

Why non-union
construction sites
are better than
union sites at
staying on time
and on budget

The Productivity Gap

BY JOEL THOMPSON

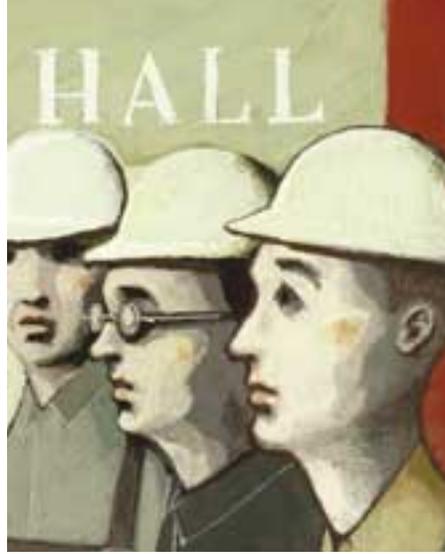
ILLUSTRATION BY ISABELLE ARSENAULT

WHEN SHELL CANADA and its partners entered the oil sands business in the late 90s, it involved the construction of the Muskeg River mine near Fort McMurray, an addition to its refinery in Fort Saskatchewan and a pipeline connecting the two sites. The entire project was estimated to cost \$3.8 billion. Somehow, the final price tag ballooned to \$5.7 billion. Unusual? No, not really. Other large investments in the oil sands also experienced substantial cost overruns. Syncrude's most recent expansion went \$1.5 billion over an original \$4.1 billion estimate. When Suncor expanded its facilities recently with the Millennium project, the original \$2 billion estimate escalated to \$3.8 billion. The first of the mega-projects, the expansion of Nova's petrochemical plant at Joffre, experienced similar overruns.

The flow of investment in northern Alberta is forecast to continue but these price shocks are creating concern. Investors require certainty, and the recent history of industrial construction in Alberta has not provided that. Steady declines in production costs towards \$10 per barrel mean that oil sands mining and synthetic crude production remain an attractive proposition but the construction cost overruns, now coupled with concerns about the impact of the Kyoto Accord, have taken the shine off what many investors once considered a sure bet.

Shell's entry into the oil sands business was Shell Canada's largest single capital investment ever and the ballooning costs were troubling. Ben Magnusson, the former Shell executive who headed the downstream portion of Shell's project, led an effort by the Construction Owners Association of Alberta (COAA) to have the industry look at productivity. At the COAA's best practices conference held in May 2002 in Edmonton, he warned that inflating construction costs were a serious issue for Alberta that had not gone unnoticed by investors. He reported that the cost inflation on Shell's project was a "subject of discussion at Shell's boardroom in London," and that Alberta's reputation as a good place to invest and to build is at risk.

The cost overruns have been blamed on



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engineering deficiencies combined with an overheated labour market and labour shortages. What is rarely discussed is the labour cost premium that many people ascribe to a union workforce. Much of the work on these major projects was completed under a project agreement model which guaranteed a labour supply monopoly to the international building trade unions. For virtually all construction work, non-union contractors and non-union tradespeople were excluded.

These mega-projects weren't the only energy industry projects underway. During the same time period there were a number of smaller and medium sized projects. These included some steam assisted gravity drainage projects such as PanCanadian's Foster Creek development, Petro-Canada's McKay River project and similar heavy oil and in situ oil sands developments by Esso and Suncor. Also of note were two diamond mine projects in the Northwest Territories.

Those projects were smaller than the mega-projects, and perhaps less complex, but were still significant construction undertakings. They had a very different financial outcome than the mega-projects: each came in on time and on budget. Besides their smaller size, they had another thing in common; they were open projects which were not bound by union-only project agreements.

Chris Webster is a principal of GSW, a construction management company. His firm recently completed a major addition to a petrochemical facility in which open shop forces replaced what was initially a union site. He states that they were able to underrun the budget by some 40% from the time they assumed responsibility for the project.

That there is a premium for union construction is generally accepted. Rather, the debate centres on how large that premium is. For this, of course, there is no precise answer. The numbers will vary from job to job, from sector to sector and between geographic locations. That being said, whether the premium is 10% or 40%, the more important matter is pinpointing the cause of the differential. In speaking with those holding widely different opinions on the topic, one is struck by the near unanimous agreement that the blame for cost overruns and poor productivity figures cannot be laid at the feet of the tradespeople manning these projects.

This is not surprising given that in Alberta, there are not two separate and distinct union and non-union labour pools. There is one labour pool and tradespeople have a great deal of mobility. It is very common for workers to move between union and non-union sectors in response to employment opportunities. The practice is encouraged as there is little difference in take home pay, benefits or working conditions between the two sectors.

Training also contributes to the homogeneous nature of the workforce. Training is provided through government-supported apprenticeship programs so nearly the entire workforce has received the same training. There is no obvious difference in skills or credentials between the two groups.

Given this scenario, it begs the following question: why have recent large industrial

projects experienced such dramatic cost overruns and poor labour productivity while open shop projects, completed at the same time and in the same area, delivered far superior results? An examination of the closed site, union-only model of project delivery reveals a number of factors that combine to increase costs and reduce labour productivity.

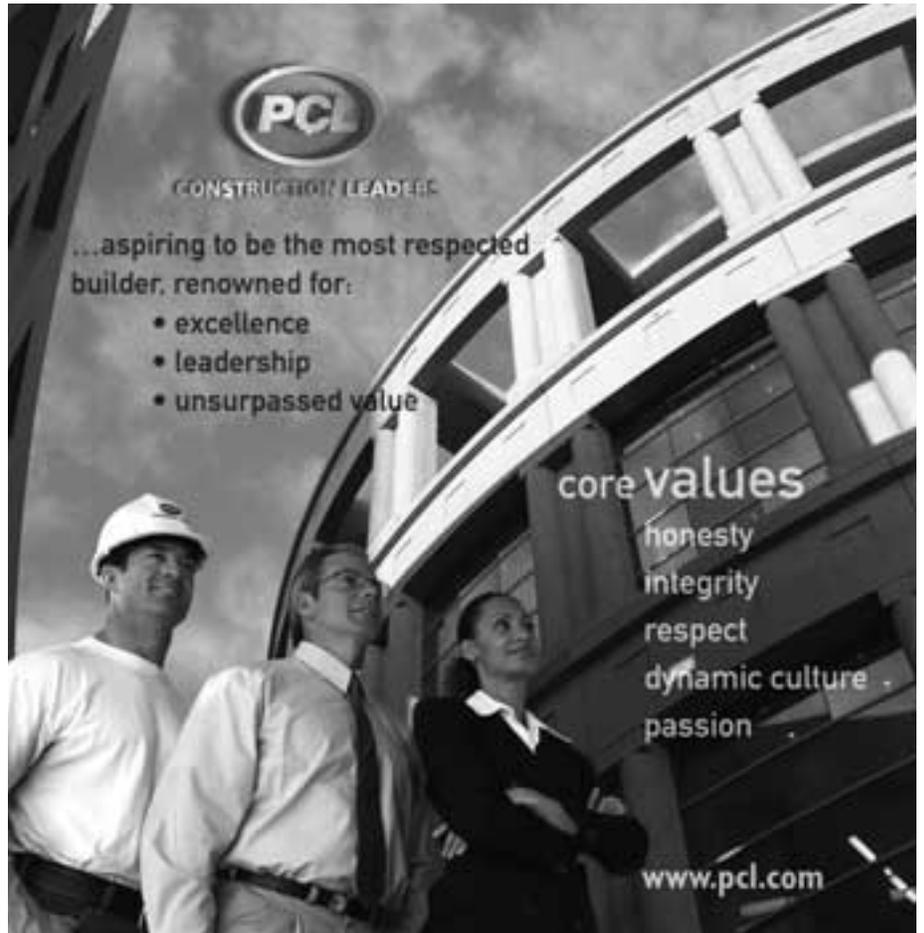
The hiring process

SOME OF THE factors that drive productivity act subtly. Many of these are intangibles that are extremely influential in the development of a job site culture. Probably the most powerful influence is that of the hiring hall system. Most union collective agreements specify that hiring be done through a hiring hall. At first glance, the hiring hall system might appear to be the ideal solution in manning construction projects which can be notoriously difficult to staff because of widely and rapidly fluctuating manpower requirements, weather delays, changing schedules, etc.

The ability to use this system is often considered one of the key advantages of using union forces. The hiring hall allows manpower to be dispatched on short notice and for short duration. Employers who are able to delegate the hiring task to another entity look at it favourably. Those advantages however are offset by some very significant negatives, which have a crucial impact on the ability to assemble a productive crew.

The hiring hall system, which in theory is ideally suited for a construction workplace, prevents the development of attitudes which most employers work very hard at instilling in their workforces: loyalty, work ethic, accountability and commitment. At the very outset of the employment relationship, a workforce that is dispatched through a union hiring hall receives messages that are totally at odds with those that employers striving to build a committed and productive workforce would want to send.

The first of those messages is that new hires are not chosen on merit or ability or with reference to any personal characteristics. The process is completely de-personalized and an individual is hired merely because they belong to the union and their name reached the top of a hiring list.



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When there are no criteria for hiring other than being on a list, the implication is that there are no standards and that no value is attached to the desirable attributes generally valued in the hiring process that takes place in most work situations. The hiring process is a crucial factor in conveying expectations and accountability to a workforce. It is very difficult to establish a job site culture that values effort, commitment and ability when those factors cannot be taken into account when assembling a crew.

The hiring hall system arises from the trade union philosophy that all tradespeople should be treated equally and all should have equal opportunity to obtain work. However, the system is not able to recognize or reward those that are above average. At the same time, it eliminates accountability for those that are below average. Those who obtain work through this system owe their employment to membership in the union that has negotiated a labour supply agreement on their behalf. That is where their loyalty will be directed.

Of course, this situation is not a one-way street. The hiring hall system often encourages employers who use it to act in ways that have a negative impact on employee relations. Just as the employees may consider themselves to be working for the union, employers who hire through the hall often don't consider the tradespeople dispatched to their sites to be their employees. Workers may then be viewed as numbers, not individuals, and may be hired and laid off en masse and on short notice. While this is convenient and efficient when manning a construction project, it can have horrible consequences in the quest to establish a loyal and committed workforce.

Contrast this to the situation on a non-union site. There, every employee is chosen. The initial message given to every employee is given during the hiring process itself. They are on the job because they were selected with regard to specific criteria, be it skills, experience, work ethic, dependability or something else. The point is that from the beginning, that is what the employment relationship is based on. The message is clear: the employer is in business to be profitable and complete a project successfully and in order to do so, he is seeking the best people he can find.



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Many in the owner community acknowledge the shortcomings of the hiring hall system but say they believe it was their only option for supplying sufficient manpower to staff a mega-project. The experience of open shop projects that were underway during the same period of high manpower demand was that, while increased recruiting efforts were necessary, it was possible to attract sufficient personnel.

It’s my territory

JURISDICTIONAL disputes have often been held up as the best example of the inefficiencies imposed by working under a union collective agreement. The union sector has worked very hard at establishing processes to eliminate the most wasteful of jurisdictional disputes but this area remains a prime source of diminished productivity.

While job-stopping wobbles arising from disputes between unions may be less common, the fact remains that jurisdictional rules often get in the way of organizing the work in the most efficient way. Crew sizes and crew make-up are a vital component of productivity and field supervisors are often hamstrung by jurisdictional rules in setting up crews, as-

signing them tasks and moving them to different areas and activities. Often the employees who are best suited to the task at hand cannot be used, not because they do not have the appropriate skills but merely because they do not belong to the appropriate union.

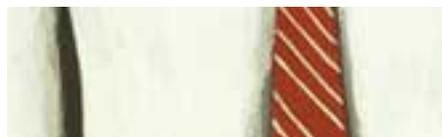
The degree of specialization imposed on the unionized construction workforce by being divided up into some 20 separate unions precludes taking advantage of all the benefits of multi-skilling and multi-tasking.

The importance given to jurisdiction on union worksites provides a revealing insight into the mindset on these projects. Clearly, from each separate union’s viewpoint, the first priority is to protect and maximize the work for their constituency and the income it produces. Goals such as adherence to schedule, meeting productivity numbers or providing quality service to an owner are secondary, if they are considered at all. Indeed, most of the things that are in the owner’s best interest – shortened schedule, lowered costs, increased production etc. – may be directly at odds with the union executive’s need to provide as much work and as much income for as long as possible for the members who elect them.

The added cost burdens of collective agreements

WHEN DISCUSSING productivity, most people think of how much work is produced per man-hour but there is another angle to examine that involves the extra costs that are built into union collective agreements. Ultimately, productivity must be measured in dollars and cents. Inches of welding per day, or square feet of formwork or cubic meters of concrete are important measurements, but they must all relate back to costs which are the final determinant of whether an investment will be profitable and a project deemed successful.

While current wage rates and take home pay are approximately equivalent for a tradesperson working on either a union or non-union site, gross wage costs are not. Union collective agreements contain numerous costly provisions that do not put more money into the pockets of workers but may add several dollars an hour to gross wage



packages. Those include benefit plans that are, on average, at least double the cost of equivalent open shop plans, assessments for training programs, market recovery programs, bargaining agent fees and pension contributions. In addition, many assessments for these fringes are calculated on hours earned rather than hours worked which substantially increase overtime costs.

The supervision challenges

EVERY CONSTRUCTION company owner who works in a competitive environment will say that front line supervision – lead hands, foremen and general foremen – are the key to profitability and successful projects. In a union environment, it may not be possible for the employer to choose the individuals for these positions and often those that fill these all-important roles have divided loyalties.

Everything in a foreman's job description relates to doing the work better, faster, cheaper and safer, assembling the best possible crews and ensuring that those crews are working productively at all times.

In a union environment, the best-qualified individuals are often reluctant to take on a supervisory role. Their primary tie may be to the union rather than the employer or owner. When their current assignment is over, they may be dispatched to another job site where they no longer have a supervisory position.

On non-union sites, supervisory personnel are selected for their ability to produce and they are recognized, respected and rewarded for results. There are no divided loyalties as their success is dependent on the success of their employer with whom they have a long-term relationship that continues from project to project.

The foreman in a union setting, while charged with the same tasks as a foreman in a non-union setting, has a much different set of pa-



rameters to work under. Those he is supervising are not his employees; they are his union brothers, one of whom may be his supervisor on the next project. He likely has limited influence in selecting those on his crew and he may be trying to promote concepts of productivity, efficiency and plain hard work in a setting where much of the workforce has accepted the concept that the primary goal is to prolong the project and

maximize the hours and wages that it can produce for them. Those attitudes are pervasive and workers on major projects sarcastically describe their jobs as "Hide and seek for a thousand a week". Reports from one site had a worker bragging he had gone three weeks without touching his tools. Managing for productivity is a daunting task in this kind of work culture.

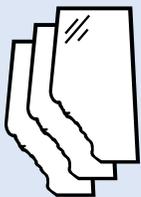
“Union collective agreements contain numerous costly provisions that ... add several dollars an hour to gross wage packages.”

Given these conflicts arising from the union system, it's not surprising that it's difficult to persuade the best candidates to take on supervisory roles as they are severely handicapped in their ability to drive productivity. Front line supervision is incredibly important to the success of any construction endeavour. It is an extremely demanding task and the constraints imposed by the union workplace make it difficult.

An important junction

THERE WERE MANY contributing factors to the problems experienced on recent mega-projects. While management and engineering played a major role in the cost overruns, it cannot be denied that labour productivity fell far below accepted benchmarks. Clearly, the union-only project agreement is a model that is inherently at odds with strategies aimed at maximizing output per man-hour. Its effects are such that it can reduce by as much as 40% the output produced by an essentially identical workforce working under the open system in which most of the construction industry operates.

The recent experiences on major industrial projects in Alberta have brought the construction industry to an important junction. The massive cost overruns being experienced are so serious that all parties have been forced to scrutinize what has happened, identify the underlying causes and search for solutions. If that exercise is not successful, there is a real risk that the flow of investment dollars into Alberta will be affected. Nothing is more portable than capital and those who work in the construction industry know better than most how quickly boom can turn to bust. ☐



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