

Card Check vs. NLRB Elections: Stock Market and First Contract Effects

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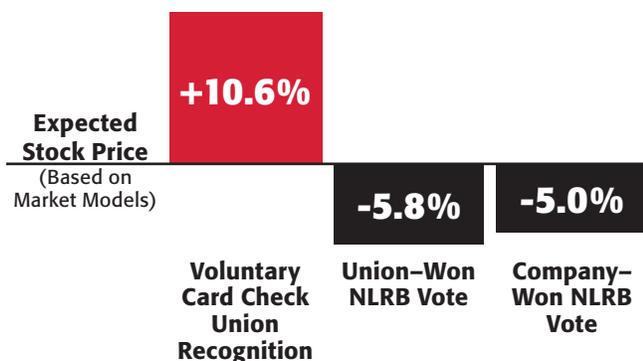
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While business groups uniformly oppose legislation to expand card check recognition of unions, investors react differently. According to a study conducted by Professors Steven Abraham, Adrienne E. Eaton and Paula B. Voos, stock prices fall relative to expected return in the contentious months leading up to National Labor Relations Board representation votes, but rise when employers agree to base union recognition on voluntary card checks.

Their study compared stock performance in the 120 days leading up to voluntary card-check recognition of unions for 52 private corporations whose stock is publicly traded with market performance in the same period leading up to NLRB representation elections in 51 cases involving the same company and 228 cases involving the same union. "Their research is particularly timely given the debate over the Employee Free Choice Act, which would statutorily require card check recognition of unions."

While stock prices performed an average of 10.6 percent better than would have been expected based on market models in the 52 card-check cases, share price dropped in the days leading up to the NLRB vote whether the company won or lost the representation vote. Stock prices performed an average of 5.8 percent worse in the 71 NLRB votes that the union won and 5.0 percent worse in the 203 elections that the company won.

Impact on Stock Price of Voluntary Card Check Vs. NLRB Vote



Results Supported by Canadian Experience

While the study focuses on voluntary card check campaigns, its findings on stock performance comport with a comparative study in Canada, which has statutory card check recognition in the federal government and several provinces. In Canada, representation elections had a negative impact on expected stock performance, with bigger drops in votes that the company lost, while statutory card check campaigns had virtually no impact on share price.

An Indicator of Future Labor-Management Relations?

The authors suggest that the principal reason for the difference in Wall Street reaction to card-check recognition vs. NLRB representation elections is that investors view voluntary card-check campaigns as an indicator of current and future labor-management cooperative relations, while NLRB representation elections are characterized by negative campaigns that increase workplace disruption, hurt productivity and are indicators of bitter collective bargaining ahead if the union wins.

"If changes in shareholder wealth subsequent to card-check recognitions are believed to be an accurate forecast of the present value of the future stream of profits generated to a firm, then the benefits to the firm from positive labor relations and reducing organizing and bargaining costs are sufficiently sizeable to offset the much greater probability that recognition will lead to an initial collective bargaining agreement," the authors wrote. "This is truly extraordinary."

The authors acknowledged that implementation of a statutory card check through the Employee Free Choice Act would be more likely to produce a smaller stock price gain than their study found, or even zero, as in the Canadian experience. However, "the bottom line is that a statutory card check process in the United States would be less costly to employers than the current representation election process," the authors concluded.

Impact on Ease of Contract Negotiation

The authors also examined the process of negotiating first contracts after card-check recognitions and conducted interviews with employers, union representatives, and employees in an effort to determine if card-check campaigns resulted in substandard or sweetheart contracts for employers, as some union critics have complained.

Their survey found that 96 percent of unions certified through voluntary card check campaigns resulted in first contracts, and that most employers and employees

surveyed found that the negotiations were faster, easier and less laden with conflict than they had expected. This result contrasts sharply with previous studies finding that between 20 percent and 44 percent of newly certified unions fail to reach a contract.

Failure to reach a contract after what is often a divisive NLRB election campaign increases workplace tension and exacerbates negative labor-management relations. Furthermore, it leaves unions little recourse other than a work stoppage or slowdown tactics, with the resulting drop in productivity and profits that Wall Street correctly anticipates in its negative reaction to NLRB representation campaigns vs. voluntary card-check initiatives.

(This paper was presented to the 61st annual meeting of the Labor and Employment Relations Association, San Francisco, CA, January 2009. It has just been published in the prestigious annual research volume, *Advances in Industrial and Labor Relations*, Vol. 17, edited by David Lewin, Brue E. Kaufman, and Paul J. Gollan, published by Emerald Group Publishing, 2010.)



Adrienne Eaton - *Professor and Chair*, Labor Studies and Employment Relations Department, School of Management and Labor Relations, Rutgers University. Adrienne has three current, long-term streams of research. The first of those streams concerns union participation in management decision-making and the relationship of unions to direct forms of worker participation. The second research stream concerns the negotiation, effectiveness and outcomes of neutrality and card check agreements. The third stream involves empirical examination of the rationale behind certain labor law decisions such as those concerning the unionization of managerial workers, in particular, public sector supervisors.

In addition, Professor Eaton recently stepped down from a position as Editor-in-Chief of the Labor and Employment Relations Association, a position she has held since September 2002. She is also a member of the editorial board for Labor Studies Journal and the current President of the Rutgers Chapter of the AAUP-AFT.



Paula Voos - *Professor*, School of Management and Labor Relations, Rutgers University. Paula's prior research concerns many aspects of labor relations including the determinants of union bargaining power, its evolution over time in the U.S., and the implications for future union revitalization. She has also written about the consequences of the representation of supervisors in the NJ public sector and elsewhere. She earned her Ph.D. in Economics from Harvard University and is a past president of the Labor and Employment Relations Association and editor of their 1994 research volume, *Contemporary Collective Bargaining in the United States*.

Recently Professor Voos was appointed, along with Professor Eaton, as a Commissioner on NJ's Public Employment Relations Commission (PERC). She formerly served on the Ford-UAW VEBA, and the federal Dunlop Commission on the Future of Worker-Management Relations.

About the School

- School of Management and Labor Relations (SMLR) is the leading source of expertise on managing and representing workers, designing effective organizations, and building strong employment relationships
- Founded by state decree in 1947 as the Institute of Management and Labor Relations, SMLR became a School in 1994. The School is housed in 2 buildings on the Rutgers New Brunswick campus: the Levin Building on Livingston, and the Labor Education Center on Cook/Douglass
- The School contains two excellent Departments – Human Resource Management and Labor Studies and Employment Relations – which together have one of the greatest concentrations of talent in the world on workforce issues
- Our mission is to deliver cutting-edge education, research, and outreach activities to benefit the employers and workers of New Jersey, the US, and the world

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The School offers a full range of degree and non-credit learning opportunities, with scholarship assistance available to highly qualified applicants.

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In partnership with the School of Arts and Sciences and select community colleges across NJ, SMLR offers:

- A Bachelor of Arts in Labor Studies and Employment Relations
- An Undergraduate Minor in Human Resource Management
- A Bachelor of Science Degree in Labor and Employment Relations

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The School offers three master degree programs, and has taken a lead in creating a fourth program, that covers all of Rutgers.

- **Master of Human Resource Management** – to develop strategic HR leaders
- **Master of Labor and Employment Relations** – to develop leaders in employee relations, employee diversity, worker representation, and workplace change
- **Global Executive Master in Human Resource Leadership** – targeted at leaders with the potential to run the HR function for a global company
- **Master of Business and Science** – combining courses from 15 Schools across all 3 Rutgers campuses

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We offer an interdisciplinary PhD in Industrial Relations and Human Resources.

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We offer a wide range of short courses, customized training, and topical conferences to labor activists and management professionals, through Labor Education and Research Now (LEARN) and the Center for Management Development.

Research

SMLR's greatest strength is its world-leading faculty and staff. Among their accomplishments are:

- Producing the highest impact research in the world's leading academic workforce-related journals as benchmarked against the top business schools and peer institutions
- Writing many of the main books that have shaped the field