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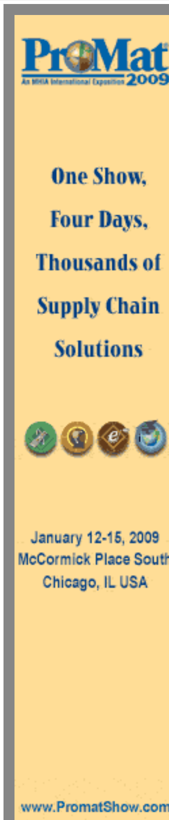

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-January 6, 2009 -

Supply Chain News: Is the UAW Really at the Root of US Automakers Woes?

pdf of this article

Even as Hourly Costs Get in Line with Transplants, Work Rule Restrictions Add Huge Costs and Dramatically Reduce Flexibility, Former Industry Lawyer Says

SCDigest Editorial Staff

As the "Big Three" US automakers (GM, Ford, Chrysler) struggle with rapidly declining sales and scary cash burn, the federal government bailout has recently given GM and Chrysler some financial breathing room – at least temporarily.

Part of the strings associated with those government loans are requirements for the two loan takers to develop plans to show how they can become "viable" by the end of March 2009. That inevitably leads to debate about the role of the United Auto Workers Union (UAW) in the automakers' current woes – and in the potential path to recovery.

The issue in a sense has ramifications even beyond the auto industry, given the potential for the new Congress to pass the so-called "card check" rule that would eliminate the current requirement that a vote to unionize be held by secret ballot. (See **Is Potential New Union Rule a "Path to Economic Ruin?"**)

The UAW contracts place the Big Three in a competitive vice, says **Logan Robinson**, a professor of law at the University of Detroit Mercy and former legal executive at Chrysler and parts suppliers Delphi, ITT Automotive and Metaldyne.

He cites the fact that all three of these OEMs are struggling in their home US market while generally doing just fine in regions across the globe where the UAW contracts are not in force.

"How can we explain that whenever GM, Ford and Chrysler leave our shores, they compete well in foreign markets as varied as Europe, South America and China? What makes them viable competitors as soon as they cross the border?" Robinson asks in a recent Wall Street Journal column.

While recent contract concessions have made the raw hourly labor costs for the Big Three roughly on par with what the foreign automakers pay their factory workers in US plants, restrictive work rules that add huge costs and dramatically limit flexibility remain critical issues, according to Robinson.

"It is perhaps the mode of doing business in a unionized company that remains a crippling disadvantage," Robinson said. "The UAW is arguably the most successful industrial union of all time. But its very strength has allowed it to permeate into every aspect of manufacturing in the Detroit Three."

SCDigest Says:

"These mutually sustaining bureaucracies exist to negotiate with each other, Robinson adds. In many cases, even as plants or distribution centers are consolidated, they remain "open," lit and heated simply to preserve the spots for the local union president and UAW staff – a "jobs bank" of sorts for union leadership."

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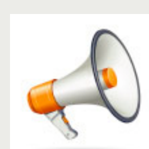

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The UAW contracts with each of the Big Three are the size of telephone book, Robinson says. Those agreements cover not only a dizzying array of work rules and practices within the factory, but also give the union the power to approve or disapprove plant closings. While ultimately that approval is often given, it usually comes with a heavy price in some other area of the agreement.

(Manufacturing Article - Continued Below)

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Substantial Overhead Costs

The scope of the agreement and nature of the relationship adds huge overhead costs to the OEMs, Robinson says.

“Both the UAW and the Detroit Three maintain large staffs of lawyers, contract administrators, and financial and human-resources representatives whose principal job is to negotiate with the other side,” Robinson says. “These staffs are at all levels, from the factory floor to corporate headquarters and the UAW's "Solidarity House" in downtown Detroit.”

Not only does this add huge costs, it makes decision-making and executing even small changes painfully slow and difficult. The non-unionized plants at Honda, Toyota, etc., simply do not have these costs or operational barriers in their operations.

“If the company asks to change the flow of work for any reason, from cost-savings to vehicle improvements, the local union president will listen politely, and then say something like, "We can help you with this, but what's in it for my guys?"” Robinson says.

These mutually sustaining bureaucracies exist to negotiate with each other, Robinson adds. In many cases, even as plants or distribution centers are consolidated, they remain “open,” lit and heated simply to preserve the spots for the local union president and UAW staff – a “jobs bank” of sorts for union leadership.

Eating Auto Executives for Lunch

The need to keep peace with the union is also a strong obstacle to effective company management at the automakers, Robinson says.

“The Detroit CEOs indulge the head of the UAW as they would a boss, because, like a boss, he can make or break their careers,” Robinson says. He notes that the predecessor to the current and generally respected UAW president Ron Gettlefinger, a man named Steve Yokich, “ate vice presidents for breakfast, and many promising former executives learned this the hard way.”

“As the Obama administration takes the helm, the key political question is whether the Democratic Party, which has so benefited from union support, will have the courage to push the UAW into a more reasonable relationship with the Detroit Three,” Robinson concludes. “If the Obama administration does not force the UAW to make further concessions, it will not be able to save the Detroit Three, no matter how many green cars they roll off the assembly line.”

Are the UAW work rules and restrictions a key factor in the troubles of Detroit’s Big Three? Can they survive if these contract requirements are not brought in line with the non-unionized auto transplants? How does all this factor in to the proposed “card check” change? Let us know your thoughts at the Feedback button below.

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