explained to the grievance committeemen, the matter shall be reviewed in detail by an International Representative of the Union and the Company for the purpose of arriving at mutual agreement as to the installation of the incentive. Such meeting shall be held promptly upon the request of either party.

"4. Should agreement not be reached, the proposed new incentive may be installed by the Company at any time after fifteen (15) days after the meeting between the Company representative and the International Representative of the Union, and if the employees affected claim that such new incentive does not provide equitable incentive earnings in relation to other incentive earnings in the department or like department involved, and the Previous Job Requirements and the Previous Incentive Earnings they may at any time after thirty (30) days but within one hundred-eighty (180) days following such installation, file a grievance so alleging. Such grievance shall be processed under the grievance procedure set forth in Article VIII of this agreement and Section 9 of this Article. If the grievance be submitted to arbitration, the arbitrator shall decide the question of equitable incentive earnings in the department or like department involved and the Previous Incentive Earnings and the decision of the arbitrator shall be effective as of the date when the new incentive was put into effect.

"5. Until such time as the new incentive is agreed upon or, in the event a grievance is processed to arbitration, until an arbitrator's decision has been rendered, the average hourly earnings of incumbents of the job as of the date the new incentive is installed shall not be less than the average hourly earnings received by such incumbent under the incentive plan in effect during three (3) months immediately preceding the installation of the new incentive.

"Where an incentive plan becomes inappropriate because of new or changed conditions resulting from mechanical improvements made by the Company in the interest of improved methods or products, or from changes in equipment, manufacturing processes or methods, materials processed, or quality or manufacturing standards, and the Company does not develop a new incentive, the employee or employees affected may process a grievance under the provisions of Article VIII of this agreement and Section 9 of this Article, requesting that a new incentive be installed providing, in the light of the new or changed conditions, equitable incentive earnings in relation to other incentive earnings in the department or like department involved, and the Previous Job Requirements and the Previous Incentive Earnings."

2. The incentive rate involved in #2 Batch Annealing at the Inland Steel Company is a complex one comprising three variables:

a. Number of coils (sheet steel) handled during a turn (8 hour shift).
b. Tons of steel handled during a turn.
c. Number of charges per turn. (A charge consists of four or five "trays" or steel slabs onto which are loaded coils of sheet steel which weigh around three tons each.)

The new method of charging the annealing furnaces affected all three of these variables used in figuring the incentive earnings of the 22 aggrieved operators. When the company changed from five tray charges to four starting in 1947: (a) The number of coils handled during a turn gradually went down from 73 (1946) to 64 (1951) which decreased the coil incentive earnings. (b) Due to a change in handling (mainly the substitution of a Heppenstall hook for a magnetic crane), tonnage increased about 50 per cent per turn--with a corresponding <u>increase</u> in earnings from this incentive increment. (c) The number of charges increased somewhat which slightly <u>increased</u> earnings from this third incentive increment.

DECISION

The evidence presented in the hearing and in the briefs is not sufficient to warrant granting a higher incentive rate for the Furnace Operators and

Loaders of #2 Batch Anneal. The Arbitrator, therefore, denies the Union Plea for relief from the new incentive rate.

REASONS

In arriving at his decision, the Arbitrator explored each of the four bases of the Union for a higher incentive rate for the men working on the #2 Batch Anneal Job. His analysis of each of these four points follows a statement of the Union below:

"a. The new incentive is not equitable in relation to other incentives in the department."

Many segments of American industry have tried to bring "loose" rates into "line" by resorting to changes in methods and then re-timing the <u>entire</u> job. Alert industrial engineers are quick to detect such subterfuges. But if a methods change cannot be used by a company as the basis for tightening a piece rate neither can it be used by a Union for loosening one. The evidence presented by the Company and the Union in the present case shows very little, if any, misalignment of #2 Batch Annealing incentive rates with other incentives in the department <u>as a result of the change in method</u>. Any misalignment that is present today was present before the change in method and probably should be corrected in some other way than through arbitration (i.e. contract negotiation time, re-appraisal of the job evaluation plan, a quid pro quo basis whereby tight and loose piece work differentials are corrected for future employees but not for present incumbents, etc.).

"b. The new incentive is not equitable in relation to incentives earned in other like departments."

Again, the evidence points to a misalignment of incentive earnings of the 22 aggrieved operators and the incentive differentials found in other departments. But should a change in method be the basis for correcting such an inequity if it existed before the change in method? Could it be, too, that incentive rates elsewhere have become loose by what is known as "incentive creepage" whereas the rates of the 22 operators have been kept "in line" despite methods changes?

"c. The new incentive is not equitable in relation to the previous job requirements."

Good industrial engineering practice is to set a new rate on a job when a methods change is evolved. This new rate generally follows the work content of the job; if more work is expected of the operator (and the operator was working at normal or near-normal capacity before), incentive earnings should rise correspondingly. However, in the present instance, the amount of work has diminished but with no reduction in the total incentive earnings, if the time study data are representative.

"d. The new incentive is not equitable in relation to the previous incentive earnings."

Here the Union supports its claim for higher incentive earnings on two reasons: (1) Less coil money earnings under the new method than under the old (because fewer, but heavier, coils are handled under the new method). (2) Tonnage per man-hour is greatly in excess of what it was under the old method--without corresponding increases in the total incentive earnings of the men.

Under the old method the men were paid 13 cents per coil incentive earnings (above their base or hourly rates). This 13 cent multiplier was retained when the new method was adopted thus depriving the men of 10 to 20 per cent coil money earnings. This 13 cent multiplier the company did not charge when it went from the old to the new method. The reason it did not make this change is the other two segments of the incentive structure moved upwards and offset the negative effect of the loss in coil earnings.

The multiplier used in figuring the tonnage incentive was retained in the new method at the same figure as under the old despite the large increase in tonnage handled per man hour (due largely to more efficient materials handling equipment--late Heppenstall hook instead of old magnetic crane, etc.). This multiplier was 3.8 cents per ton. The reason the total incentive earnings were not affected as much as the large increase in tonnage per man hour is because this tonnage increment of the incentive wage was not large under the old and hence under the new method. But the net effect of dimiished coil earnings and increased tonnage earnings leaves the 22 aggrieved operators in about the same position they were before the new job change. Due to a slight increase in the number of charges (which carried a piece work premium of $7.60 per charge under the old and new methods), the incentive earnings of the 22 aggrieved operators are if anything slightly higher under the new method (2 to 3 per cent by one statistical technique the Arbitrator applied to 1948 and 1951 payroll data).

Hence, since total incentive earnings under the new method have not suffered, the Arbitrator cannot allow relief from one segment of an incentive structure without making corresponding changes elsewhere. In the present instance if the old incentive multipliers were changed it would mean more coil money for the 22 operators but less tonnage and charge money. Industrial engineering accuracy would be served if such minute incentive changes are made at the time methods changes are effected. Since such changes in the present instance would not yield greater total earnings than under the "status quo" incentive technique of the Company, the Arbitrator feels that no practical good can be served by forcing the Company to recalculate its Batch Anneal incentive earnings if the end result will be the same. Nor would the 22 aggrieved operators be any happier merely because of increased technical accuracy but no more take-home pay.

ADDENDA

A. Time Study Allowances: The Arbitrator was inclined at first to give 4 per cent relief to the 22 aggrieved operators on the basis of an inaccuracy found in computing the 20 per cent time study allowance. This error comes about by the incorrect handling of percentage figures. The typical procedure (followed by most companies!) is to add to the cycle time the various allowances thus raising the cycle time to a new over-all cycle time—instead of subtracting these allowances from a 60 minute hour to arrive at a "net" working hour; in the present instance this would be 48 minutes instead of 50 minutes as the Company's method of calculation yields.

Thus, instead of the "Expected production per turn (including the 20 per cent allowance)" being 3.54 charges in June, 1946, as the company points out, it should have been 3.40 charges (4 per cent less). Again in October, 1950, the production per turn should have been 3.88 charges—not 4.04 charges as the company time study figures yield (again 4 per cent less than the present standard).

There were, however, several reasons why the Arbitrator could not allow even this 4 per cent relief. One is this same 4 per cent error is made in calculating both the old and the new standards--and the error is of the same magnitude and in the same direction. Moreover the Arbitrator was not instructed to probe into the Company's time study techniques unless formulas were changed in going from one method to another that would leave the 22 operators in a poorer position than they were under the old method.

B. Sharing Economies With Workers: The point was made by the union that the company could afford to pay the 22 operators involved higher earnings out of the economies resulting from the installation of new equipment and other changes. This is a point of view which is growing in popular belief even among labor economists. There are at least two reasons against any such sharing in the opinion of the Arbitrator--aside from any contractural understanding: (1) The mounting uncertainties (obsolescence, taxes, sales demands, and government controls) make it increasingly imperative that companies write off new equipment quickly--generally within a 24 month period (compared with the old 5 to 10 year period). (2) Sharing such economies with operators would diminish management's incentive to accelerate cost reduction with its attendant lower prices and higher scale of living.

The higher courts have even upheld the right of corporate directors to withhold profits from stockholders which have been withheld for years--without injury to the stockholders! Not a direct parallel but containing some of the same reasoning was the statement once made by Samuel Gompers: "The worst crime against working people is a company which fails to operate at a profit." The reckless abandonment of profits during good times to employees or stockholders leaves both groups of people in bad shape when business adversity strikes or the free forces of competition return once more.

But there seems to be a more realistic reason for not sharing new methods economies immediately with the operators directly affected. To do so would place such operators at a distinct advantage over others who did not happen to be on a particular job at a particular time when a new method was introduced. Hundreds of man hours are spent in setting up and "selling" a rational job evaluation plan in most companies. Days are frequently spent in resolving "point" differences that amount to less than 6 cents per hour. Yet the disturbance of a rational earnings schedule through the mistake of a time study Engineer or the sharing of money economies with certain operators and not with others would quickly nullify the patience and skill that went into a job evaluation plan.

The Arbitrator, of course, has no objection to rewarding operators with a lump sum for money-saving ideas which they suggest and which management adopts—especially where there is an established suggestion plan; nor does he quarrel with any company which (because of enlightened selfishness) wishes to share economies or profits with all (or part) of a work force according to a predetermined formula—uni- or bilaterally arrived at. Indeed, the Arbitrator sees no fundamental reason why a Union should not try to drive as good a bargain as it can on wages during contract negotiations--and even insisting upon operators sharing in new methods economies despite the disruption this might cause to the established job evaluation plan.

C. Incentive Abuses: The history of incentive wages in American industry is replete with legerdemain tactics in rate cutting ranging all the way from arbitrary reduction in piece rates after operators achieved and exceeded agreed upon production standards to the more recent and more subtle methods change subterfuge. These job design changes have frequently been prompted by management's desire to correct loose standards; careful detailed time studies, if taken of the old and new methods, fail in many cases to substantiate the new piece rates. However, this managerial mal practice seems absent in this instance.

To protect workers from these arbitrary decisions, most unions have incorporated "method changes" clauses in their contracts. These clauses say in effect no piece work price shall be changed without a change in method—and then only by the amount of such change(s). Unfortunately, many managements acting in good faith fail to present quantitative reasons for their desire to change a rate after a method has been changed. Many of the time studies on the original method were hurriedly done (frequently by inexperienced time study observers); when these studies are brought out for close scrutiny they yield such meager and questionable data as to be meaningless for comparative purposes. Again, the Inland Steel Company shows no such guilt in the present case.

Unfortunately, too, many managements have put new jobs still in their developmental stages on piece work when only a fraction of the operator's normal effort is utilized—without adequately telling the operator that management expects to utilize at some future time the remaining 50 per cent of the operator's effort (in the meantime, paying the operator a full day's pay for one-half a day's work). The result is that operators come to accept these low efficiency conditions as standard—and naturally so.

As a result of these incentive abuses of the past, competent industrial engineers try to satisfy themselves on several questions: (1) How much effort is required of the operator under the new method compared with the old method (i.e. foot pounds of work or ergs of human energy and the corresponding time values)? (2) Have the operators been working up to normal effort under the old method? If not, has the company used diligence and good judgment in putting jobs still in their developmental stages on incentive and making it clear to all concerned that the company expects to utilize more of the operator's idle time or effort as mechanical and other obstacles are overcome? (3) Has any change in piece work rates or job content affected the take-home pay of the operators? An answer to but one of these questions generally is not enough. But satisfactory answers to most of them has compelled the Arbitrator to deny the incentive relief plea of the Union.

Harold R. Nissley

HAROLD R. NISSLEY, Sole Arbitrator
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May 6, 1952