WORKING CREATIVELY TOGETHER:
THE OPPORTUNITY FOR A NEW PARTNERSHIP IN THE
TRANSPORTATION INDUSTRY

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Introduction

This volume reports on a conference held in October 1987 that brought together labor, management, academic and other interested observers of the changing scene that characterizes the U.S. transportation sector. The list of the participants is attached and we were fortunate to have key perspectives on hand from railroads, trucking, airlines and maritime. We used a seminar approach with wide ranging discussion of background papers dealing with the different sectors. Over the past year and a half the discussants and commentators have put their thoughts to paper and we thank them for their diligence that has made this volume possible.

In organizing the conference a small planning committee within the Center for Transportation Studies was guided by the premise that deregulation had been operative (in varying degrees) for sufficient time in railroads, trucking and airlines to provide an opportunity for assessment and to take stock about the future, specifically, the upcoming decade of the 1990s.

As will be elaborated shortly the impact of deregulation has been both substantial and complex. And the pattern is not the same for each of the sectors. Indeed, a challenging task is to understand differences across the various modes of transportation. And within a particular sector
distinct differences can be observed or to put it differently one of the interesting impacts of deregulation has been the creation of a "structure of new opportunities" and as a result different companies are pursuing different strategies. We are interested in understanding these important choice points and the implications of the different directions being followed by major companies.

While the major changes brought about by deregulation will continue to unfold, it is our belief that we are witnessing the end of what might be considered the first phase of the post-deregulation era. For example, the consolidation of airline companies into mega-carriers has probably run its course. Similarly, in trucking we may continue to see additional bankruptcies but probably not at anywhere near the high rate of exits from the industry as was the case during the first several years after the passage of the deregulation act for trucking.

Exactly what will characterize the next phase and even more importantly the long term period within the transportation industry (under an umbrella of more competitive markets) is not easy to discern in precise terms. The nature of the challenge is clear, however, and we have some views about the ingredients of a successful response.

To telegraph our central message that will be developed throughout this volume, we believe that it is fundamentally important for companies, employees and unions - indeed, all of the stakeholders - to work together creatively to realize a new synthesis and alignment between the business and human objectives of the enterprise.

This concept can be better understood by contrast to the way in which the linkages between the market, business strategy and human resource/industrial relations strategy have changed first from a regulated
period to the first phase of a deregulated industry and now to the longer run quest for viability. The attached diagram captures these distinct differences.

**Regulated Environment**

Collectively \(\rightarrow\) Business \(\rightarrow\) Changes

Bargained \(\rightarrow\) Response \(\rightarrow\) in

Labor Costs \(\rightarrow\) Tariffs

**Deregulated Environment**

Competitive \(\rightarrow\) Business \(\rightarrow\) I.R.

Product \(\leftarrow\) Strategy \(\leftarrow\) Strategy

Market

In a regulated regime the relationships were rather straightforward. Increases in compensation and fringes bargained by the respective unions were for the most part passed on into higher fares and tariffs. Wages thus were taken out of competition and all of the economic parameters were stable.

In the period immediately following deregulation the unleashing of competitive pressures placed business strategies into play and many companies quickly turned to seeking concessions from their unions in an effort to solve their financial problems by reducing costs. The consequences of this (as we will elaborate shortly) have been substantial for workers and their union representatives.

The future holds the possibility of a different configuration, however. Both management and labor can be seen as linked in a
relationship that is searching for workable policies and programs that will produce viability for all of the stakeholders within a highly competitive environment. The themes of service, quality, productivity improvement, and commitment become central ideas for what might be called a new partnership.

Frankly, we can not point to very many situations that have fashioned such new relationships. There are suggestions of this new possibility in the steps that are being pursued by several railroad, trucking and airline companies. Interestingly, one of the most intriguing models comes from overseas in the experience of the maritime industry in countries like Japan and Scandinavia. In this regard the paper by Michael Gaffney in this volume is so important. The U.S. maritime industry may be frozen in a time warp but its counterparts in other countries are evidencing considerable experimentation and progress.

Assessing the Impact of Deregulation: The Initial Phase

Volumes could (and have) been written about the impact of deregulation on the transportation industry. Our purpose is to present some summary points and to emphasize some of the differences across railroads, trucking and airlines. For more elaboration the reader is referred to the three chapters written respectively by Gerard McCullough, Nancy Rose and Peter Cappelli.

Over-the-Road Trucking - By many measures over-the-road trucking has experienced the most change as a result of deregulation. Weintraub notes that during the first several years of deregulation there had been 80 bankruptcies affecting over 100,000 workers. Rose indicates that the return on investment for the sector has dropped from approximately 17% to under 10%.
On the compensation side of the employment relationship, there have been sharp reductions at a number of carriers as workers have accepted wage cuts of 15% (in exchange for stock) as a way of forestalling bankruptcy. At the level of the industry-wide agreement, various freezes and diversions of normally scheduled increases into pension and welfare funds have had the cumulative effect of reducing the compensation premium paid in the union sector as compared to the nonunion sector from approximately 50% to 30% (see the paper by Rose).

The implications for union membership have been dramatic. Rose estimates that union density in over-the-road trucking dropped from approximately 60% to 30% over the past 10 years. For the less-than-load (LTL) segment the Teamsters maintain that their representation has remained at about 70%. However, considerable employment has shifted to the truckload (TL) sector, which is largely unorganized. Also, it appears that a considerable amount of "double-breasting" is taking place wherein large unionized carriers are expanding the nonunion side of the house.

Airlines - The industry with the second biggest bundle of consequences (after trucking) is the airline industry. Whereas in LTL trucking all indicators (profits, employment and union membership as well as wages) appear to be going down, in airlines the patterns are more complex.

Business and employment have expanded under deregulation. This point has been well documented. While there have been a few notable bankruptcies such as Braniff and more recently, Eastern Airlines, the industry appears to have weathered the impact of increased competition reasonably well.

The surprising point is that despite growth in revenues,
compensation has come under considerable pressure. Specifically, concession bargaining has been very prevalent, with the development of the B scale most noteworthy. As a result there has been a general flattening or even a bending of the salary trajectory that had been rising steadily during the era of regulation. We will return to this interesting analmoly after we have presented the profile on railroads.

Union density has remained high, in the vicinity of 80 - 90% of the workforce in airlines. While a few cases of nonunion operations, such as People Express and Continental, have generated considerable attention the best estimates are that union density has not dropped by more than 5 - 10% as a result of deregulation.

Railroads - The industry that appears to have evidenced the least change in the aftermath of deregulation is the railroad industry. Indeed, it presents an opposite profile to that of airlines, namely, one of continuing shrinkage in employment yet at the same time preservation of compensation costs.

The fascinating profile of the railroad industry combines several elements. The steady run down in employment has continued and if anything accelerated since deregulation. Over the past 10 years employment has been cut in half and now stands at approximately 300,000 workers for the railroad industry.

Tonnage carried by the railroads has dropped marginally. In addition there has been an important shift to commodities, with this part of the business now accounting for approximately 90% of all freight carried by the railroads.

Obviously, there has been a very large increase in productivity as measured by volume carried per worker employed. In his paper Swartz
indicates that for the 10 year period 1966-1987 productivity increased approximately 300%. However, for the same period of time compensation increased about 400% and this is given as the key reason why profit levels in the railroad industry have remained at low levels, as measured by return on investment. Some analysts place this figure at approximately 2%.

Explaining the Patterns

An economist would not be surprised by the pattern of results that have occurred in trucking. All of the measures are down. What would provoke discussion would be the surprising patterns in airlines and railroads. The key questions would be the following: Why were the unions in the airline industry not able to hold or even increase compensation levels in the face of expanding traffic and employment, and conversely, why were the unions in the railroad industry able to sustain (and in some cases increase) compensation levels in the face of declining employment?

A number of factors interact to produce the patterns just enumerated for the railroad industry. First, deregulation has not been as extensive in this industry as in trucking and airlines. But more importantly, ease of entry for a new carrier is difficult if not impossible and unlike trucking and airlines where new carriers quickly came on the scene after deregulation this has not happened in railroads. Consequently, the competitive pressures that might bring a firm to the brink and force a reformulation of compensation levels have not occurred except in one or two isolated instances, such as ConRail.

Certainly the railroads have been anxious to reduce compensation costs and the low rate of return has motivated top management to focus on labor costs (railroads have the highest average compensation of any
industry in the United States) as a prime target. But desire is not sufficient for bringing about results. Management in the railroad industry cannot force the issue on changes in compensation in the same manner that management in the airlines has been able to do - by bringing negotiations to a point of finality and actually continuing to operate in the face of a strike. One railroad has attempted to follow this confrontation route to change, specifically Guilford, but it is really the exception that proves the rule. Guilford encountered incredible resistance from the unions and the dispute escalated into a national emergency board and as of this date it is still not clear whether the long run benefits will be greater than the long run costs.

Certainly, the solidarity of the railroad brotherhoods must also be counted as an explanatory factor. The unions are well organized into the Railway Labor Executives Association and they can use the secondary boycott as a way of assisting a union that is on the receiving end of a hard management stance. This is in contrast to the airline industry where pilots often have crossed the picket lines of other unions, thereby enabling the employer to continue operations.

The explanation for the surprising pattern of results in airlines has been already alluded to in the analysis of the railroad industry. For additional points see the excellent chapter by Peter Cappelli. Basically, he places most of the weight for the explanation on the variable of union structure and control. In a period of regulation the airline unions did not have to be centralized because the coordination was provided by the automatic passing of wage increases into airline fares. However, once deregulation hit the industry, and in the face of a few new entrants like People Express and in the face of aggressive employer strategies
emphasizing low costs such as those of Frank Lorenzo at Continental Airlines, the unions (especially the pilots) were not able to stem a tide of whipsaw activity that reduced relative wages in the industry. The economic perspective would also note that with union premiums at high levels (estimated in the vicinity of 50 or 60% for pilot pay) there would have been considerable difficulty in sustaining these levels without complete union organization of the labor market and control of contract settlements. Interestingly, ALPA has moved to assert substantially more control over contract negotiations on the part of local pilot groups and recently the erosion of salary scales has been stemmed.

**Strategic Differences Within the Sectors**

While the three sectors can be characterized with the general tendencies just enumerated, substantial and significant differences have existed within each of the sectors and it is to this subject that we would now like to turn. In fact, the importance of strategic choice is fundamental to what we see as the opportunity that is now at hand for the transportation industry in general. The new partnership situations that seem to be emerging represent the fashioning of business plans and organizational strategies that cohere in a consistent way and give a particular carrier both a business and human resource distinctiveness. In many respects, the first period of deregulation can be characterized as a search or, a period of experimentation along the way towards a new system wherein business objectives and organizational objectives are aligned.

**Trucking** - This industry breaks down into several subgroups. At one end are the large over the road, LTL, carriers that have survived and even grown during deregulation. Initially, these mega carriers felt the jolt
of deregulation as the TL end of the business was taken away by new entrants. But ultimately the infrastructure and the important economies of scale that accrue to a large carrier with many terminals and many break bulks has produced steadily increasing tonnage. For example by 1986 Roadway's business had returned to pre-deregulation levels, although it was almost 100% in the LTL category. The other point to be made about this end of the spectrum is that it is virtually impossible for a new entrant to enter the business on such a fully developed scale, given the large network and computer system that is required to be a major LTL shipper.

The portion of the industry that has been hardest hit has been the medium sized companies that are not large enough to benefit from full economies of scale but are too large to rely on a specialty or niche strategy, such as carrying special materials or serving special regional markets. In this segment there have been 18 crises wherein workers have given up wage concessions for stock with the creation of ESOP's. Significantly, only three of these rescue operations remain in business with the others having gone bankrupt or having been merged with other carriers. In his remarks Kinzey Reeves makes the interesting point that an ESOP creates the stigma of a failing operation and customers shift business; and if anything the ESOP designation can accelerate the demise.

In terms of innovations in the human resource area not much can be noted in the trucking industry. The big companies have followed a "business as usual" as they have coped with the challenge of deregulation and more recently expanded revenues. Some degree of what might be termed labor-management cooperation has occurred for those firms that have been in financial crisis but the orientation has not been long term given the need to survive, and there has been little change other than
placing union designated directors on the respective boards. In fact, for the most part the Teamsters have adopted a reactive stance -- when a carrier is at the brink they are prepared to negotiate some type of concession agreement but there is no general approach to fashioning distinctive programs that help meet the competitive needs of the individual businesses.

One carrier that has fashioned a program for improving productivity and focusing the attention of the entire organization on problem solving is Preston Trucking with its Scanlon plan. While very little in the way of bonus payments have been forthcoming, the parties credit this program with substantially better service and improved morale.¹

**Airlines** - Like trucking a few carriers have survived very well and grown larger and more profitable. They are referred to as the mega carriers and include United Airlines, American Airlines, Delta Airlines, Northwest Airlines, and possibly US Air. Mergers have been instrumental in producing route structures that enable these large carriers to hold traffic for the full itinerary of the customers' journey. The hub and spoke system is a key part of this business strategy - one that effectively creates the same type of network that benefits the large trucking companies.

Like trucking, several carriers have found it necessary to seek concessions to avoid bankruptcy. In several instances these "partnerships of necessity" have proven successful, such as at Republic Airlines and Western Airlines where eventual merger with Northwest and Delta

respectively, enabled the workers to recoup from the sale of stock what they had given up in concessions to save these particular companies. However, in the case of Eastern the partnership did not produce long run viability and if anything raised expectations that have to some extent impeded the restructuring of the airline into a competitive carrier.

The most interesting characteristic of the airline industry is that within the group of large carriers we can observe very different business/organizational strategies. This is no doubt explained by the fact that the direct contact with the customer (in contrast to hauling freight on the railroads or over the road) that characterizes the airline business sets the stage for very different approaches. For example, American Airlines has sought to attract the business traveler and has presented a image of an airline, very well run by a professional management group. Consistent with this, management at American Airlines developed in the early 1980's a long run plan that combined the expansion of routes (with the purchase of new equipment and hiring of additional employees) with a lowering of its labor costs by the introduction of a B scale for all employees. As part of the package it gave employment security to incumbent workers and communicated extensively the advantages of the proposed solution to the joint opportunities that the parties faced.

In an opposite corner of the field would be Continental Airlines with its well known scenario of seeking to attract the flying public via low fares, made possible by low labor costs realized via the institution of drastic cuts in compensation levels. Such a strategy may have internal consistency in terms of economics but it has not been successful in terms of the workforce consequences as measured by poor service and low morale.
Somewhere between American Airlines and Continental Airlines has been United Airlines that has for certain periods of time followed a "win-win" approach and at other times a very confrontational approach to linking the labor relations side of the business to the strategic objectives of management. For example, while on the collaborative tack several years ago United signed a contract that guaranteed continuing employment for all its pilots in exchange for concessions and the development of an elaborate feeder system of commuter airlines. However, business fell off during the recession of the early 1980s and United felt that it had signed a poor deal. Subsequently, United took a hard line and even attempted to fly in the face of a strike thereby creating considerable scar tissue that remains to this day within the organization.

Delta Airlines represents a dramatically different strategy and one that is probably not available to the other mega carriers. The only craft group at Delta that is represented by a union is the pilots. For the other classes of employment the approach of the company is much like that of IBM that emphasizes full employment, communication programs, good fringe benefits and a concern for the individual. A few years ago employees "passed the hat" and bought an airplane for the company as a way of saying "thank you" for employment security during the down turn of the early 80's. Such an event would be inconceivable at most other airlines in the United States.

On the union side there are also some very interesting differences. The union in the airline industry that comes closest to the "business as usual" approach of the Teamsters would be the International Association of Machinists (IAM). Their posture has generally been one of "no step backward" and they have taken very firm stands at quite a few airlines,
including Eastern Airlines.

The union that has been most distinctive is ALPA and it has gradually been embracing a strategy of seeking to gain control and to be a major player at the strategic level of a number of airlines. One of the first indications of this was its posture when Trans World Airlines came into play. Because of the bad experience that ALPA had with Lorenzo and Continental Airlines it refused to give any concessions to Lorenzo as a quid pro quo for his purchase of ailing TWA. Yet, ALPA was prepared to grant significant concession to Icahn and as a result he was able to take control of TWA. This same use of its power to influence ownership and indeed the identity of the CEO has been evident in the recent struggle with Frank Lorenzo for the future of Eastern Airlines.

Another illustration is the effort (thus far unsuccessful) on the part of ALPA to assume a controlling position in the ownership of United Airlines. However, its campaign has been partially successful in that United Airlines has been forced to sell a number of subsidiary businesses in the hotel and rental car field and to concentrate its activity on airline transportation.

As Seth Rosen comments in this volume, all of these developments have meant that "ALPA has much stronger ties with Wall Street".

Railroads - When one looks for differences in corporate strategy across the major carriers, some variation can be found but not to the same extent as in airlines. Certainly, partnerships of necessity have occurred, the previously mentioned Conrail bailout and a type of ESOP at the Chicago Northwestern representing significant examples. Bankruptcies have also occurred, for example at the Rock Island.

But when one examines the activities of the major railroads such as
Norfolk Southern, CSX, Santa Fe, Union Pacific, and Burlington Northern there has not been much divergence. However, this is changing and recently some signs have been forthcoming that the major carriers are starting to explore distinctive strategies for confronting both the business and human challenges. For example, CSX has joined with its major unions in a major planning exercise aimed at creating a package of provisions that would benefit both sides. While this innovative concept of workforce reduction, sharing the gains with the workers and unions involved and envisioning considerable changes in work rules makes considerable sense, it still has not been accepted by some of the key unions especially the UTU and their rank and file members.

For a while, it looked like Burlington Northern was on the road to a confrontation as a way of securing changes in operations and compensation costs that it believed were absolutely necessary. However, more recently, it appears that the changes are taking place on a case-by-case basis and at the local level rather than via national negotiations. Similarly, Union Pacific has been following a low profile approach for the past several years and has been designating specific locations for improving joint working relationships and establishing labor participation teams aimed at improving productivity.

Mention has already been made of Guilford Industries and the strategy of implementing agreements when bargaining over changes in work rules and wages reaches an impasse. A number of carriers have reached for other forms of leverage as means to revise working arrangements. For example, branch lines have been sold to new operators who have used the argument: "The line will be shut down unless changes are forthcoming" as the ultimate form of bargaining power. Several large railroads also have
subcontracted major operations and again the leverage inherent in the newcomer has achieved in some instances the simplification of union structure as well as the elimination of long standing work rules. Currently, Burlington Northern is in the process of contracting with General Electric to supply "power by the hour", whereby all the maintenance work on the locomotives would be done under the jurisdiction of General Electric rather than Burlington Northern.

The foregoing examples indicate that railroad management (feeling "locked up" by the union structure as well as by the Railway Labor Act) is searching for ways in which it can force a series of changes that are high on its priority list.

Shaping a New Vision

The premise of this conference report is that the transportation industry has been on the receiving end of a wide range of forces unleashed by deregulation. It has been forced by circumstances into a mode of quick response and thus far has not been able to formulate a vision that puts the pieces together in a coherent. The various sectors appear poised for new approaches as we close the decade, and also end the first phase of deregulation. And as we contemplate the 1990s and the longer run possibilities for transportation in a competitive environment the parties are in a position to contemplate some new options for the long run.

In trucking the wave of bankruptcies has subsided. No doubt a few more casualties will occur but the change in the future will come about as a result of quality and service. Kinzey Reeves is right in saying that the dominant driver of deregulation has been price, price, price. And while
price will continue to be a prerequisite, the enterprise that will thrive in the future will be one that has much more to offer than price and this will require the commitment and ingenuity of the total organization.

In airlines the big reality is the extent of bitterness and low morale that exists at many airlines as a result of takeovers (e.g. forced implementation of seniority systems), B scale contracts and confrontations. Workforce commitment is low at Northwest, TWA, United, Eastern and Continental, to mention some of the major examples where substantial industrial relations issues remain as a fact of life.

While air transportation is much more of a commodity than it was during a regulated regime, quality and service distinctiveness will become even more critical to competitive viability, and consequently the carriers that maintain and increase market share will be those who offer more than the commodity of taking a person from point A to point B.

While the railroad industry would appear to be the most status quo of the three that we have examined closely, it appears to be on the threshold of some major changes in approach. There have been enough attempts at both joint planning (CSX) and confrontation (Guilford) to suggest to the parties that opportunities exist for some innovative approaches to change that combine elements of both extremes.

Thus far we have not said very much about the maritime industry due to the fact that in the United States it is even more "frozen" than the railroad industry. Everything has been down, down in this industry as the U.S. share of ocean traffic has slipped precipitously. The industry remains heavily regulated and much of the traffic that U.S. ships carry is due to the "set aside" that requires certain shipments to be carried by an "American flag".
The exciting glimpse of a model to be emulated comes in Gafney’s description of developments in the maritime industry in other parts of the world, as well as in the more complete analysis by Richard Walton in his book *Innovating to Compete*.2 The story of how shipping companies in several countries with strong maritime industries have fashioned a new model that involves vertical and horizontal flexibility within the workforce, reduced manning, management teams, crew continuity (attachment to a particular vessel for an extended period of time), extensive participation and gainsharing is clearly a model for the U.S. maritime industry to investigate. Interestingly, this high commitment model has been implemented quite successfully in a number of manufacturing companies in the United States especially in autos, steel and telephones.

The high commitment model and its vision of a high performing workforce that enables the business to maintain or increase market share is a challenge not only to the U.S. maritime industry but also to the other major transportation sectors of trucking, airlines and railroads.

Just how this vision might be framed and implemented is a subject to which we now turn.

**On the Road to a New System**

Based on a number of developments in the transportation industry and based on our research3 with the transformation occurring in U.S. manufacturing, it is possible to sketch out the markers for the journey to a new era for transportation.

2 Jossey-Bass, 1988

Certainly, the beginning point for any major change comes at the top of the organization. In this connection, it is significant how many companies, especially in airlines and railroads have changed CEOs over the past several years. In a number of instances the new executives have come from outside the transportation sector, bringing with them perspectives based on experience gained in highly competitive environments over extended periods of time.

In addition to leadership there must be substantial reason or pressure to change. A number of factors are beginning to cluster together to provide this impetus for change. Customers are demanding high levels of service, and developments, such as just-in-time, are increasing the level of service required on the part of the transportation sector.

Certainly, the low rate of return is another major spur for the search for better arrangements. At the conference, Lawrence Pierce, a banker very knowledgeable about transportation, offered the pungent observation that financial institutions are paying increasing attention to the caliber of labor relations before acting on loan applications. Financial institutions have become sufficiently sophisticated to appreciate that if a union is present then the relationship should be constructive and the workforce willing to operate in new and flexible ways. No doubt when the bankers require a new look in labor-management relations, management will take note.

A third marker involves the fashioning of a business strategy that is articulated and provides a good match between the competitive environment and the capabilities of the particular organization. Beyond the important themes of quality and responsiveness to customer needs a business should frame a distinctive mission or vision for its role in the
market place. Many formulations are possible. On the one hand, there are carriers that emphasize the delivery of high quality service via attentive and highly motivated employees, such as Delta Airlines. Then, there are firms that emphasize tight control and high quality service via measurement of results, such as United Parcel Service. There are others that have adopted the theme of coordination of all transportation services for a shipper via intermodal operations. Specifically, some of the railroad and trucking companies are advancing their systems as "one stop transportation service".

The next point of departure involves the fashioning of human resource and industrial relations policies and programs that align the commitment and energies of the organization to the business strategy that has been fashioned to meet the challenges of the market place. Enough is known about the characteristics of the new organization based on success stories in manufacturing as well as innovations that have been introduced in the maritime industry of other countries.  

The key elements of the high commitment system involve: fair compensation including gain sharing or profit sharing, employment security, flexible organization of work with teams and broad classifications, emphasis on training and the acquisition of new skills, and enhancement of involvement and participation to tap the knowhow of the full organization. In a sector such as transportation where service is the key product being delivered, the loyalty and commitment of the organization are crucial and the elements of the model just enumerated can facilitate the development and productive use of this human potential.

\[4\] A summary of these themes is also contained in my piece in the section of the report on railroads.
The next ingredient involves the support and active involvement of the union. (Generally, for the sectors of interest in this report unions are a reality and will remain a reality.) It is our experience that enterprises do better by accepting the presence of the union and seeking ways to develop constructive relationships up and down the line. Too often companies seek to involve the union at the operating level in behalf of improving the motivation of the workforce, while at the strategic level decisions are being taken that weaken the union, e.g. to open up subsidiaries on a nonunion basis. When firms such as CSX open up a new computer subsidiary and agree to recognize the Transportation Communication Union they gain an important advantage. By being willing to recognize the union a company is able to gain some important changes in the contract, especially with respect to the structuring of the work organization.

Most unions in transportation have experienced a "down, down, down" profile for many years in terms of membership and resources. To the extent that it is possible for unions to represent new workers (and in the process the companies can realize important quid pro quos for this recognition), then the union leadership, especially at the national level, will be much more willing to be active and constructive partners in the process of change.

Another sensitive issue has to do with the emergence of holding companies and the practice of "double breasting", that involves the aggressive expansion of nonunion subsidiaries. Given some of the problems that have existed in the unionized sector of transportation, some of these efforts by companies to break free and to gain the flexibility and compensation costs closer to the market are understandable. However, a
working hypothesis that needs to be tested is that with the kinds of changes that are beginning to emerge it may be possible for a unionized operation to be as cost effective as its nonunion counterpart. No doubt the 1990s will provide a major test of this proposition: specifically, can a company such as American Airlines that is unionized and committed to developing constructive relations with its unions be as cost effective (even though paying substantially higher salaries) than a nonunion competitor such as Continental Airlines?

Another marker for a new system of industrial relations is a relationship among management, union and employees that is open and where problems and information are shared on a continuing basis. One trucking company has used the phrase: "tough trust", which captures the willingness on the part of management to share information about everything, including the possibility that certain lines of the business may have to be shut down or certain drastic steps taken in the face of competitive challenges. Too often the parties embark upon a cooperative process, with the assumption that this cooperation will solve all problems - with the result that the organization is not ready for "bad news". This sequence appears to have happened at Eastern Airlines. Clearly, a cooperation partnership has to do more that improve the way people communicate with one another. There is always the recognition in an open relationship that there will be "bumps in the road", and it will be necessary for the parties to confront hard problems and hard decisions.

At the conference one of the commentators, Grindstein, who has worked in both airlines and railroads commented that it is easier to engage in a relationship of openness in the railroad industry (and possibly in trucking) than in airlines because in the former case companies are
constrained from revealing too much bad news for fear it will have an adverse impact on the confidence of the customer in the service of the particular carrier. While this is a reality, most companies have been pleasantly surprised at the responsibility shown by workers when they are presented with the factual situation, not through broad side communications, but through a structure of dissemination that involves front line supervisors meeting with workers on a one on one and small group basis. The fact that crews are away from the home base for extended periods of time presents a very challenging context for the execution of face to face communications, yet successful carriers have found ways to do this.

A very specific juncture for "tough trust" is the possibility (perhaps even the necessity) to contract out a piece of the business. An approach that emphasizes openness and treats the workers who are at risk as adults would be to lay the facts on the table and to give the part of the organization that is not "meeting the test of the market" a chance to respond with a plan to keep the business "in house". Such an approach has been tried quite successfully by Xerox and its union the Amalgamated Clothing and Textile Workers. Before management takes a decision to shift operations to a supplier, the department in question is given several months to formulate a task force and to come forward with a plan that "beats the competitive bench mark".5

Management today has considerable leverage, in large part because of a very competitive marketplace and the ability to divide operations down into components and to particularize the competitive issue, for example, subcontracting the maintenance of locomotives to General

5 See "Tracing a Transformation in Industrial Relations", U.S. Department of Labor, BLMR 123.
Electric, or leasing the management of a terminal to an outside contractor, or hiring a caterer to service the airplanes. Such "leverage" should be used in a constructive way and if management is willing to move ahead deliberately and to use the realities of the marketplace to confront the organization with the need for change, then in more cases than not constructive solutions will emerge.

Challenges

Some of the perspectives just enumerated will be seen as overly optimistic and will not track with the experience of many companies that have found themselves in situations of low productivity/high labor cost and unable to break out and to achieve modern day organizations. Various factors are involved. In some cases the organization is populated with very senior employees (as a result of steady run down of the workforce and the departure of younger workers) and everyone appears to be waiting until retirement. In other cases the obstacle can be a particular craft union that is in jeopardy and is holding up agreement of a new program that would benefit the majority of the workforce.

There are no easy answers to these challenging situations that seem to be frozen in the past. Often it is necessary for management to show its determination to move ahead and to force the workers and unions involved to confront the need for change. This is the best meaning to place on the term "confrontation" - to force the organization to squarely face the existing economic realities. In some instances it will be necessary for management to take decisive action which might mean the abandonment of some operations or the sale of some very unproductive parts of the organization. But the lesson from so many other sectors of
the economy is that if management exhibits patience and is willing to come back for a second and perhaps even third round of negotiations, that ultimately common sense prevails and the longer run needs of all the stakeholders dominate the opposition that often surfaces in the short run.

While determination is important, it is necessary to infuse it with a willingness to work collaboratively on projects where the two sides have common interests, and to use this as a platform for dealing with other subjects where there may be substantial conflict of interest, at least in the short run. For example, in a number of relationships the parties have embraced the important subject of career development of the workforce as a natural topic for joint programs. Workers who are no longer needed in one line of a business with enough lead time can be retrained so that they can move into openings that require new skills. For example, some railroads have taken workers from declining crafts and retooled them to handle the expanding information technology part of the business. When these programs are done on a joint basis the union becomes an important stakeholder and derives substantial benefit and standing with its members for the benefits being provided.

The route to a transformed organization is not a dramatic turn around but a step-by-step process, starting with areas that are natural "win-win" subjects and moving to more complicated matters as the labor management relationship matures.

The biggest challenge that management faces is to move steadily and decisively towards a new system without succumbing to the dangers of either discussion without change or confrontation that leads to disastrous conflict. Many examples exist that illustrate both of these extremes. As Larry Pierce at the conference recognized: "We are expecting a high
standard of sophistication on the part of companies. We expect them to bring about highly productive and effective organizations, but to achieve this result without lots of strikes and labor turmoil.

We hope that some of the concepts that have been advanced here will help the parties move successfully down the avenue of planned change towards organizations that are more economically viable and more satisfying for all of the stakeholders.