

## **CHAPTER 5**

### **THE IMPACT OF UNION ON PRODUCTIVITY**

#### **5.1 INTRODUCTION**

Productivity “is a term used to describe how well or how efficiently an economy’s resources are used in the processes of production. The extent to which a given economy reaches its full potential and the extent to which it expands that potential depend in part on this productivity” (Encyclopedia Americana, 1981). Productivity is also the major factor which could shift the labour demand curve to the right, resulting in increased wages for workers in equilibrium.

In surveying the literature in trade unions, it has often been promulgated that increased productivity is the only sustaining means for negotiating for higher wages. Trade unions often strive to increase the wage premium of its members through the increase in productivity. Some of the factors that improve productivity are as follows :-

- Training and education to improve the skills set of workers
- Better healthcare in order for workers to concentrate better on the job
- Invest in research and development to upgrade the technology employed which further enhances the productivity of workers.

This section analyses the impact of unions on productivity to determine whether unions are good or bad for the Malaysian food manufacturing industry.

## 2 VALUE-ADDED PER WORKER IN THE FOOD MANUFACTURING INDUSTRY

We have used the value added per worker as a measure of productivity of workers in the food manufacturing industry. The result is presented in Table 15 (a) below.

Table 15 (a) : Value Added Per Worker (RM'000) in the Food Manufacturing Industry : 1990 - 1994 and 1996

National Union Workers	
Year	RM'000
1990	420
1991	445
1992	439
1993	494
1994	430
1996	530

<b>In-House Union Workers</b>	
<b>Year</b>	<b>RM'000</b>
1990	977
1991	638
1992	1,295
1993	1,253
1994	1,343
1996	2,248

<b>Non Union Workers</b>	
<b>Year</b>	<b>RM'000</b>
1990	164
1991	166
1992	204
1993	214
1994	251
1996	300

Source : The Department of Statistics, Kuala Lumpur, 1990 – 1994, 1996

Based on Table 15 (a), the study finds that companies with in-house union have the highest productivity per worker consistently for the years 1990 to 1994 and 1996. This is evidence of why the Prime Minister, Datuk Seri Dr Mahathir Mohamed encourages the “Look East” policy which favours enterprise / in-house unions over national unions. The value added per worker advantage ranges from RM193,000 in 1991 to RM1,718,000 in 1996. On an

annualised basis, it recorded a 27.84 per cent growth rate compared to 13.16 per cent for non-union, and 5.44 per cent for national union. Our results, however, may be skewed as in-house unions are dominated by a few big firms which may have invested in research and development, and consequently reaping the benefits of higher productivity.

On the other hand, in-house unions may have been more efficient and productive due to the sense of loyalty that they have inculcated towards the firm and the co-operation extended to resolve teething production issues with management of the firm.

### 5.3 GROSS VALUE OF OUTPUT PER WORKER IN THE FOOD MANUFACTURING INDUSTRY

Another measure of productivity is the gross value of output method. The results based on this method are presented in Table 15(b).

Table 15 (b) : Gross Value of Output Per Worker (RM'000) in the Food Manufacturing

Industry : 1990 – 1994 and 1996

National Union Workers	
Year	RM'000
1990	540
1991	567
1992	642
1993	643
1994	688
1996	828

<b>In-House Union Workers</b>	
<b>Year</b>	<b>RM'000</b>
1990	617
1991	431
1992	505
1993	477
1994	565
1996	921

<b>Non Union Workers</b>	
<b>Year</b>	<b>RM'000</b>
1990	262
1991	274
1992	303
1993	297
1994	382
1996	450

Source : Computed from information obtained from the Department of Statistics, Kuala Lumpur, 1990 – 1994, 1996.

The food manufacturing industry recorded an increase in gross value of output by 120 per cent in 1996 compared to 1990. The availability of abundant supplies of domestic food resources such as palm oil, cocoa, pineapples and agricultural products including poultry augurs well for the food processing industry. Technological improvement, for example better pesticides and

improved harvesting methods have contributed to this expansion. Population growth in turn increased the demand for processed and value added food products. In addition, with more women joining the workforce and having less time to cook, demand for food products that can be prepared quickly naturally increased.

The productivity per worker based on our computation indicates that companies with in-house union are more productive during the years 1990 and 1996, whilst companies with workers affiliated to national unions are more productive from 1991 to 1994. This basis of computation, however, shows a smaller differential, ranging from RM77,000 in 1990 to RM166,000 in 1993.

Throughout the period of study, both national union and in-house union outshine the non-union workers' companies. Although the results did not prove whether national union or in-house union workers are more productive, it does show that unions, whether national or in-house, do have a positive impact on labour productivity. This could probably be due to unions reducing quit rates by allowing more participation in decision making by the workers and also improving workers attitudes through union activities. The payment of higher wages to unionized workers may also have prompted them to increase their effort, as illustrated by the shirking model developed by Stiglitz, where the amount of effort is positively related to wages.

The Malaysian government came out with the Guidelines on Wage Reform in 1997 to propose a move towards a productivity-linked reward system as ultimately, productivity growth is the only sustainable means of keeping firms in business while still granting wage increases.

Even prior to release of this guideline, employers who seek to maximise shareholders' profits certainly would be sensitive towards workers' productivity. The National Productivity Corporation analysed a sample of 300 collective agreements from the Industrial Court, ranging from 1993 to 1995 in the manufacturing sector and found that 51 per cent of the agreements have some elements of productivity linkages in wages. However, this level is still lower than the achievement of Singapore companies, where 90 per cent of unionized firms and more than 70 per cent of non-unionized firms have implemented the flexi-wage system (National Wages Council, 1998). A worrying finding from the World Bank study in 1995 was that Malaysian firms in the manufacturing sector answered negatively to the introduction of flexi-wage systems mainly because they are concerned that national unions would disapprove of the scheme. Unions have nothing to worry about as the preceding section have confirmed the fact that unionized workers are more productive.

This chapter further enhances our finding that unionized workers are more productive than non-union workers, or else they would not be able to sustain the wage increases year after year. Pencavel (1995) commented that the wage increases couldn't be sustained unless the firm's product markets possess some monopolistic features. We know for a fact that the Malaysian food manufacturing industry is similar to that of a perfectly competitive market (with numerous players and "almost" identical products), and therefore productivity plays a more important role in enabling workers achieve a healthy wage growth during the period of study.

An effective productivity-linked remuneration system should not be too cumbersome to

monitor and the government should also refrain from allowing minimum wage regulations to be present. Malaysia's current economy, unlike that of two decades ago, no longer need minimum wage regulations to protect the workers' interests, as full employment ensures that workers are free to choose between jobs which realise their full potential. Ultimately, the free movement of labour in the market would ensure the most efficient allocation of resources which gives the highest returns to all factors of production.