

GOVERNANCE: A FRAMEWORK FOR OUR FIELD

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January 16, 1991

WP#: 3237-91-BPS

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by

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PRESIDENTIAL ADDRESS
I.R.R.A. Annual Meeting
Saturday, December 30, 1990
Washington, DC

INTRODUCTION

It was exactly 35 years ago that I started my journey into the field of labor-management relations. Given the fact that that year, 1955, now stands as the high-water mark for union density, you might conclude that anyone who makes a career decision just as unions are peaking numerically should not be taken seriously when it comes to presenting thoughts about the present and future prospects for our field.

Recently in this city, a testimonial banquet was held in honor of Bill Usury, former Secretary of Labor. In planning the affair that raised substantial support for the Department of Labor's Hall of Fame, Steve Schlossberg and his committee reasoned that if we had another decade like the 1980s (that began with the PATCO strike and the firing of the air traffic controllers), that our industrial relations system, already characterized by a steadily shrinking perimeter, would be almost totally demoralized. As John Dunlop stated the proposition at the banquet, "If we continue to head in the direction that we are headed, then we will surely get there."

And what are the features of the landscape that describe the direction in which industrial relations is currently headed? First, and most dramatic because of the newsworthiness of the episodes, are confrontations such as the one underway between the Daily News and its craft unions; also the dispute at Greyhound, as well as many others in the news: airline, meatpacking, and copper industries. One set of data that has been assembled for a research project that Dick Walton and Joel Cutcher-Gershenfeld and I are doing together estimates that approximately one-third of the negotiations occurring in one region of the country over the past two years were characterized by failure to reach agreement, impasses, and in some cases imposition of terms by the employers and the hiring of permanent strike replacements.

A second dominant feature of the current scene is the emergence of a number of very noteworthy examples of labor-management cooperation. And while it is heartening to those of us who believe in rational discourse and the power of collaboration, it must be admitted that the transformation of U.S. labor relations that Tom Kochan, Harry Katz and I discussed in our book by the same title, has been proceeding much more slowly than we had hoped or anticipated.

Finally, and to return to the overriding feature of industrial relations today, the steady decline of the unionized sector continues. I am aware that there have been some recent successes (and the very intriguing partnership that has emerged between Harvard University and a local of AFSCME is important to note), nevertheless, the proportion of the workforce and employment relationships that are not characterized by any formal structures for voice continues to expand. Unless some steps are taken to foster more voice and participation for all interest groups within the employment relationship, then I firmly believe that all sides of the ledger will be worse off.

For this audience, the enumeration of trouble in the industrial relations system should be sufficient to set the stage. But others may desire additional reasons. Let me make several points rather quickly: a wide variety of studies have demonstrated that the U.S. is falling behind economically and technologically in comparison to other industrialized countries, particularly Japan and Germany. Moreover, since 1973 weekly earnings have dropped 16% for non-supervisory personnel, and they continue to decline. Other sessions at these meetings have elaborated on a wide range of indicators of economic duress.

We have been buffeted, now going on two decades, by studies and pronouncements that have focused attention on the need for our institutions to adapt and change and CEOs increasingly place heavy emphasis on the human side of the enterprise. But despite all of this attention and exhortation, the changes, while many are occurring, appear to be far less than the situation requires. Why has it been so difficult for us to succeed in the new competitive environment?

On the employer side is the oft-mentioned predilection for management to focus on short-run results to reduce costs and to rely on technology rather than increasing organizational capacity. By focusing on cost reduction, managers are able to meet their targets but at a very heavy cost to the long-run social fabric and productive capacity of their organizations.

Those of us who work in the business school sector of higher education share some responsibility for the pathology of the present period. We train individuals who expect the "fast track," which means frequent movements within the corporation. It is difficult to elicit high commitment from the other stakeholders when key players are being moved around so frequently, and hold values that are not exactly right for the times.

I find it instructive to read the internal reports of companies who visit other sites to learn about innovations in organization design. The typical feedback focuses on policies and structure, reflecting a type of engineering design mentality. The observers rarely describe the social systems.

It is hard, for example, for those of us who have grown up in a culture accustomed to checks and balances, i.e., a political model of organization, to understand the essence of alternate systems. In fact, after the better part of a decade, it is probably the case that only several score of managers at General Motors really understand in any deep way exactly why NUMMI has been so successful.

This may be a very bald statement but I do not believe that U.S. managers have ever been world-class at management, if by that we mean the mobilization of the organization to perform at high levels of commitment and effectiveness. We have been good at marketing, at finance, at product development, but not as strong in implementation and operations.

A good example of the myopia of U.S. companies is in the area of employment security where to this day companies lay off workers only to save 20¢ on the labor cost dollar, given the high carrying costs of such programs as SUB, GIS, JOBS and UI. In the recent study by the Economic Policy Council of the United Nations on the common interests of employers and employees, the two cited failures both involved instances where the employer violated worker and union expectations by outsourcing work and reducing the workforce in the face of rapid technological change.

The notion of joint planning with complete sharing of relevant information does not obtain in very many union-management relationships. In one site that we have been tracking, the workforce has achieved almost de facto income security, but because they are still laid off periodically, they cling to seniority and feel very insecure.

What is called for is a better bargain that combines assurances by the employer regarding employment continuity, with commitments by members of the organization to realize high performance that makes employment continuity possible.

There is another reason that explains why so many companies do not "get it right." This is an attribute of U.S. management that has been with us for a long time: anti-union attitudes and policies. Despite the evidence that transformed unionized facilities can perform better than many non-union facilities, companies such as Shell, Toyota, and AT&T resist unionism in their unorganized plants. Recently, I saw how far this irrational motive can be carried when a large company expressed hesitancy to get started with a reform program at one of its unionized plants for fear the union in this plant would be able to appeal to workers at other unorganized plants with the slogan: "We are partners with management."

There are also reasons on the union side of the picture, as well. First, the traditions of many unions contribute to the status quo. They have sold the need for a union on the basis of opposing

management, what has come to be called "the adversary system."^{1/}
In a context of increasing standards of performance and declining margins, this gets played out as defending vested interests.

Many union leaders find themselves in a corner, in a type of "prisoner's dilemma." Having established their whole rationale on the basis of militancy and fighting management, any behavior on their part that does not fulfill these expectations, even though the substantive outcome might be superior, opens them to attack.

The charge labeled during recent political campaigns of special interest is partially true. Unions and their members in a number of industries increasingly are unwilling to curtail overtime or restrain wage increases even when it means expansion of employment opportunities for others in the workforce.

Many examples could be cited of unfavorable reviews of unions by experts writing about their fields and dealing with the role of unions only incidentally.

A recent study by Chubb and Moe of education is a case in point:^{2/}

Collective bargaining leads to formal contracts that specify, usually in excruciating detail (Phila., 133 pages), the formal rights and obligations of both parties (p. 49).

A majority of the schools with ineffective organizations indicated that unions are large obstacles in making key management decisions (p. 154).

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1. In preparing for this talk, with the help of Saul Rubinstein, I examined the charters and bylaws of many of the leading unions. Nowhere in the constitutions can language be found that supports the adversary system as it has come to be practiced. Rather, the stated objective is to represent worker interests. And we know from the early history of unions such as the Amalgamated Clothing and Textile Workers and the United Steelworkers that the means chosen combined labor-management cooperation with union independence.
 2. See Frank Chubb and Terry Moe, Politics, Markets and Public Schools (Washington, DC: The Brookings Institution).

ELEMENTS OF A NEW SYSTEM

Given the problems with our current setup, it is not surprising that a new system is struggling to be born, in places as different as Saturn, Harvard University, and local school districts.

This summer I spent about 10 days studying the Saturn organization. What makes Saturn so interesting is that it has put in place a structure that, with its emphasis on partnership and consensus, requires all stakeholders to share responsibility for economic success and individual enhancement.

What are the distinguishing features of Saturn that might point to a new way of thinking about enterprise?

First, all stakeholder groups participate. Unlike most companies in the U.S. where participation systems involve primarily blue-collar workers (because they are the only segment of the workforce that is organized), the various decision rings at Saturn include all employees. It is true that only the represented employees elect leaders (a president and 4 vice presidents), but every member of the organization gets to participate and no one speaks for anyone else since the structure of teams, task forces, and decision rings requires everyone to make his or her contribution around the concept of shared responsibilities.

Second, the scope of the agenda is wide open and no subject is out of bounds -- the only limitation is time constraints and common sense.

Third, the process is ongoing and the typical sequence of first negotiating a contract, then administering the contract, and then entering into another intense period of negotiations, is not the modus operandi.

Fourth, considerable decentralization of responsibility occurs as a result of the process of everyone focusing attention on their customers. Uppermost in this orientation is attention to service and quality.

Basically, the architects of the Saturn partnership are testing the feasibility of a new conception and practice of management. Within our established theory of industrial relations the union is seen as a constructive constraint on management, producing what is often referred to as the "shock effect."

Such a model works when management is competent enough to make the right decisions. However, today more and more labor leaders have concluded that "Management is too important to be left to the executives."

Indeed, given the complexity of organizational life (new technology, far-flung markets, and complex employment standards),

management should not be defined in terms of positions on the organization chart but as all the individuals who possess the requisite expertise.

STRUCTURES AND CONCEPTS

Saturn may be a radical form of new governance, but other examples are emerging.

- Many companies are utilizing focus groups and town meetings to involve a cross-section of the organization to identify and solve the key problems of the business.
- Around the country, especially in urban centers under the banner of school reform, various innovations are emerging with labels such as shared decision making and school-based management.
- At Harvard University the various college-level taskforces possess many of the characteristics of works councils. Subjects are considered on an ongoing basis and not reserved for negotiations. Subcommittees are formed to work on particular projects, e.g., developing a plan to relocate office personnel during a period of major construction at Harvard Business School.

In typically American fashion, what may be happening is the emergence on a trial-and-error basis of a new de facto system of governance for the workforce. The fashioning of new avenues for voice is in line with the times. Opinion survey data (Gallup) attests to the fact that most employees desire some type of structure for participation: "90% of all adult/employees say 'Employees should have an organization of co-workers to discuss and resolve legitimate concerns with their employer.'"

An important reason for reconceiving the process of management, and thereby the role of unions, is that today's organization requires much more commitment and involvement from all stakeholders. Unions are in a position to mobilize the energies of its members in behalf of common objectives that cut across all interest groups.

The working hypothesis is that these new arrangements of governance will demonstrate superior economic performance because they create organization-wide credibility for required initiatives. If this indeed is the case, then unions may be able to shed the stigma that they are injurious to the economic health of an enterprise.

Such new arrangements may also help unions in other ways. In many situations today, unions spend a disproportionate amount of their time serving a very small fraction of the membership, often estimated at no more than 10% on a day-to-day basis. The Saturn and

Harvard models exemplify the point that councils allow for much greater participation of all stakeholders.

Can this concept of works councils function in the non-union environment? I believe it can but those of you in the audience who are legal buffs are probably saying at this point, "You can't get there from here." I do not have the legal background to determine whether changes in the National Labor Relations Act, specifically in Section 8(a)(2) would be required in order to facilitate the development of more effective governance. Paul Weiler of Harvard believes that employee participation groups could be fostered via enabling legislation at the state level.

Others will say I am exceedingly naive: employers cannot be trusted, they will coopt or subvert the councils to their own ends. This danger does exist. Consequently, a necessary safeguard for robust participation is the provision for voice at the strategic level.

Thus, another plank of the "new constitution" would be the provision for stakeholder representation on boards of directors. At a minimum we should insist that companies that have benefited from the tax advantages of ESOPs make provision for representation on their boards. After all, in this case the stakeholders are also stockholders.

I served for five years on the board of a large trucking company as a result of the creation of an ESOP. I can say from first-hand experience that without the three employee-designated directors important human considerations would have been completely overlooked in the pressure for short-run results and under the domination of outside financial interests, only intent on stripping the corporation of valuable assets. Given the incredible wreckage that LBOs have created, it is essential that we find ways for including other voices within the highest reaches of business.

If I had time I could enumerate many strategic blunders that would never have happened if another point of view had been present in the board room. I am thinking of such instances as peremptory decisions to shut down facilities, construction of Taj Mahal headquarters, and yes, decisions to go all out to achieve concessions from unions, such as elimination of premium pay for Sunday work. Today many of the confrontations or "holy wars" arise out of mistaken assumptions about the intentions of the other side. Like many international disputes that should never have occurred, management and labor never discuss the undiscussable--for example, why a paper company finds it necessary to train replacements, or why the union moves to pool the expiration dates for as many plants as possible to protect the status quo.

One of the characteristics of the constructive labor management relations that developed during World War II and afterwards into the 1950s was that CEOs and top labor leaders sat down and talked about the basic contradictions and the basic dilemmas facing their relationships. Today, too little of this happens.

CLOSING PERSPECTIVES

Basically, the concept that I am advancing is one of constructively constrained choice, or, trying another phrase: "CHOICE ENHANCED BY VOICE."

We need to understand how we went from a situation where unions were a positive force for increasing productivity, to a view where they are seen as negatively affecting economic performance; from a view where unionism shocked the enterprise to where it locked up the enterprise.

Two of our international competitors, Japan and Germany, seem to have found the right ingredients for achieving constructively constrained choice. The voice role of the enterprise unions in Japan, and the voice role of unions via the co-determination and worker representation of works councils in Germany, help keep executives from making major mistakes. A key consequence is that the attention of the organization is focused on the long run, wherein the competitive advantage of positive human resource policies and practices are demonstrated.

I believe that the emergence of new governance arrangements also will be helpful to the long-run interests of worker representation. With all of the current emphasis on empowerment, CEOs may have started a revolution that eventually heads in a direction that they never would have anticipated.

BRINGING ABOUT THE NEW ORDER

Just talking about the inherent advantages of a new system will not bring about sufficient fundamental change -- key leaders must embrace these new ideas that are emerging in practice. The type of dialogue that takes place between CEOs and national union presidents within the Collective Bargaining Forum is an example of a network that needs to be expanded.

At the highest levels of national leadership in this country, we require shared understandings about the new organizational arrangements that are likely to allow us to move ahead rather than clinging to outmoded arrangements.

Key leaders should engage in a basic dialogue about the undiscussed assumptions and dilemmas that characterize so many labor-management relationships today. Unions need to understand better why management universally prefers to remain non-union. Thus far unions have not shown much interest in examining what happens in the best of non-union relationships and what are the generic features of these relationships that could be incorporated into a new model of unionism.

Similarly, employers have shown little interest in understanding what is happening in the best of transformed labor-management

relationships. A type of group-think develops within the management community. Recently, I attended a meeting of HR/IR types where one company indicated that it voluntarily recognized a union for a greenfield operation (with a Saturn-type design), only to be met by looks of horror from everyone in the room. To change this culture will require leadership of the highest order.

IMPLICATIONS FOR THE INDUSTRIAL RELATIONS RESEARCH ASSOCIATION

As collective bargaining has continued to decline as an activity in our economy, so has the membership of IRRA recently begun to decline. Also, many of our new members are professionals involved in representing the parties in arbitration and traditional negotiations.

Many potential members who are interested in personnel policies and human resources within non-union establishments have moved their affiliation to organizations like the Academy of Management. And many who have been primarily interested in dispute resolution have become active in the Society of Professionals Involved in Dispute Resolution (SPIDR).

It is essential for IRRA to state its broad interests in the themes of stakeholder representation and the harmonization of business and employment relationships. Various professional groups should be made to feel welcome within the IRRA family.

For those of us who are researchers, an important opportunity is at hand to engage in creative research of the new structures that are emerging in both the organized and unorganized sectors.

As the deities of our order, like the Webbs, John R. Commons, and Summer Slichter have urged: We have a mandate to study the new species of our field, and to help in constructive ways to foster greater understanding and support for these new possibilities.