

IS THERE A NEW  
INDUSTRIAL RELATIONS SYSTEM?

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### Is There a New Industrial Relations System?

The concept of an industrial relations system was advanced first by John Dunlop about twenty five years ago in his classic book by the same name. To Dunlop's way of thinking, the best way to understand the operation of labor and management relations is to think of it as a system that involves actors (labor, management and the government) interacting within an environment characterized by market structures, technology, political arrangements, values and ideology. The output of the system can be observed in the contract terms or web of rules that govern day to day relationships among the parties. When Dunlop brought forth his formulation, unions represented at least a third of the work force and there was every indication that this coverage would continue to grow. It was also assumed as a key premise of the national labor relations act that collective bargaining should be fostered and preserved and that labor management relations in the United States would continue to evolve into a mature and stable system.

History has proven otherwise and it is clear that in several important respects the industrial relations system as analyzed in the 1950's and envisioned for the years to follow -- is not the system that is in place today or appears to be unfolding for the foreseeable future. Let me enumerate in rather quick fashion some important

developments and characteristics that underscore the important changes that have taken place in the character and underpinnings of the U.S. industrial relations system.

1. A steady and progressive decline in the extent of union organization and the emergence of an alternate industrial relations system, sometimes referred to as the union-free system. Unionization as a percentage of the work force organized peaked in the mid 1950's and has been moving downward ever since. From a high of about 35% it is now down to approximately 20% and if the public sector is removed (where there were big gains during the 1960's and 70's) the percent organized approaches 16% or 17%. Just within the last several years there has been a drop of one million union members. In absolute terms the labor movement has fewer members today than it had in 1945. Let me give a few specifics. Most new plants are operated on a nonunion basis and these include examples in areas that would be viewed as union strongholds, for example, an engine plant in Jamestown, New York (Cummins), a shipyard in Providence, Rhode Island (Electric Boat). Even the key industries of automobiles and steel have seen significant inroads from nonunion operations as new entrants have opened plants and kept them union free. In the case of steel it is the mini-mills and in the case of automobiles, it is the Japanese companies making automobiles in the United States such as Honda and Nissan.

2. A second characteristic of the current scene is the aggressiveness with which management seeks to remain nonunion. Recently, I was at a conference of industrial relations specialists and a vice president from a large tobacco company described the close down of a major facility in the north and the opening of a replacement plant in the south. As part of the overall strategy to facilitate the transition and to have good working conditions with the union, management voluntarily recognized the union in its new facility. Virtually all of the IR managers, from large blue chip companies, were aghast and could not believe the decision. Another facet of the aggressiveness can be seen in the willingness of more and more employers to operate facilities in the face of a strike. In industry after industry that, heretofore, would have shut down when a strike took place, such as paper, airlines, mining and bus transportation, employers make contingency plans and actually implementing them to continue operations during a strike.

3. With respect to wage determination (and here I come to a subject dear to the heart of Professor Tolles)<sup>1</sup>, we see a breakup of a reasonably structured system of key bargains, pattern following arrangements and a stable approach to long term agreements that emphasized steady improvement in compensation via the annual improvement factor and a protection of wages from inflation via cost of living clauses. While the system of wage determination in the

1. Origins of Modern Wage Theories, Tolles, Arnold; Englewood Cliffs, Prentice-Hall, 1964.

United States never became as centralized as that existing in many other countries, nevertheless it possessed a structure and stability that has been shattered by recent developments. For example, the number of companies bargaining jointly in the steel industry has dropped from twelve to seven, over-the-road trucking bargaining is in a shambles and it is only a matter of time before the deregulation of the telephone company brings about much more decentralized bargaining in that industry. Concession bargaining is the force for breaking up wage patterns and achieving much more localization of wage determination. The best estimates indicate that at least 40% of all labor agreements have had some type of rollback in wages or fringes, meaning that the contract is no longer tied to bargains in the same area or industry as to the particular market realities facing the enterprise.

4. A final development of considerable import is the recent move by labor to get very involved in politics. This is a subject of considerable current interest, given the national elections underway. The fact that the AFL-CIO endorsed Walter Mondale early on, during the primary stage of the campaign, was unprecedented and the union leadership went all out to elect Mondale-Ferraro.

Let me touch on two other assumptions that have been fractured,

1. The assumption of the National Labor Relations Act was that collective bargaining would be instituted via certification elections and that this form of governance would spread throughout U.S. industry. Instead, the number of elections has steadily declined, union victories are less than 50%, the number of unfair labor practices committed by employers during election campaigns are at an all time high, and even where unions are successful in gaining representation rights first contracts are only signed in about 40%-50% of the cases. The situation at Yale University involving the clerical employees illustrates this characteristic of the current U.S. industrial relations scene. To some observers it would appear that what Yale could not win during the representation campaign by getting a majority of the workers voting in the election to oppose a union, they are seeking to obtain via their behavior at the bargaining table, which is designed to frustrate the process of collective bargaining and to drive the workers into a strike that they cannot win. I know this is an extreme view, but it does describe many situations today.

2. Given the premise that unions would continue to grow in strength, it was assumed that the industrial sphere would be pluralistic, with management power held in check by the presence of unions and collective bargaining. With the steady decline of unionization, the reality of checks and balances is substantially weakened and the question needs to be asked: Can we have a strong

democracy without a strong trade union movement? Is there any example from any country that would give us confidence that a business system without a strong form of representation for employees can produce the type of equity and due process that we feel are essential in a free society?

3. Historically, in the United States the unions that have survived were the ones interested in "bread and butter" issues and not in politics. The venturing forth of the established labor movement into a close alliance with one political party marks a sharp break with this tradition. At the same time unions are down in the public opinion polls and they are seen as obstructive and "part of the past". The fact that Gary Hart was able to get so much mileage out of the charge "special interest group" is another demonstration of this underlying development.

Are the changes temporary or more fundamental and long-lasting?

Within the community of industrial relations commentators, a very lively debate is being waged as to whether the changes that we have been observing are temporary or more permanent? John Dunlop would be inclined towards the first view and he feels that by historic comparisons, we are not experiencing any early profound changes and that with a sustained recovery much of what has been taking place, especially via concession bargaining, will be restored and the system will be back to "business as usual". There are others

and our group at MIT is probably cited most often as being in the other camp and that feel that there are some very profound changes under way. The only way to be sure about the judgement is to understand the forces that are bringing about the changes and to decide whether these forces are temporary (or cyclical) or whether they are longer term, in other words, likely to remain on the scene for the foreseeable future.

### Factors

1. Changes in the economic environment -- without question the changes that have taken place in the economic environment over the past several years have been without parallel in the past forty or fifty years. When one enumerates the constellation of developments such as: increased foreign competition, new technology (computers), new products (such as radial tires), deregulation (in such industries as airlines, trucking and communications) and low cost nonunion competitors, the list is very formidable. To gauge the impact of such developments in the environment we can enumerate the following: today no passenger tires are made in Akron, half the new automobiles purchased in California are of Japanese origin, about 15% of all steel production now occurs in mini-mills, about 20% of the capacity of over-the-road trucking has gone bankrupt, and in airlines, Braniff went bankrupt and several other carriers are at the brink. Of course, one could argue that we have been through a dramatic step-change and that we will be arriving at a new platform of

stability in the near future. While this is subject to considerable conjecture, I happen to feel that the forces of foreign competition, restructuring due to new technology and deregulation will be pressures that will remain intense for many years to come. Consequently, I see the industrial relations system continuing to evolve in the face of these ongoing environmental pressures.

2. A second change with long run implications is the increased professionalization, initiative and presence being displayed by management. What has happened in the domain of industrial relations, now called human resource management, is that companies have moved from a posture of responding and coping with the onset of unions and collective bargaining to the stance where they are "calling the shots" and establishing the broad framework for the people side of the organization. It is true that historically in the United States there have always been some companies that have had human resource management as a key strategy. Here I am thinking of companies such as IBM, Grumman, Motorola and a number of other major concerns that have pursued for a substantial period of time what we might call positive personnel policies. However, it has only been within the last ten or fifteen years that management in companies (those that experienced extensive unionization during the 1930's and 40's, started slowly at first, to evolve a union-free sector as a parallel system to their organized plants. Usually the evolution started with the decision to operate new plants on a union-free basis.

Ultimately, it involved for some firms to shift operations away from their older union plants to the newer nonunion plants. In our field work over the past several years we have documented scores and scores of examples of where major companies during the past two decades have gone through a metamorphosis, from a situation where a majority of their blue collar workers were organized -- to a situation today where only a minority are represented by unions.

3. The importance of behavioral science know-how -- the trend just mentioned, namely, the development of an alternate system of industrial relations, commonly referred to as the management of human resources, could not have taken place without the availability of programs and ideas that made unions unnecessary, at least in the eyes of the workers involved. In a minute I will describe some of the "soft or social technology" that companies have used to solve employee problems, give them considerable say and influence and, in general, establish what might be called a type of "quasi-unionism". One reason that I feel that this development is likely to continue in a strong and sustained fashion is that it is being driven by the model of Japanese industrial relations that has commanded our attention because the Japanese are beating us competitively in so many industries.

#### The shape of the new industrial relations

What I will say at this point is somewhat conjectural, because we do not have a complete transformation in hand. In one sense, we

are like the Flying Dutchman in that we have left one port but have not yet entered a new port. I think for some time the industrial relations system will be sentenced to the role of "being out to sea". Thus, the shape of what we talk about is based on fragmentary evidence.

1. The emergence of high commitment work systems. In a significant number of instances the way that work is done is shifting from the Frederick Taylor method of narrow jobs with a fairly authoritarian control system to an arrangement where jobs are much broader in design and the work group is in charge and makes the key planning decisions as well as deciding when the product has met standards. Let me see if I can capture the essence of these new systems of work and participation with some other reference points. A literature first appeared with respect to experiments in Scandanavia and Britain called socio-technical analysis wherein the people or social side of the organization was given as much weight as the technology side. With the emergence of new manufacturing systems with considerable use of robots and computers the methodology of socio-technical design says that the workers should have considerable say about how the technology is used and that there should be the notion of "choice". In other words, the work side is not to be driven or dictated by the technology.

In the evaluation work that we have done thus far, the use of teams, pay for knowledge and modes of participation appear to be very cost effective. Frederick Taylor assumed the only way to intensify the application of labor supply was through a piecework system. The newer more sophisticated way of thinking, drawing heavily on the knowledge of behavioral science, notes that mental energy is more important than physical energy and that workers will really get involved if they have a chance to participate as managers of their departments.

This whole subject area is an evolving one. Under the broad rubric of quality of work life we can find species ranging all the way from limited forms of participation such as a quality circle that meets once a week for an hour all the way to autonomous work groups that operate without any supervision, have keys to the plant and have all the attributes of a small group of entrepreneurs. Like People Express.

Just where workers typically fall in this spectrum is difficult to say and there are all kinds of variations by age and local climate and culture. Clearly, the trend is in the direction of more interest and greater and greater participation. In some field work that we did with workers from very traditional unionized settings that were engaged in different kinds of quality of work life experiments, it is clear that workers want a lot more say with respect to the following:

- the way work is done
- level of quality
- pay
- handling grievances
- use of new technology

They are less interested in having a say over these kinds of items:

- who should do what job in the team
- selection of supervisors
- plant expansion and closings (range: 22 to 70%)
- company investment decisions

And finally, they are not interested in having a say over such items as:

- who should be hired
- who should be fired
- management salaries
- management promotions

As I mentioned above, the fact of life that I think will continue to drive the character of work place social systems is the power of the Japanese model as it becomes incorporated more and more into the American scene. Currently, there are over three hundred

Japanese companies that are operating major facilities in the United States. Last year a group of our master students examined forty to fifty of these enterprises and I'd like to spend a few moments citing some their highlights.

The firms tended to combine American and Japanese management styles. Some examples are:

- o Frequent meetings to gain employees' understanding of company goals and to improve communications and morale;
- o Introduction of suggestion systems and quality control procedures;
- o Emphasis on work flexibility as a means of motivating workers and raising productivity;
- o Minimizing layoffs as much as possible;
- o Somewhat greater company expenditures on recreational activities than is the case with American firms;
- o Education and training programs for mid- and upper-level employees are widespread. A highly rated activity in this area is that of sending American employees to Japan. Such

trips are considered generally successful in stimulating interest and understanding as regards Japanese management patterns and practices.

There seemed to be a general consensus among managers that Japanese-style methods were effective and worth introducing." At the same time, there was an "awareness that Japanese methods cannot be introduced indiscriminately, without gaining employees' understanding."

#### Minimizing Layoffs

Japanese firms are much less likely to resort to layoffs when there is a downturn and the concomitant problem of excess labor. Several of the plants examined did all manner of things to keep workers on the payroll, such as enrolling redundant workers into training programs, maintenance of the plant and in one case loaning the workers to a local public agency. In one of the case studies, we identified a sequence where the excess workers were kept on doing odd jobs to the point where they finally came to management and said, "We think this is ridiculous; why don't you lay us off since there is really nothing more to be done around this plant."

#### The Organization as a Community

Perhaps, the most distinctive feature of the Japanese organization is its emphasis on community and the practices that stem

from a concept of each employee having equal standing in the family. This implies openness and a degree of trust that is not found in too many U.S. corporations. While we have a credo in this country of openness and trust, and we say that we do not have a class system of the sort evident in many European countries, still there are many attributes of the U.S. business system that foster differentiation. First, pay differentials between the bottom and the top of an organization are substantially higher in the United States than they are in the Japanese corporation. Fewer levels of management second the MBA syndrome or generally the college graduate who enters the organization on a different track does not exist in the Japanese firm where everyone comes in and does their turn in learning the ropes before the college graduates, ten or fifteen years later, start to move into important managerial positions.

Developments at the middle level, the level of the employment relationship -- This is the arena for collective bargaining and where collective bargaining is under the greatest pressure to change. As mentioned earlier, there has been tremendous movement towards more market related collective bargaining, a type of localization of wage determination to the particular economic realities faced by the company or in some cases by the plant. The pressure for cost equalization have been tremendous in many industries and that is the reason for the breakup of industry-wide arrangements and the weakening of the role of pattern settlements. Concomitant with this

weakening of the external link and the growth of internal criteria has been the incorporation into many collective bargaining agreements of the principal of contingency compensation, usually in the form of profit sharing, but also in some instances in the form of gain sharing, such as the Scanlon system.

Another feature that has helped offset the sting of wage and fringe cutbacks has been the greater emphasis on employment security arrangements, as witnessed by the recent negotiations in the automobile industry. The emergence of employment security as a key agenda item for workers and the union representatives should be seen as a very key development over the past several years. Again, not unrelated to the Japanese model.

Trends at the top of the system -- what is emerging at the top of the industrial relations system represents a new frontier for U.S. industrial relations. The system that serves as the model in this case would be that of Scandinavia or Germany where unions have been involved at the top of corporations or at the top of industries either as directors (when co-determination is involved) or in some type of consultative machinery wherein the unions keep abreast of key strategy decisions with respect to investments and their long run implications for employment and the interests of workers.

Thus far, the emergence at the top of the industrial relations system represents a new frontier for U.S. industrial relations. The system that serves as the model in this case would be that of Scandinavia or Germany where unions have been involved at the top of corporations or at the top of industries either as directors (when co-determination is involved) or in some type of consultative machinery wherein the unions keep abreast of key strategy decisions with respect to investments and then long run implications for employment and the interests of workers.

Thus far, the emergence of activity at this level in the United States has been rather limited. One can cite several corporations such as Chrysler and Pan American where union representatives now serve on the board of directors. In addition, in the case of a number of other companies, high level mutual growth forms take place on a regular basis. Here I'm thinking of companies like AT&T, Boeing and Ford. I would not be honest if I didn't indicate that unions are very nervous about being drawn into these high level forums. However, more and more union leaders realize that if they do not get involved, then important decisions that affect the vital interests of the rank and file will be made without any union input.

In some cases, union leaders feel compelled to get involved because they want to insure that management continues to push ahead with new technology and product development so that the long run

viability of the enterprise is achieved not just through concessions and greater sacrifice from the rank and file but from the strategic advantage that comes from having newer and better products than the competition. The Saturn project between General Motors and the UAW is a good illustration of where a union has gotten intimately involved in thinking through with management the design and manufacture of a small car. If this project unfolds in successful fashion, it will go a long way towards easing the fears of union leaders about the liabilities of getting too deeply involved in entrepreneurial matters.

#### The matrix of change

In the preceding discussion we have been talking about the industrial relations system at three levels: the work group, the employment relationship and the corporate or strategic levels. We have also been talking about the way in which existing collective bargaining can adapt to the economic pressures that are on the system at these different levels. Another variable is the extent to which collective bargaining as an institution enters into this arena as a very centralized or decentralized institution. In many industries such as steel, trucking and communications collective bargaining has been centralized at the industry level. In many other cases it has been focused at the corporate level as would be the case in automobiles, rubber, and airlines. Finally, in a number of industries such as chemicals, oil, metal-working and a scattering of

other situations the configuration has been on a plant by plant basis.

Let me see whether I can make some general comments about patterns of adjustment that combine these various dimensions.

-- At the lowest level, that of the work group, the most rapid innovation is taking place in the nonunion sector and the union sector finds itself struggling to match the gains that have been made with the new high commitment systems. Most of these high commitment systems in nonunion plants have been installed into "green field" sites. The extent to which these ideas can be carried over into existing unionized operations remains one of the biggest unanswered questions of the day. A workforce that has grown accustomed to Taylor-like work organization finds it difficult to shift over to a new work system. It may be helpful to have some centralized union leadership available to help with the transition, to the extent that the centralized union leadership see the "big picture" and are willing to act as some type of change agents.

-- At the middle level, cost equalization works best in a decentralized system wherein the workers and leadership from the local plant are convinced that changes have to be made in order to put the plant on a competitive basis. In this situation any degree of centralization will nullify the impetus for local or market-related wage determination.

It is at this level of the employment relationship where collective bargaining has to compete with the employment systems that have been put in place by nonunion companies. These systems of nonunion companies often give substantial employment security, contingency compensation, and for collective bargaining to be viable it needs to have the labor costs that obtain as a result of the agreement in line with the nonunion competition. The garment and textile industries have had considerable experience in fashioning the terms and conditions of the employment relationship in line with the larger realities of the industries -- they were only partially unionized and only partially immune from foreign competition.

-- At the highest level, the corporate or strategic level, unions are the "only game in town". Hence, if they are to maintain some type of distinctive role they need to demonstrate their usefulness at this level. The dilemma for unions is that they cannot force their way in at this level because management can always find a way to make the strategic decisions without the involvement of unions if management finds the presence of unions too threatening. Consequently, the best examples are in those companies that as a matter of commitment or style have been willing to enter into something like a "new partnership" with unions. While the number of examples that fall into this category in the United States currently are small in comparison to the more conflictful or mixed relationships (the latter describing those instances where at the

local level management is trying to be cooperative with the unions but at the corporate level they are working very hard to keep unions out of new plants), nevertheless, there are some important examples in the auto industry, airline and trucking sectors.

What this all means for the role of unions in our society

Without a doubt, unions face some of the toughest questions and biggest challenges since the 1920's and 1930's. Let me summarize what I have been saying and focus it at the doorstep of unions, using the three levels of the industrial relations system to keep track of the various trends.

1. At the work level -- the challenge here is for union leadership to figure out what constructive role is left for it to play in the context of new systems of work and participation. Clearly, the nonunion sector has stolen the march and considerable experimentation is underway with various systems of teams, pay for knowledge and gainsharing arrangements. Since it is clear that these systems enhance productivity and worker job satisfaction, they will gain in popularity.

Aside from the difficulty for a union leader to define his role in the context of these new systems (for example, when a team has made a decision about advancing a worker along the steps of a pay for

knowledge system, what would be the rationale for a grievance and against whom would it be written). The fact of the matter is that unions are associated with well-established work forces that are not interested in new organizational arrangements. In some research work that I did on looking at the subject of productivity, it turned out that resistance to change was a function of the age of the work force, regardless of whether a union was on the scene. Thus, even where union leaders figure out how to play a distinctive role, they are likely to confront rank and file members who are very resistant to change.

2. The middle level or the level of the employment relationship -- the problem of adjustment has in large part been of the union's own making. In some ways, they have been too successful with the wage fixing arrangements that were put in place prior to the period of hyper-inflation. In industries such as automobiles and steel where wages were fully indexed, wages moved ahead very rapidly during the mid and late 1970's. For example, in these two instances where wages had been 20-25% above the average for all of manufacturing, by 1980 wages were from 50-70% above the manufacturing average.

The irony of the "success" is that the union leaders involved received very little credit because the wage formula of COLA was in place and was cranking out the wage increases. In fact, in the case of these two unions, the leaders found it necessary in bargaining to

go after other improvements, mainly in the fringe benefit area, to validate their value to the rank and file.

The fact that wages got too high is not something that is new in terms of the history of collective bargaining in the United States. Sumner Slickter comments on a similar predicament that unions found themselves experiencing in the 1920's. Consider this quote:

"Some of the [wage] differentials which proved so destructive to unions during the 20's were the result of high wages bargained during the war which the unions were unwilling to adjust to the low level of prices and wages that followed the drop in war demand."

Given the sluggishness of all institutions to respond and given the political problems faced by union leaders to any "step backward", the extensiveness of the adjustment in compensation costs is truly remarkable. Negotiated wage changes have dropped to as low as 3% average for new contracts recently. In hundreds and hundreds of situations unions had adjusted compensation costs. Generally, these situations had been characterized by the following circumstances:

To turn the question around, we can identify the following circumstances where there are apt to be more concessions and a change in wage relationships: (1) where there have been other shutdowns in

the same industry or area; (2) where the community has a stake and has the information; (3) where there is trust and a collaborative relationship, i.e., the workers believe the company's presentations; and (4) where the national union leadership knows that it is going to lose the membership (because the work in question will go outside its jurisdiction to a nonunion plant or perhaps outside of the country unless changes are made). This is not the place to lay out all of the details of this model of rational economic decisionmaking but it is possible to outline the circumstances wherein the probability of workers accepting an important downward revision in wages is high. These circumstances have been obtained in many industries and areas of the United States recently.

3. The strategic level -- as discussed earlier, this represents the greatest opportunity for unions, specifically, to engage the corporation at the strategic level over questions of new technology, outsourcing, plant investment decisions. The point of view of unions should one of saying: the issue is not just reducing compensation costs through concession bargaining but regaining a competitive lead through new technology and new products.

In some situations, the approach can be collaborative and unions will find themselves being invited in to consult with management about important strategic matters.

However, in many situations unions will find the door closed and it may take something like a "corporate campaign", that is, pressure, embarrassment and power applied to directors in the interlocking system of corporate governance, for unions to be heard. Of course, when a union finds it necessary to take a distributive approach to influencing corporations at the strategic level, its impact will only be felt on issues that can be settled in a distributive fashion, for example, representation rights at a plant where the corporation is running a vigorous anti-union campaign. No union can be successful via a corporate campaign in insisting that the company introduce a new generation of technology or that it accelerate its development of new products. The latter are integrative issues and can only be dealt with by a consultation and collaboration.