

Trade unions and collective bargaining: notes

These revision notes cover relations between employers and employees for Cambridge International AS & A Level Business (9609). They explain what trade unions do, why workers join them and how unions can benefit employers. They also explain how collective bargaining works, the forms of industrial action and how employers respond. Later sections cover conciliation and arbitration, no-strike and single-union agreements, and how unions affect business decisions. An invented case study runs through the notes, with worked calculations, a glossary and exam-style questions with answers. This is A Level content, within human resource management strategy. Check the current 9609 syllabus for the exact sub-section. It is examined mainly on Papers 3 and 4.

1. Case study: Zarnaab Textiles Ltd

Zarnaab Textiles Ltd (ZT) is an invented private limited company in Faisalabad that weaves cotton cloth for export to European clothing brands. It employs 800 production workers, and their average wage is PKR 40,000 per month. About 70% of the production workers belong to the **Zarnaab Workers' Union (ZWU)**, which the company recognises for bargaining. About 15% belong to a smaller union, the **Faisalabad Loom Workers' Association (FLWA)**, which ZT also recognises. The two unions often submit competing claims.

Inflation has been running at about 12% a year, and the ZWU has submitted a claim for a **15% pay rise**. The managing director, Sana Qureshi, has offered **8%**. She also wants to bring in new air-jet looms, which would need about 60 fewer workers over two years. ZT's biggest customer needs a large order delivered in six weeks' time. The union has warned that its members may begin an **overtime ban** and may **strike** if the offer is not improved.

The sections below refer back to ZT.

2. The role and functions of trade unions

Trade union: an organisation of workers that acts together to protect and improve its members' pay, working conditions and job security, mainly by negotiating with employers.

Workers join unions because **one worker alone has very little bargaining power** against a large employer. If one worker at ZT asks for a rise, she can simply be replaced. If 560 union members ask together, the employer has to listen, because replacing all of them would stop production.

Main functions of a trade union

- **Negotiating pay and conditions:** wages, bonuses, working hours, holidays and overtime rates, through collective bargaining.
- **Protecting jobs:** resisting redundancies, or negotiating fair selection methods and redundancy pay when job losses cannot be avoided.
- **Improving health and safety:** pushing for safe machinery, protective equipment and reasonable shift lengths.

- **Representing individual members** in grievance and disciplinary hearings, for example a worker accused of misconduct.
- **Giving advice and services:** legal advice, training and sometimes financial help.
- **Influencing government:** lobbying for laws on minimum wages, working conditions and employment rights.
- **Communicating:** passing members' views to managers and explaining management's plans to members.

Unions are not the only form of employee representation. Some firms set up **works councils** or elect **employee representatives**, who meet managers regularly to discuss plans, working conditions and change. These can work alongside a union or instead of one, but they usually focus on consultation rather than bargaining over pay.

3. Benefits of trade unions to workers and to employers

Benefits to workers	Benefits to employers
Greater bargaining power leads to higher pay and better conditions than individuals could win alone.	One channel of communication: managers negotiate with a few union representatives instead of hundreds of individuals, which saves time and cost.
Protection from unfair treatment, with a representative at disciplinary hearings.	Agreed procedures for grievances and disputes mean problems are dealt with before they grow into conflict.
Safer workplaces because the union monitors health and safety.	Unions can help to manage change. If the union accepts a new method, members are more likely to accept it.
Job security, or better terms when job losses are unavoidable.	Workers who feel fairly treated may be better motivated, so labour turnover and absenteeism may fall.
Access to legal advice, training and information.	Union representatives can explain the firm's financial position to members, which can lead to more realistic pay claims.

Possible drawbacks for employers

- **Higher labour costs** can squeeze profit margins or force price rises, which hurts competitiveness.
- **Slower decision-making**, because changes to jobs or working practices have to be negotiated.
- **Industrial action** can disrupt output, delay deliveries and damage the firm's reputation.
- **Resistance to change:** new technology or flexible working may be opposed if jobs are threatened.

Exam tip: a strong answer does not assume that unions are simply "good" or "bad" for a business. Whether they help or harm depends on the relationship between managers and the union, the state of the economy and the firm's own situation.

4. Collective bargaining

Collective bargaining: negotiation between employers and representatives of a group of employees (usually a trade union) to agree pay, working conditions and other terms of employment for the whole group.

Bargaining can happen at different levels:

- **National or industry level:** one agreement covers many employers, for example all firms in the textile industry, or all state-school teachers in a country.
- **Company level:** one agreement covers all the employees of one business, as at ZT.
- **Plant or local level:** separate agreements for individual factories or sites.

The alternative is **individual bargaining**, where each worker agrees their own pay. It is more common for managers and highly skilled specialists.

Stages in a typical negotiation

1. The union presents a claim, such as ZWU's claim for 15%.
2. Management makes an opening offer, such as ZT's 8%.
3. Both sides exchange information (profits, inflation, productivity, pay at rival firms) and argue their case.
4. They move towards each other. This often involves trade-offs, for example a higher pay rise in return for agreeing to new working practices (a **productivity agreement**).
5. They reach an agreement. If they cannot, the dispute may go to conciliation or arbitration, or lead to industrial action.

What determines bargaining power?

Factor	Union power is greater when...	Application to ZT
Union membership	A high proportion of the workforce belongs to the union	ZWU's 70% membership is high, so action would be effective. Competing claims from FLWA may weaken the united front a little.
State of the labour market	Unemployment is low and skilled workers are scarce	Skilled weavers are hard to replace quickly.
Firm's profitability	The firm is profitable and can afford a rise	If ZT's profits are high, the union can argue the firm can afford more.
Timing	The employer has urgent orders and low stocks	The big order due in six weeks increases the union's power.
Labour cost as % of total cost	Wages are a small share of total costs, so a rise matters less to the firm	With 800 workers, wages are likely to be a large share of ZT's costs, so management will resist a big rise. This factor favours management, although the move to air-jet looms may reduce the labour share over time.
Law and public opinion	Laws protect union action and the public is sympathetic	Workers facing 12% inflation may win public sympathy.

Worked example 1: the cost of the pay claim

Question: Calculate the extra annual wage cost to ZT of (a) the union's 15% claim, (b) management's 8% offer and (c) a compromise of 11%.

Step 1: current monthly wage bill

$800 \text{ workers} \times \text{PKR } 40,000 = \text{PKR } 32,000,000 \text{ per month}$

Step 2: extra monthly cost of each option

15%: $0.15 \times 32,000,000 = \text{PKR } 4,800,000$

8%: $0.08 \times 32,000,000 = \text{PKR } 2,560,000$

11%: $0.11 \times 32,000,000 = \text{PKR } 3,520,000$

Step 3: extra annual cost ($\times 12$ months)

(a) 15%: $4,800,000 \times 12 = \text{PKR } 57,600,000$

(b) 8%: $2,560,000 \times 12 = \text{PKR } 30,720,000$

(c) 11%: $3,520,000 \times 12 = \text{PKR } 42,240,000$

Step 4: the gap between the offer and the compromise

$42,240,000 - 30,720,000 = \text{PKR } 11,520,000 \text{ per year.}$

This ignores employer social security contributions and overtime pay, which would raise the true cost.

Worked example 2: pay rise linked to productivity

Question: ZT produces 520,000 metres of cloth a month. Sana proposes an 11% pay rise if the union accepts new working practices that raise output by 6% with the same workforce. Calculate labour cost per metre before and after, and the percentage change.

Step 1: labour cost per metre before

$32,000,000 \div 520,000 = \text{PKR } 61.54 \text{ per metre (to 2 d.p.)}$

Step 2: new wage bill

$32,000,000 \times 1.11 = \text{PKR } 35,520,000 \text{ per month}$

Step 3: new output

$520,000 \times 1.06 = 551,200 \text{ metres per month}$

Step 4: labour cost per metre after

$35,520,000 \div 551,200 = \text{PKR } 64.44 \text{ per metre (to 2 d.p.)}$

Step 5: percentage change

$(64.44 - 61.54) \div 61.54 \times 100 = 4.7\% \text{ (to 1 d.p.)}$

Check: $1.11 \div 1.06 = 1.0472$, which is a 4.7% rise.

Interpretation: Workers get 11%, but labour cost per metre rises by only 4.7%, because higher productivity pays for part of the rise. This is why productivity agreements can suit both sides.

5. Industrial action by employees

Industrial action: collective measures taken by employees, usually organised by a trade union, to put pressure on an employer during a dispute.

Type	What it involves	Effect on employer	Cost to workers
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Strike	Workers refuse to work for a period of time. An <i>official</i> strike is backed by the union. An <i>unofficial</i> (wildcat) strike is not.	Output stops, orders are lost and customers may switch to rivals.	High: strikers are normally not paid.
Work-to-rule	Workers follow every rule and procedure exactly and do nothing beyond their contract.	Output and flexibility fall, while normal costs continue.	Low: workers are usually still paid, although in some countries employers may deduct pay for partial performance.
Overtime ban	Workers refuse to work any hours above their contracted hours.	Serious when the firm depends on overtime to meet peaks in demand.	Low to medium: workers lose overtime pay only.
Go-slow	Workers deliberately work at a slower pace.	Output falls and unit costs rise.	Low, but workers risk disciplinary action.
Sit-in or occupation	Workers stay on the premises and stop them being used or closed.	Blocks closure or relocation and attracts publicity.	Medium: there may be legal risks.

At ZT an **overtime ban** is a clever first step for the union. Workers keep their basic pay, but ZT probably needs overtime to finish the large export order on time, so the ban puts pressure on management at little cost to members. A strike is more powerful but costs members their wages. That is why unions usually treat a strike as a last resort.

Worked example 3: the cost of a strike

Question: ZT estimates that each day of a full strike costs it PKR 3,000,000 in lost contribution (after allowing for wages not paid). Calculate the cost of a 5-day strike and compare it with the extra annual cost of moving from 8% to 11%.

Step 1: $3,000,000 \times 5 = \text{PKR } 15,000,000$

Step 2: the gap from Worked example 1 is PKR 11,520,000 per year.

Step 3: $15,000,000 - 11,520,000 = \text{PKR } 3,480,000$. A 5-day strike would cost ZT more than a whole year of the extra 3 percentage points, *assuming the union would accept 11%*.

Evaluation: On these figures alone, conceding 11% looks cheaper. But this assumes that an 11% offer would be enough to stop the action. The union has claimed 15%, so it might not be. Conceding the full claim would cost $\text{PKR } 57,600,000 - 30,720,000 = \text{PKR } 26,880,000$ a year more than the offer, which is well above the cost of a 5-day strike. A pay rise also continues in every future year and raises the base for the next claim, while the strike cost is one-off. On the other hand, a strike could lose ZT its biggest customer, which is a long-term cost the figure does not include. The decision needs both the numbers and judgement.

6. Employer responses to industrial action

- **Negotiate and improve the offer**, perhaps linking a higher rise to productivity improvements.

- **Communicate directly with employees**, for example through letters or meetings that explain the offer and the firm's finances, to weaken support for action.
- **Lockout**: stop workers entering the workplace, and so stop paying them, to put pressure on the union.
- **Use replacement or temporary workers, or subcontract work** to keep output going. This is often restricted by law and can make the dispute more bitter.
- **Threaten closure, relocation or redundancies**, for example by moving production to another site or country.
- **Disciplinary action or dismissal** of those taking unofficial action. Employment law limits this.
- **Build up stocks** before expected action so that customers can still be supplied.
- **Seek third-party help** through conciliation or arbitration.

Aggressive responses may end a dispute quickly, but they can damage trust, motivation and the firm's reputation for years afterwards. Cooperative responses protect the relationship but may cost more in the short term.

7. Resolving disputes: conciliation and arbitration

If direct negotiation breaks down, an independent third party can help. In the UK, for example, this service is provided by ACAS (the Advisory, Conciliation and Arbitration Service). Many countries have similar public bodies or labour courts.

Conciliation: an independent third party meets both sides to help them keep talking, understand each other's position and reach their own agreement. The conciliator may help them explore options, but cannot impose a solution.

Arbitration: an independent third party hears both sides and then makes a decision on how the dispute should be settled. If both sides agree in advance, the decision is binding.

Some sources also use the term **mediation**. The mediator may put forward recommended terms, but the two sides do not have to accept them. In exams, the key distinction is **who decides**: in conciliation and mediation the parties decide, while in arbitration the third party decides.

Types of arbitration

- **Non-binding arbitration**: the arbitrator recommends a settlement, and the two sides may reject it.
- **Binding arbitration**: both sides agree beforehand to accept the decision.
- **Pendulum arbitration**: the arbitrator must choose the whole of one side's final position and cannot split the difference. At ZT, the arbitrator would have to award either 15% or 8%, with nothing in between. This pushes both sides to make *reasonable* final offers, because an extreme position is likely to lose.

Feature	Conciliation	Arbitration
Role of third party	Helps the two sides talk and explore options	Decides the outcome

Who controls the result?	The two parties	The arbitrator
Binding?	No	Binding if agreed in advance
Best used when...	The sides are close but talks have stalled	The sides are deadlocked and want a final, fair decision

8. No-strike and single-union agreements

No-strike agreement: an agreement in which a trade union promises not to take strike action. In return, disputes that cannot be settled by negotiation usually go to binding (often pendulum) arbitration.

Single-union agreement: an agreement in which an employer recognises only one trade union to represent all or most of its employees for collective bargaining.

Agreement	Advantages to employer	Advantages to workers/union	Drawbacks
No-strike	Production continues without interruption, which reassures customers and investors.	Guaranteed access to a fair independent decision, and no loss of pay from strikes.	The union loses its strongest weapon, and workers may feel powerless. The employer may still face other action or low morale. In many countries such agreements are not legally enforceable, so workers may still take (unofficial) action if they feel badly treated.
Single-union	Only one set of negotiations, with no competing claims between rival unions. Easier to introduce flexible working across job roles.	One strong union with high membership has a united voice. The union may be offered better facilities and consultation.	Workers lose choice of union. A union that relies on the employer's recognition may become too cooperative.

These agreements are often found together, and often in new factories set up by multinational firms that want a stable, flexible workforce from the start. At ZT, which currently deals with both ZWU and FLWA, a single-union agreement would mean negotiating with ZWU alone.

9. How trade unions affect business decisions

- **Costs and pricing:** pay settlements raise costs. The firm must either absorb them (lower margins), pass them on (higher prices) or offset them through productivity.
- **Introducing new technology:** ZT's air-jet looms need about 60 fewer workers. The union may resist, or agree in return for no compulsory redundancies, retraining and a share of the productivity gains.
- **Workforce planning and redundancy:** managers must consult the union, and may have to use

natural wastage, voluntary redundancy or redeployment instead of compulsory job losses.

- **Location and relocation:** firms may choose sites with less union activity, or be put off moving work abroad by the prospect of a dispute.
- **Flexibility:** unions may resist temporary contracts, outsourcing or multi-skilling if these reduce job security.
- **Operations and marketing:** the risk of action may lead firms to hold higher stocks, keep a second supplier or avoid promising tight delivery dates.
- **Management style and communication:** a strong union encourages consultation and a more democratic style. It can also improve how change is planned and explained.

Evaluation point: a good relationship with the union can make it easier to put decisions into action. Once the union agrees, the change has the backing of the workforce, whereas a change imposed without consultation may later be resisted or quietly undermined.

Key terms

Term	Definition
Trade union	An organisation of workers that acts collectively to protect and improve members' pay, conditions and job security.
Collective bargaining	Negotiation between employers and employee representatives to agree terms and conditions for a group of workers.
Individual bargaining	Each employee negotiates their own pay and conditions directly with the employer.
Productivity agreement	A deal in which workers receive higher pay in return for changes that raise output per worker.
Industrial action	Collective measures by employees to put pressure on an employer during a dispute.
Strike	A collective refusal to work for a period of time.
Work-to-rule	Following all rules and procedures exactly and doing nothing beyond the contract, so that output falls.
Overtime ban	Refusing to work any hours beyond contracted hours.
Lockout	An employer stops employees from entering the workplace during a dispute.
Conciliation	An independent third party helps both sides keep talking and reach their own agreement. The conciliator may help explore options but cannot impose a solution.
Arbitration	A third party hears both sides and decides the settlement. The decision is binding if agreed in advance.
Pendulum arbitration	The arbitrator must choose one side's final position in full and cannot split the difference.
No-strike agreement	The union agrees not to strike, usually in return for binding arbitration of unresolved disputes.
Single-union agreement	The employer recognises only one union to represent its employees.

Works council	A group of elected employee representatives who meet management to be consulted on workplace issues.
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Quick check

Questions 1–8 are short-answer items. Questions 9–11 imitate the longer questions set on an A Level case study. Mark tariffs vary between papers, so check current specimen and past papers for exact allocations.

1. Define the term "collective bargaining". [2]
2. State **two** functions of a trade union. [2]
3. Explain the difference between conciliation and arbitration. [3]
4. Explain **one** reason why an employer might benefit from recognising a trade union. [3]
5. A firm employs 250 workers, and their average wage is PKR 36,000 per month. Calculate the extra annual wage cost of a 7% pay rise. [3]
6. Explain why a union might choose an overtime ban rather than a strike. [3]
7. Explain how pendulum arbitration encourages both sides to be reasonable. [3]
8. A union accepts a 9% pay rise in return for a 5% rise in output per worker, with the same workforce. Calculate the percentage change in labour cost per unit of output, to one decimal place. [3]
9. Analyse **two** factors that increase the ZWU's bargaining power in its current dispute with ZT. [8]
10. Analyse **one** advantage and **one** disadvantage to ZT of offering the ZWU a single-union, no-strike agreement. [8]
11. Evaluate how Sana Qureshi should respond to the threat of industrial action at ZT. [12]

1. Negotiation between an employer and representatives of a group of employees, usually a trade union, [1] to agree pay and conditions of employment for the whole group [1].
2. Any two from: negotiating pay and conditions; protecting jobs; improving health and safety; representing members in grievance or disciplinary hearings; giving legal advice or training; lobbying government. [1] each.
3. Both involve an independent third party [1]. In conciliation, the third party helps the two sides reach their own agreement and does not decide the outcome [1]. In arbitration, the third party decides the settlement, which is binding if both sides agreed to that in advance [1]. (Also accept a clearly explained difference in who controls the outcome or whether the result is binding for the third mark.)
4. For example: managers negotiate with one set of representatives instead of every employee [1], which saves management time and negotiating costs [1], and the terms agreed apply to the whole workforce, so they are consistent and seen as fair, which reduces grievances [1]. Other valid answers include help with managing change, and agreed dispute procedures.
5. Monthly bill = $250 \times 36,000 = \text{PKR } 9,000,000$ [1]
Extra per month = $0.07 \times 9,000,000 = \text{PKR } 630,000$ [1]
Extra per year = $630,000 \times 12 = \text{PKR } 7,560,000$ [1]
6. With an overtime ban, members still receive their basic pay [1], so the action costs them little and they can keep it going for longer [1]. It can still hurt an employer like ZT that needs overtime

to meet an urgent order, and it leaves a strike available as a later, stronger step [1].

7. The arbitrator must choose one side's final position in full and cannot split the difference [1]. An extreme claim or offer is unlikely to be chosen, so each side has an incentive to put forward a position the arbitrator will see as fair [1]. As a result, the two positions move closer together, and the dispute is often settled before the arbitrator even decides [1].

8. Labour cost per unit changes by $1.09 \div 1.05 = 1.0381$ [1]
 $(1.0381 - 1) \times 100$ [1] = **3.8% increase** [1]

9. Indicative mark allocation:

Skill	Marks	What earns them
Knowledge	2	Identifies two relevant factors that affect bargaining power.
Application	2	Uses ZT's situation, for example the 70% membership, the six-week order or 12% inflation.
Analysis	4	Develops a chain of reasoning for each factor, showing why it strengthens the union's position.

An answer that lists factors without developing them in the context of ZT cannot go above the knowledge marks.

Possible factors:

- **High membership (70%):** most production workers would take part in any action, so ZT could not keep output going with non-members. The threat is therefore credible, and management must take it seriously.
- **Timing: the large export order due in six weeks.** An overtime ban or strike now could make ZT miss the deadline, pay penalties or lose its biggest customer. The possible losses, especially losing its biggest customer, could be larger than the cost of improving the offer, so ZT has a strong reason to settle before the deadline.
- **12% inflation:** the 8% offer is a real pay cut, which strengthens the union's case and may win it public sympathy.

10. Indicative mark allocation: Knowledge 2, Application 2, Analysis 4 (as in answer 9). One developed advantage and one developed disadvantage, both applied to ZT, are needed for full marks.

- **Advantage:** ZT could guarantee uninterrupted production to its European customers. This reliability could help it win and keep large export contracts, and disputes would be settled by arbitration, not strikes. As a single-union deal, ZT would also negotiate once with ZWU instead of handling rival claims from ZWU and FLWA. This saves management time and makes it easier to agree multi-skilling across weaving and finishing.
- **Disadvantage:** the union would expect something in return, such as binding arbitration, which means ZT loses control over the final pay decision. An arbitrator might award more than ZT can afford. With pendulum arbitration, ZT could be forced to accept the union's full claim. In addition, FLWA members may resent losing their union, which could lower morale or lead to unofficial action. A no-strike clause may not be legally enforceable, so it does not rule this out.

11. Indicative levels:

Level	Marks	Description
Level 3	9–12	A supported judgement in the context of ZT, stating what the decision depends on.
Level 2	5–8	Developed analysis of two or more responses, applied to ZT.
Level 1	1–4	Knowledge of possible responses, with little application to ZT.

Points to use:

- **Improve the offer**, for example to 11%. The extra PKR 11.52 m a year is less than the estimated PKR 15 m cost of a 5-day strike, but only if the union would accept 11%. The full 15% claim would cost PKR 26.88 m a year more than the offer, which is more than a 5-day strike would cost. Losing the main customer could cost more than either. The rise is also permanent, and it raises the base for future claims.
- **Link the rise to productivity and the new looms**. A productivity agreement means labour cost per metre rises only about 4.7%, and it could get the union to accept the new technology, perhaps with a promise of voluntary redundancy or natural wastage instead of compulsory job losses.
- **Communicate directly** with workers about ZT's finances and customers. This may lower expectations but could annoy the union if it is seen as going around it.
- **Tough responses** (lockout, replacement workers, threats to relocate) could end the dispute but would damage trust just when ZT needs cooperation over the looms. They may also be legally restricted.
- **Conciliation or arbitration** if talks stall. This gives an independent route to a settlement and protects the relationship.

Level 2 conclusion (example): "Sana should raise the offer to 11% because it is cheaper than a strike." This is a judgement, but it rests on one figure and does not say what it depends on.

Level 3 conclusion (example): "Sana should offer a productivity-linked settlement near 11% before the order deadline. The short-term risk of losing the biggest customer and the long-term need for the union's cooperation over the new looms both outweigh the extra PKR 11.52 m a year. This depends on ZT's profitability, on whether the union would accept 11% rather than hold out for 15%, and on whether the customer could easily switch to a rival supplier."