1990

An Introduction to Tiered Compensation Structures

James E. Martin
Wayne State University

Citation
1
An Introduction to Tiered Compensation Structures

The purpose of this monograph is to examine the impact of tiered compensation structures on unions, employers, and employees. Several methods were used to accomplish this goal. First, an extensive review of the literature was conducted for the purpose of summarizing what others have found concerning tiers. A detailed study was conducted at one large company where various forms of tiers had been in existence for many years, making it possible to assess the long-term impact of tiers. As part of that case study, rank-and-file employees were surveyed as to their attitudes concerning tiers and topics related to tiered compensation structures. Survey items were derived from the literature and from additional information obtained in interviews. The survey was designed to explore eight research questions related to tiers and to test five hypotheses. These will be discussed in more detail at the end of this chapter.

Chapter 1 provides an introduction to tiered compensation structures. Tiered compensation structures are defined and a means for classifying tiers is introduced. In addition, a framework of the labor-management relations process is presented, focusing on the influences that may affect the development of tiers. Finally, two views of the role tiers play within the industrial relations system are presented. The chapter closes with a section that briefly outlines the organization of the monograph. Chapter 2 completes the introduction to tiers by examining the characteristics and relative frequencies of tiers, how they have functioned in practice, and trends associated with the number of existing tiered compensation structures.
Definition and Classification of Tiers

Tiers are defined as the result of a compensation system change that adds lower compensation levels for workers who either change positions or begin employment after a certain date, usually the date when the union-management contract becomes effective. These employees perform the same or equivalent duties as workers employed prior to that date, but they receive less compensation. This definition extends the concept of tiers beyond two-tiered wage structures, upon which most writers have focused, to other forms of tiers directly affecting compensation.

Types of Tiered Compensation Structures

Tiered compensation structures can be classified into two categories: permanent or temporary (Jacoby and Mitchell 1986; Ross 1985). Under a "permanent" plan, the "new" or low-tier employees are compensated on a separate and lower scale than the high-tier employees.

Figure 1.1, adapted from the work of Cappelli and Sherer (1987), illustrates for permanent tiers the compensation levels of employees on each tier with differing levels of seniority. The compensation of the high- and low-tier employees is represented by segments AB and CD respectively. For a high-tier employee, point A represents a compensation level which exists at the time of the implementation of tiers. For a low-tier employee, point C represents a starting compensation level existing at any time after the implementation of tiers. Employees on the separate tiers do not have identical seniority at the same time. For example, one year after tiers are implemented, all high-tier employees have seniority of one year or more, while all low-tier employees have seniority of less than one year. Examined cross-sectionally, it can be seen that the compensation level of the low-tier employees, represented by line CD, will never equal that of the high-tier employees, represented by line AB, regardless of how long the low-tier employees remain with the company, unless the labor contract is changed. With permanent tiers, when the contract is negotiated there is no understanding by the parties that the tiers will merge at some date in the future.
In figure 1.2, also adapted from the work of Cappelli and Sherer (1987), the compensation level for the new employees on the low tier under a "temporary" tiered compensation structure is represented by segment CD. If these employees remain with the company for a given period of time, their compensation level will eventually merge with the higher-compensation level of the high-tier employees (represented by segment AD) as a result of progression adjustments (at point D). Previous "high-" and "low-" tier employees would then be on the same compensation scale, which is represented by segment DB. At that time, there would no longer be two separate tiers. The entry-level compensation for all employees would then be at point C, and all employees would be on the compensation scale represented by line CDB.

It should be noted that the concept that underlies temporary tiers is not a new one. For example, in many industries there are often wage progressions of varying length through which employees pass before they attain the top pay rate for their job class. Apprentices in the
construction trades are an example of traditional wage progressions. Although the concepts underlying temporary tiers and the traditional wage progressions are similar, their usage differs in two respects. With temporary tiers, for employees hired after a certain date, some portion of the wage scale is lowered below that which existed for employees hired prior to that date. In addition, the time it takes low-tier employees to reach the top rate may be lengthened, therefore slowing down the rate of increase in compensation relative to that of the high-tier employees. For temporary plans, the length of time prior to the merger with the high-tier rates is predetermined.

**Figure 1.2**

**Temporary Tiers**

![Temporary Tiers Diagram](image)

While permanent and temporary wage tiers are distinguished in theory, in practice the demarcation between them can become blurred (Jacoby and Mitchell 1986). All tiers are subject to the collective bargaining process and thus may be altered or removed from the contract in any future bargaining settlement. Further, temporary tiered agreements
where the low-tier scale merges into the high-tier scale during the term of the contract in which they were implemented have different implications from those that do not merge within that time period. Ross (1985) noted that temporary plans with such a "long progression to parity that the delay may seem eternal," (p. 82) represent a third classification of tiered structures. Jacoby and Mitchell stated that if the period for merger is sufficiently long, few employees are likely to work long enough to reach the high-tier rates. They also noted that if the merger date is set after the contract expires, the date may be postponed, perhaps indefinitely, in future bargaining.³

**Forms of Tiered Compensation Structures**

In addition to being classified as temporary or permanent, tiered compensation may also be classified into several forms. Tier forms manifest themselves when lower compensation is implemented for employees hired after a certain date, for example, (1) affecting either wages or benefits within the same job classification, (2) affecting new job classifications with the same or very similar duties as already existing job classifications, or (3) affecting part-time positions compared to full-time positions in the same job classification. It should be noted that in employment settings where more than one tier form exists, employees may be concurrently on multiple tier forms, and within each tier form, an employee may be compensated at either a high or low level.⁴

**Wage Tiers**

Tiers with different wage scales for employees in the same job classification are the most prevalent form of tiers and are generally what is referred to by the term "two-tier wage structures." With wage tiers, workers employed after a certain date are placed on a lower wage scale than previously hired employees. Data from both Essick (1987) and Thomas (1988) suggest that for a company or contract, the most common average pay difference between the high- and low-wage tiers (as a percentage of the high-tier wage) is in the range of 20 to 29 percent.⁵
6 Introduction to Tiered Compensation

Benefits Tiers

Tiers also have been applied to employee benefits, with new employees receiving fewer benefits than high-tier workers. Such benefits may include compensation given to employees in the form of health care, life insurance, holidays, or vacations. A distinction should be made here in benefit compensation between a tiered-employment situation and a straight seniority system. In a tiered-employment situation, the differences in benefits between high- and low-tier employees are based on whether the employee was hired prior to or after the date when the benefit tier was implemented, as opposed to basing benefits only on seniority as under a straight seniority system. Under a benefit tier, an employer could give workers with approximately the same seniority but on different tiers different amounts of vacation time. Thus, a benefit tier takes into account both the fixed date when the tier was established and the employee's seniority level. Under a straight seniority system, all employees receive the given amount of vacation time as specified in their contract for their level of seniority, irrespective of their hire date.

Other Tier Forms

Tiered compensation plans may be classified into other forms, but these forms appear to be far more restricted in their applicability to particular industries than wage and benefit tiers. For example, job-duty tiers arise where new job classifications are created for at least some new employees. The new job classifications generally contain job duties that are similar to job classifications already existing but introduce lower compensation. The most prevalent application of the job-duty tier appears to be in the retail food industry. Here, nonfood clerks and food clerks perform the same tasks with different products, yet the nonfood clerks are paid considerably less (Jacoby and Mitchell 1986; Ross 1985; Wessel 1985). Ross (1985) argues that such employees who do similar tasks in new and "nonconventional" jobs while receiving a new lower rate constitute a "third tier."6

Another form of tier exists where new employees are paid less under the same contract while performing the same duties at newly established work locations within the same general geographic region. This tier
form, which will be referred to as the location tier, does not appear to be very common, although it does exist in the retail food industry where new locations are established to directly compete with nonunion operations. Manufacturing firms have also implemented location tiers (Wessel 1985).

A tier form that manifests itself through the division of employees into part- or full-time employment groups will be referred to as the "employment status tier." This tier form has the widest application within service-sector industries such as retail foods and airlines where companies frequently have extended hours of operation and often hire part-time employees to assist in servicing regular peak workloads occurring within the workweek. Employment status tiers may arise in several different ways. For example, in some service-sector companies where a progression from part- to full-time status comes only as vacancies occur, new restrictions may be placed on the movement of new employees from part time to full time. Also, the wage progressions may be lengthened for the part-time positions, and/or the previously separate part- and full-time wage progressions may be combined for low-wage tier employees with the newly established wage progression equal to or lower than that of the previous part-time, high-wage tier schedule. Thus, employees would no longer receive an increase when moving from part- to full-time status. Salpukas (1984) states that a new contract could allow the employer to hire part-time employees where none were previously permitted.  

An Example of Tiered Wage Rates

Figure 1.3 provides a specific example of the wage rates for one job classification from the company involved in the case study. The figure shows wage rates over time for the general merchandise clerk job classification and illustrates how the wage tier and employment status tier forms (implemented in 1978) may function together in an employment setting. The figure shows that the high-wage tier rates for both the part- and full-time employees were at the same rate ($3.13) in 1978. Note that the two scales diverged in 1980 as the wage progression for the high-wage tier, part-time employees was 24 months versus 36 months for the full-time employees on the high-wage tier.
Figure 1.3
Rates of General Merchandise Clerks on Different Tiers
Hired at Different Times

- - High-Wage Tier, Part and Full Time
- - High-Wage Tier, Full Time
- - High-Wage Tier, Part Time
- - Low-Wage Tier, Part and Full Time
The figure indicates that the part- and full-time low-wage tier employee scales that were implemented in 1978 are identical, with the result that after 1978, it was no longer possible for low-wage tier, part-time general merchandise clerks to receive additional hourly wage increases upon becoming a full-time employee. Also, one can see in figure 1.3 the lengthening of the wage progression, and thus the length of time it took to reach the top rate within the low-wage tier. After the 1984 contract negotiations lengthened the general merchandise pay progressions, new general merchandise clerks took four years to reach the top rate; the general merchandise clerks hired in 1981 took three years. While not evident in the figure, a part-time, high-wage tier employee moving to full-time status would not receive the full-time, high-wage rates that would have been received prior to the implementation of these tier forms.

A Framework of Labor-Management Relations

A brief examination of the labor-management process should assist in understanding the historical and environmental influences on the development of tiers. The following framework is based on the conceptualization of labor-management relations developed by Holley and Jennings (1988). Their framework is comprised of three primary elements. The first element includes the principal participants in the process—employees, union leaders, and management. The second element includes all of the potential influences and pressures that may affect the labor relations process. The third element in the framework is the focal point of the labor relations process—work rules. According to Holley and Jennings, work rules include the rules governing compensation, such as tiers, and the rules that specify obligations and job rights of the employees and employers. The description of work rules provided by Holley and Jennings has been expanded here to include all the union-management agreements, both those written in the labor agreement or contract, and those referred to as implicit or informal. The next two sections will examine three of the principal participants and look at some of the external influences in the process.
Introduction to Tiered Compensation

Principal Participants

Holley and Jennings noted that since the employees' desires may influence the existence and content of particular work rules, employees should be considered as a principal participant in the labor relations process. They contend that employees may represent the most significant participant category, since they often determine whether a union is even present. Employees also determine whether a negotiated labor agreement is accepted or rejected and whether a threatened strike is actually carried through. Certainly, a goal of employees is to partake in the rewards and successes of their organizations; the goal is specifically directed at increased job security and improved work rules, such as compensation.

Union officials are the second major participant in the labor relations process. One goal of union officials involves keeping job security for the union members, although this goal often becomes more important to the union when management asks for labor cost concessions (Cappelli 1985b). In bargaining, particularly when concessions are granted, this goal may be translated into preserving or increasing the number of jobs available in the bargaining unit. Another goal of the union leadership is to satisfy sufficiently the needs of the different membership groups so as to strengthen the leadership's political position. Instrumental to obtaining this goal is the negotiation of a contract that will be ratified by the membership by a wide margin. Given that the initial negotiation of a tiered compensation structure does not decrease the compensation of the previously hired union members, a contract that implements tiers is usually more easily ratified than a contract involving an across-the-board cut. The simultaneous achievement of these two union goals may not always be possible. For example, to obtain the wages desired by the membership may result in layoffs later on.

A third major participant in the process identified by Holley and Jennings is the management officials who negotiate and administer the labor agreements. The negotiated work rules involve managers at many different organizational levels and functions. The labor relations objectives are developed and coordinated at the corporate and divisional levels to ensure that a particular work rule, such as compensation for a specific job classification, does not adversely influence conditions elsewhere.
While greatly simplified, the goal of the management officials is to satisfy the owners and other managers, mainly by increasing profits.

Obviously, the differences between the participants’ goals may result in conflict. For example, Holley and Jennings note that conflict may occur between the members and officers over the specific tactics to be used in accomplishing shared bargaining objectives. Also, factions may develop within an employee group if different goals and work rule preferences are present among the employees. As a result of these member differences, the union leaders may not represent a consensual grouping given the different viewpoints among the membership. Different labor relations priorities may exist between locals within the same international union and between a local union and the international union with which it is affiliated. Thus, the resulting contract represents a compromise among the different participant goals with the parties settling for satisfactory goal attainment concerning work rule agreements.

External Influences

The second element in the Holley and Jennings framework includes the external influences or constraints that affect the labor relations process. Holley and Jennings discuss several external influences, such as international factors, the product market, and technology, which can influence the process. Their discussion of the external influences also included the state of the economy, which impacts on the union and management negotiators and administrators, and the competitors, who impact directly on management officials. The latter two influences will be shown to be the most relevant to the implementation of tiers. Such external influences may affect the goals of the participants, the means by which participants attempt to attain them, and thus the subsequent compromises reached.

Views of Tiered Compensation Structures

Kochan, Katz, and McKersie (1986) attempt to add a more dynamic component to industrial relations theory by developing the concept of strategy, or strategic choice. They indicate ways in which the framework
for viewing industrial relations could be expanded and discuss the role of strategic choice within a more complex paradigm. In their discussion of the prevailing paradigm, they outline some of the unexpected developments that exposed the apparent inadequacy of the current theoretical approaches. It does appear that the concept of strategic choice adds a more dynamic component to industrial relations theory, and in the first part of the following section we examine tiered compensation structures in the context of a business strategy.

Two predominant views of tiers have been expressed in the literature: (1) as part of a firm's business strategy, and (2) as an outcome associated with concession bargaining. The discussion of tiers as part of a firm's business strategy will include both business strategies associated with expansion/investment and strategies associated with economic survival. Given the relative newness of tiers, most of the discussion will focus on the initial negotiation of tiers as it relates to a firm's business strategy, although a firm's strategy may be modified over time due to changes in the external influences that operate on the union-management relationship. Also, there will be a separate discussion of tiers as an outcome associated with concession bargaining. We recognize, however, that a firm's business strategy for economic survival often incorporates concession bargaining.

**Tiers as Part of a Business Strategy**

The economic environment of the 1980s has persuaded many firms to adjust their human resource management and business strategies. As the human resource management strategies were altered in the past decade, firms reexamined their compensation systems. With our inconstant economy along with the pressures for cost reduction and productivity increases, many firms have sought new compensation policies and new business operating strategies (Bureau of National Affairs, Inc. [BNA] 1988; Katz and Milkovich 1986; O'Dell and McAdams 1986). Attaining competitive advantage through human resources requires that these activities be conducted from a strategic perspective (Lengnick-Hall and Lengnick-Hall 1988). Tiered pay plans are one means for coping
with the increased competitive pressures that have led to the revisions in business strategies.\textsuperscript{10}

Katz and Milkovich (1986) state that a causal flow appears to run from the economic environment through business strategies and then on to human resource management strategies, i.e., compensation policies. Lengnick-Hall and Lengnick-Hall (1988) suggest there is a reciprocal interdependence between a firm's business strategy and its human resources strategy. Researchers in industrial relations have recently begun to investigate the relationship between business strategies\textsuperscript{11} and such bargaining outcomes as tiers (e.g., Cappelli 1985a; Kochan, Katz, and McKersie 1986). Such an investigation would be useful in understanding the role of tiers in the American industrial relations system.

The BNA (1988) and Katz and Milkovich (1986) view tiers as part of a changed compensation policy in response to a new, more competitive economic environment and a revised business strategy. They argue that deregulation, increased competition, technological change, and other competitive pressures have forced companies to change their operating strategies. These changes have resulted in compensation policies that include tiered compensation plans, lump-sum payments, gain sharing, profit sharing, stock ownership plans, and knowledge-based pay being made an explicit part of a new business operating strategy. They state that compensation plans and other personnel policies that were adequate in a stable growth environment would not work well in a frequently changing environment.

It appears that the different business strategies selected in response to competitive pressures, through their impact on the collective bargaining environment, have a large impact on the labor relations outcomes (Kochan, Katz, and McKersie 1986). We propose the following process models of how tiers relate to business strategy, focusing on two different strategic choices in response to external pressures: (1) the implementation of tiers as part of a strategy associated with expansion and investment, or (2) the implementation of tiers as a strategy for economic survival.\textsuperscript{12}
Introduction to Tiered Compensation

**Strategy for Expansion/Investment**

Tiers negotiated as part of a strategy for expansion/investment[^13] can be understood in terms of the causal flow provided by Katz and Milkovich (1986), which runs from the economic environment through business strategies and then on to compensation policies such as tiers. When tiers are negotiated according to an organization’s strategy for expansion, it appears that firms take a proactive position based on the anticipation of possible future economic difficulties or to gain a competitive advantage. That is, the firms appear to have implemented tiers for the purpose of reducing costs associated with expansion; such expansion becomes a part of their long-term strategic objective. Two-tier plans are an especially attractive cost control device in such a situation, because as expansion takes place, all additional employees will be on the low tier. To gain union and employee approval for this long-term strategic objective, however, management often provides monetary and/or other forms of incentives in the new contract to the employees who would be on the high tier (Cappelli 1985a; Harris 1983a).

**Strategy for Economic Survival**

While the negotiation of tiers for the purpose of expansion can be understood in terms of the causal flow provided by Katz and Milkovich (1986), the causal flow for the strategy for economic survival appears to run from the economic environment directly to concessions. Businesses that negotiate tiers for economic survival usually are under great pressure from the competition. The increased external pressure forces the employees, union, and management to share in the responsibilities of cutting costs during contract negotiations (Cappelli 1983; Kassalow 1983; Mitchell 1983).

In short, businesses that negotiate tiers as part of a strategy for survival believe that the new pay plan or some other cost cutting device is necessary if their operations are to continue without exacerbating the effects of the existing economic pressures. Employees who ratify such plans also generally feel that they have to approve the two-tier plan or some of them could lose their jobs (e.g., Cappelli 1985a). Thus, if tiers are negotiated by management as a strategy for economic survival, they are usually accompanied in the contract by other concessions; current...
employees’ wages and/or benefits are often adversely affected, i.e., decreased or frozen. In contrast to the proactive stance taken by firms negotiating tiers for the purpose of expansion, it appears that firms take a reactive position if tiers are negotiated according to a strategy for economic survival. Miles et al. (1978) contend that if the firm permits the environment to dictate its strategic choices in a reactive manner, the opportunities of long-term survival are reduced.

**Tiers as an Outcome of Concession Bargaining**

Since tiers are generally negotiated in response to a proposal by management (Jacoby and Mitchell 1986), tiers are viewed by the union and employees as a concession (e.g., Balliet 1984; Craft, Abboushi, and Labovitz 1985). Many have labeled two-tier wage structures as an outcome which is associated with concession bargaining (Balliet 1984; Craft, Abboushi, and Labovitz 1985; Jacoby and Mitchell 1986; Mitchell 1983). Most concessions generally affect the wages, benefits, or working conditions of those workers already employed (e.g., Ploscowe 1986). Although the implementation of tiers alone typically affects only those employees not yet hired, we contend that tiers are a concession bargaining outcome resulting in potentially lower labor costs than would have existed otherwise. Thus tiers meet the definition of a concession.14

**Plan of the Book**

In this chapter, tiered compensation structures were defined, classified according to type and form, and discussed in terms of their role in the industrial relations system. Chapter 2 examines the characteristics of tiers and the trends in their incidence. The different roles tiers appear to play in the manufacturing and service sectors will also be discussed. An explanation will be provided for why tiers are more likely to exist in certain types of industries than in others. Also, chapter 2 discusses the potential benefits and problems associated with tiers and concludes with a discussion of the conditions affecting the incidence of tiers and their future. Chapter 3 is a detailed discussion of labor-management relations in one of the industries that has implemented many tiers, the retail food industry. The chapter describes how the competitive pressures
surrounding that industry changed and led to the subsequent implementation of tiers.

Chapter 4 presents the historical and environmental factors that influenced the development and maintenance of tiers in a retail food company whose employees were surveyed. The chapter also shows how tiers affected the company and the union representing its employees. Chapter 5 discusses the sample characteristics, research design, survey development, and data analysis used to survey the rank-and-file employees. Chapter 6 contains survey results in response to several research questions. The following three interrelated research questions focus on the employee views of why the two-tier wage plan at the surveyed employees' company was originally negotiated, how much various groups have benefited from its implementation, and the perceived effects of the plan on employment-related outcomes.

(1) What goals of the negotiating parties do employees believe the plan was negotiated to meet?

(2) To what extent do employees perceive that the various groups have benefited from the implementation of the plan?

(3) What employment-related effects do employees believe have resulted from the plan?

A second set of research questions focuses on the employee views of the predicted outcomes of future bargaining over the wage structure, attitudes toward selected changes in the compensation system and the potential related outcomes, and general employee attitudes toward tiers.

(4) What changes related to the plan do employees believe are likely to occur?

(5) What are the employee attitudes toward selected changes in the plan and the potential related outcomes?

(6) What are the employee attitudes about the company and union expectations, problems relating to the plan, and the relationship of tiers to the duty of fair representation?

The next research question examines whether differences exist for the first six research questions among the different geographic areas.

(7) What are the differences in the employee attitudes examined in the first six research questions among the geographic areas of operation?
The final research question focuses on equal employment opportunity, which may be of concern if the low-tier groups contain a disproportionate number of members from protected classes.

(8) Are the low-tier groups disproportionately comprised of women and minorities?

Chapter 7 also focuses on the survey results and develops and tests five hypotheses based on equity theory. The hypotheses focus on the relationship of employee behaviors and attitudes to tiers. Equity theory provides a particularly useful framework within which to generate hypotheses concerning attitudes and behaviors of employees in tiered compensation structures. Equity theory suggests that perceptions of equitable pay have an important role in defining employment-related attitudes and behaviors as individuals attempt to equate their ratios of outcomes to inputs with the ratios of relevant others (Adams 1965; Mowday 1983). The five hypotheses are:

(1) The employees in the low-tier groups will have a higher absenteeism rate and report less effort expended on the job than will the employees in high-tier groups.

(2) The employees in the low-tier groups will participate less in union activities, and be more likely to (a) vote against ratifying union contracts which maintain tiers, and (b) vote against incumbent union officers than will the employees in the high-tier groups.

(3) Compared to the employees in the high-tier groups, the employees in the low-tier groups will have: (a) perceptions of less pay fairness and lower union instrumentality in obtaining fair pay; and (b) lower satisfaction with their pay, the two-tier plan, and the number of hours they work.

(4) The employees in the low-tier groups will perceive greater promotional opportunity and greater opportunity for external employment than will the employees in the high-tier groups.

(5) The low-tier groups will have higher company and union commitment, and job satisfaction than will the high-tier groups.

Chapter 8 summarizes the key points and findings of this study and presents the conclusions.
NOTES

1. There is little mention in the literature concerning the effect of tiered compensation structures on employees who change positions; therefore, the discussion of tiers will use the terms “low-tier employees” and “new employees.” While it is recognized that the phrase, “employees who change positions” could be substituted for these terms in some examples, the use of these two phrases simplifies the discussion.

2. Tiered compensation structures also may exist for employees not represented by unions. For example, Ruben (1987) noted that Delta Airlines had instituted tiers for that portion of its rank-and-file employees who were not unionized. The company in which the case study was conducted had instituted tiers for its managers. Further, the survey results of Essick (1987) indicated that 11 percent of all the companies that reported having two-tier wage structures were nonunion. Given that most of the interest and concern expressed in the literature has centered on tiered compensation structures for unionized employers, the focus of this study is limited to that sector.

3. A noted example of where temporary tiers were modified before any employee on the low-tier wage scale had moved onto the high-tier scale occurred at Northwest Airlines in 1988. A temporary low-wage tier that was supposed to merge in five years was implemented for Northwest’s flight attendants in 1984 (Bureau of National Affairs, Inc. [BNA], June 17, 1985). After a threatened strike, partially because management wanted to lengthen the time of merger to nine years, a settlement was reached in which the two tiers would be merged in eight years (BNA, March 29, 1988).

4. It should be noted that an increasing number of contracts provide for more than two levels of tiers of compensation (BNA, February 26, 1987). For example, Sichenze’s (1989) analysis of all retail food contracts covering 1,000 or more workers found that over half contained three or more tiers. Thus instead of being two-tiered agreements, many contracts are actually multi-tiered agreements.

5. Tiered wage structures generally affect multiple job classifications and within any contract there may be variation in the percentage pay difference between the two wage tiers across job classes. Thus, the average pay difference is the one that is reported.

6. Ross’s “first tier” would be the high-wage tier for employees doing similar tasks in old and conventional jobs. His “second tier” would be the low-wage tier for those same jobs. Comparing his first and second tiers with his third tier is the same as comparing the high and low levels of a job-duty tier.

7. Sichenze (1988, 1989) identifies another tier form that is common in the retail food industry, the work-rule tier. Her investigation reveals that more than 61 percent of the retail food contracts contained modifications of work rules based on the date of hire. Sichenze notes that the work rules governing the standard workday and job security were most commonly affected.

   Typically, work-rule tiers only affect compensation indirectly. For example, altering the standard workday to schedule new hires during peak hours eliminates the overtime pay opportunities for new employees. Other work-rule tier forms, i.e., job security in the form of no job guarantees for new hires, have no direct effect on compensation. Thus, this form is not discussed in the text.

8. There has been discussion in the literature that wage tiers initially were implemented to correct the internal pay structure problem of wage compression (Bowers and Roderick 1987; Jacoby and Mitchell 1986). While not viewing it as a pervasive influence, Jacoby and Mitchell conclude that wage compression may have been an explanatory factor in some instances. We believe that the implementation of wage tiers would do little to correct the problem of wage compression. Employees
Introduction to Tiered Compensation

at different compensation levels on the high-wage tier in a situation where wage compression exists would still have internal pay inequities. Other methods exist to correct for such a problem, such as giving the higher-paid employees raises and the lower-paid employees (the ones who are causing the wage compression problem) lump-sum payments. Thus, the text will not discuss wage compression as a primary reason for implementing tiers.

9. "Competitive advantage" refers to those capabilities, resources, relationships, and decisions that permit a company to capitalize on opportunities and evade threats within its industry (Hofer and Schendel 1978).

10. In this monograph, the term "business strategy" will be used broadly to describe those decisions taken by companies to address the competitive pressures operating in the environment. The term will apply to decisions that alter the company's role or its relationship with other parties, thus eliminating minor decisions not changing goals.

11. Much of the research on business strategies has focused on management, given that management has made most of the important strategic decisions (Kochan, Katz and McKersie 1986). The history of tiered compensation structures suggests that the initiative for such plans comes from management (Jacoby and Mitchell 1986). It is management that selects both the initial and subsequent role of tiers in a firm's industrial relations and business operating strategies. It should be emphasized here that the suggestion that a company's goals in the product market help shape its goals and priorities in collective bargaining needs to be understood within the framework that collective bargaining is a bilateral process. Thus, it is not certain how much impact a change in one side's negotiating position might have on the final outcome (Cappelli 1985a). Cappelli states that, at best, management's negotiating strategies influence contract outcomes by changing the relative importance it attaches to different items considered in negotiation. He notes that in practice, however, business strategies have a much stronger and more direct effect through their influence on the bargaining environment. In bargaining, the wage/employment trade-off that helps shape union preferences is firm-specific and is determined largely by management's business decisions. (p. 320)

12. It is assumed that "strategic decisions" can only occur where the parties have discretion over their decisions—in other words, where environmental constraints do not severely limit the parties' selection of options (e.g., Kochan, Katz, and McKersie 1986). Thus, in instances involving a severe curtailment of alternatives, the term "strategy for economic survival" may be a misnomer.

13. Based on a review of the literature, it appears that the majority of proactive strategies involve business expansion. While it is recognized that a strategy for expansion is typically accompanied by investment, it will be referred to only as a "strategy for expansion."

14. Cappelli (1983) notes that while in theory it was easy to define concessions, determining which settlements or outcomes are concessions could be difficult in practice. He defined concessions as the outcome of a process involving an explicit exchange of labor cost moderation for improvements in job security. Cappelli (1985b) concluded "that unions may moderate labor costs through concession bargaining if jobs are threatened and if such moderation is likely to generate a clear improvement in employment security." (p. 91)