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## Strategic Choice and Industrial Relations

### Theory and Practice

Thomas A. Kochan, Robert B. McKersie and Peter Cappelli

Industrial relations in the private sector of the American economy has been changing in a number of important ways in recent years, most visibly in collective bargaining where we have seen important wage, benefit, work practice, and employment security concessions and tradeoffs negotiated in a number of major industries (Cappelli and McKersie, 1983). However, other important changes have been occurring more quietly and more incrementally over a longer period of time at the workplace level, where new forms of employee participation and alternative forms of work organization have evolved, and at the highest levels of managerial decision-making where corporate business decisions are made and basic policies regarding human resources, technology and the status of unions are formulated (Kochan and Cappelli, 1983). Unfortunately, our theories for explaining and understanding these changes are not yet well developed.

Indeed, these changes appear to be important enough to warrant examining the basic paradigm that has governed industrial relations research in recent years, a conclusion echoed in recent commentaries by Derber, Strauss, Kerr, and Cummings (1982). The common theme linking these arguments is that most of the currently popular theories of industrial relations and the empirical evidence supporting them were generated during periods of relative stability in U.S. collective bargaining and industrial relations and consequently are too static in nature. Thus, they have difficulty

explaining the behavior of the system when its basic parameters appear to be changing. The purpose of this paper is to attempt to add a more dynamic component to industrial relations theory by developing the concept of strategy, or strategic choice, in a way that we believe can help explain some of the changes in industrial relations that have occurred or are currently unfolding.

### The Prevailing Paradigm

The debate over the appropriate theory for industrial relations can be traced at least to the turn of the century when institutional economists challenged the usefulness of classical economics as applied to the employment relationship (cf Dorfman 1949, Kochan 1980). The pluralist perspective that emerged from these challenges recognized the conflicting but interdependent interests of management and labor and laid the intellectual foundation for the labor legislation of the 1930's. Subsequently, Dunlop's Industrial Relations Systems (1958) provided a broad set of concepts for thinking about industrial relations issues. Dunlop's organizing framework for industrial relations began by analyzing the environment, then moved to consider the characteristics of the actors and their interactions, and ended with an explanation of the rules governing employment relationships. And as the logic of industrialization played itself out over time, alternative systems of industrial relations were expected to converge toward a common set of formal arrangements and rules (Kerr, Dunlop, Harbison, and Myers 1960).

In contrast to these efforts to build global theories, research since the 1960's shifted toward middle range models designed to explain variations in the process and outcomes of collective

bargaining. In addition, the theories being used to explain these concerns have shifted back toward the basic social science disciplines (Kochan, Mitchell, and Dyer 1982). There are a number of anomalies in current industrial relations, however, that cannot be explained with these middle-level theories. Nor can they be easily reconciled with the systems approach. A brief outline of some of these unexpected developments will help illustrate the inadequacy of the current theoretical approaches.

#### Anomalies in Industrial Relations Systems Theory

(1) The legislation of the 1930's established collective bargaining as the cornerstone of national labor policy, and it was assumed that unionism would expand as workers embraced bargaining as a means of asserting their common interests. Since 1956, however, private sector unionism has been steadily falling as a percentage of the labor force (from a peak of 33 percent to around 20 percent or even less if public sector membership is excluded). Perhaps more importantly, the growth sectors of the American economy are increasingly nonunion. Union membership is currently concentrated in the older industries, the older firms, and the older plants within those industries. While nationwide estimates are unfortunately not available, evidence from our case studies suggests that the differences at the plant level are particularly important. For example, one of our studies found that the average age of union plants in one large conglomerate (over 80 U.S. plants) is 44 years as opposed to 18 years for the nonunion plants (Verma and Kochan 1983). Further, only one of the plants opened by this firm since the mid-1960s' has been organized by a union. While it is difficult to generalize from a single firm, our case studies of other organizations reveal that this pattern is the norm.

Various efforts have been made to explain this development, and they typically look to characteristics of the parties and the environment for the cause of declining union memberships (e.g., Juris and Roomkin 1980). These explanations are at best incomplete. Kochan (1979) and Farber (1983) note, for example, that there is still a considerable pool of unorganized workers who would prefer to be in unionized jobs. Farber (1983) estimates that less than half of the decline in union membership could be attributed to structural shifts in the economy and the labor force. Analyses by Freeman (1983) and Dickens and Leonard (1983) reach similar conclusions. The implication is that something about the behavior of the parties changed over this time period and must be taken into account in order to explain this union decline.

(2) Important changes have also occurred in managerial strategies toward unions and collective bargaining. At no time since the 1920's has American management found it as socially and politically acceptable to embrace publicly a "union-free" approach. In contrast to previous periods, many companies now make union avoidance or union containment a very high priority. The pluralistic assumptions of industrial relations researchers which include a legitimate role for independent worker organizations appear not to be shared by the majority of American employers. This change in management's view has coincided with a rearranging of many firms' industrial relations/human resources function, transferring power from labor relations staffs to those human resource functions associated with union avoidance.

Perhaps the most significant development on the management side has been the rise of an apparent inconsistency in its relations with unions at different levels of the firm. It is often the case, for example, that management representatives in bargaining are maintaining a status-quo relationship in negotiations (or seeking plant level concessions) while corporate management follows an aggressive union avoidance policy with respect to the placement of new plants. At the same time shopfloor management works to promote worker involvement and participation sometimes with and sometimes without active local union cooperation. Contemporary theories have yet to address this apparent inconsistency.

(3) Along with the general decline in unionization has been the rise of a variety of experiments, usually at the plant level, that many argue represent alternatives, or perhaps supplements, to collective bargaining. These experiments involve various forms of worker participation (e.g., quality of working life programs and quality circles) and have been touted as the "New Industrial Relations" (Business Week, 1981) that will replace adversarial relations with more cooperative efforts. The rise of these practices and their variation across industries and firms are not explained by current theories.

(4) The pattern of collective bargaining outcomes also appears to have changed in recent years. It has generally been the case since World War II, for example, that changes in the terms and conditions of employment occurred steadily and were initiated by union demands. These improvements were then gradually transferred or "spilled over" to the nonunion sector. Increasingly, however, management has been taking the initiative in bargaining demands and

in introducing innovations in personnel practices in nonunion employment. In many cases, the introduction of new benefits, new forms of work organization, and a stronger commitment to employment continuity (Foulkes, 1980; Walton, 1981; Dyer, Foltman, and Milkovich, 1983) in nonunion firms appear to go beyond the simple goal of matching union gains in order to keep unions out. Further, the changes in contracts secured through collective bargaining now are often initiated by management demands which result in a sharp worsening of the terms and conditions of employment. These changes are associated with concession bargaining, and while environmental changes have contributed to the concession experience, at least some of the pressures appear to be independent of changes in the external environment (Cappelli 1983).

(5) The traditional role of government as a regulator of the process of rule setting, but not of the outcomes, has changed dramatically since the passage of the Wagner Act in 1935. The period between 1960 and 1980 was one of rapid expansion of government regulations of the terms and conditions of employment governing industrial relations. The inauguration of the Reagan Administration marked a sharp reversal in that approach and to some extent in government's role as a neutral in regulating the process of bargaining (Wanger and Klein 1983). These changes in government policy suggest the need for a reassessment of the government's role in the U.S. industrial relations system. (See the paper by Benjamin Aaron in this issue for further analysis of these developments).

#### The Challenge at Hand

Understanding these developments represents a major challenge facing the community of industrial relations scholars. We are not at



a stage where we can specify all of the elements of a theory that would explain satisfactorily these significant changes. We can indicate how the framework for thinking about industrial relations can be expanded and the role that strategic choice can play within this more complex paradigm.<sup>1/</sup>

We believe that a more realistic model of industrial relations should recognize first the active role played by management in shaping industrial relations (as opposed to the traditional, reactive view responding to union pressures) and second the different levels of decisionmaking that occur within business labor, and government organizations and their independent effects on industrial relations outcomes. This is why we believe the concept of strategy, or strategic choice, can help add a more dynamic component to systems theory and in so doing help explain some of the evolving developments in U.S. industrial relations.

One major difficulty with existing systems theory lies in its view that a shared ideology perpetuates the system. It is argued that the process of setting rules produces experts on both sides whose common experiences and interaction lead to shared understandings. This approach focusses on events at the bargaining level and therefore fails to recognize that important decisions are made also at other levels.

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<sup>1/</sup> The changes in theory that we will advocate are consistent with the process of paradigm shifts that occur from time to time in all scientific fields. Thomas Kuhn (1970) has argued that throughout history, the development of research paradigms within academic fields has generally been a conservative process where researchers extend successful techniques and arguments to related questions in the field. At some point, however, anomalies accumulate which cannot be explained by the current approaches. The research paradigm -- the accepted way of addressing problems in the field -- then changes because the old approach is unable to explain these accumulating anomalies. We believe that the Kuhn perspective is applicable to the current situation in industrial relations.

This is particularly so for management decision making. For example, even though the labor relations staff may share with union leaders a commitment to the process of collective bargaining, higher level corporate executives may not. At the time that Industrial Relations Systems was written, the firm was modeled as an extension of the entrepreneur where interests and decisionmaking were unified. Contemporary research has recognized the complex nature of firms where interests may vary both horizontally and vertically within the organization (Chamberlain and Kuhn, 1965; Walton and McKersie, 1965; Kochan, Cummings and Huber, 1976; Bacharach and Lawler, 1981).<sup>2</sup>

In passing, we should note that we are presenting neither a complete new theory of industrial relations, nor totally rejecting the systems' framework. Instead our purpose is to increase our understanding of the role played by strategic choices of the actors (particularly employers in recent years) as a concomitant influence with environmental forces and historical patterns of development. Nor do we contend that earlier industrial relations researchers totally ignored strategy as an important theoretical concept. Indeed, many of those writing prior to the 1930's and shortly after the New Deal were trying to understand and instruct management and labor on how to establish effective bargaining relationships. It was after the principles and basic structures of collective bargaining

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<sup>2/</sup> The diversity of interests within management organizations and the complexity of their decisionmaking has long been recognized by industrial relations and is increasingly being accepted by the social sciences. Our concern here, however, is more with the consequences of that decisionmaking than the process per se. For a discussion of how changes in the process of decision making both reflect and cause a decline in the power of labor relations professionals within management see Kochan and Cappelli (forthcoming, 1984).

became established that our attention turned away from the more discretionary models and relied more heavily on the influence of environmental pressures.<sup>3/</sup>

### The Concept of Strategic Choice

Strategic choice is a term used with increasing regularity in both economics and organizational research. An entire research field has grown out of Chandler's (1962) research on the relationship between strategy and structure, for example, and both industrial organization economists (Bain 1968, Porter 1980) and theorists of administrative behavior (Simon 1957, Braybrooke and Lindblom 1970, Cyert and March 1963) have sought to integrate the role of strategic choice into their models.

Various definitions of strategy have been offered in the literatures noted above. Rumelt (1979; 197) describes some of the different approaches:

The term 'strategy' has a range of related meanings and authors have generally felt quite free to use it quite idiosyncratically. For game theorists, strategies are concrete actions or rules for choosing actions in a conflict situation; for some strategy is 'high level' or 'long term' planning, while others see it as referring only to broad guage issues of 'mission'.

<sup>3/</sup> Contrast, for example, the perspective of Harbison and Coleman in Goals and Strategies in Collective Bargaining (1951) in which choice e.g., accepting the reality of unions and collective bargaining and working towards positive labor-management relationships versus the volume edited by Somers Contemporary Collective Bargaining (1980) that uses a systems framework to examine the nature of industrial relations on an industry-by-industry basis. The Somers symposium concerns itself with the well established categories of bargaining structure, strikes and bargaining outcomes, to mention just a few. Considerably less emphasis is given to the fact that many private sector companies were moving steadily in the union-free direction. The existing paradigm did not envision the possibility that key decisions were being made by management at a level above collective bargaining and that these decisions would ultimately undermine the stability of many labor-management relationships.

Still others use it to denote any decision that is 'important'. The concept of strategy....that has come to play an important role in the study of organizational guidance [consulting] contains elements of all of the above notions. Its special focus, however, is on the relationship between a whole organization and its external environment.

The applicability to industrial relations of these approaches to strategy is limited by two problems. First, most research on strategy uses the firm as the point of reference while the pluralist framework associated with industrial relations places equal emphasis on the interests and roles of unions and the government. Thus the strategic choices of each of these actors, and their interrelationships, must play a central role in industrial relations theory. Second, most of this literature focuses on the process of forming strategy rather than the actual content or outcomes associated with strategies. While we are not uninterested in the process of strategy formulation, a complete industrial relations theory should be capable of relating both the process and content of strategy making to the goal attainment of the various actors.

Our approach to strategic choice in industrial relations is further defined by two conditions. First, strategic decisions can only occur where the parties have discretion over their decisions, that is, where environmental constraints do not overpower the ability of the parties to choose alternative courses of action. Discretion exists in part because the goals of the parties are not always clearly defined or change over time. This is particularly so for unions whose goals reflect those of a changing membership, but it is also the case for management confronting specific business decisions such as the products and markets that it should pursue. Even where

these goals are stable and clear, discretion exists because there may be alternative strategies for pursuing those goals.<sup>4/</sup> Second, within the set of decisions where the parties have discretion, strategic decisions are those that alter the party's role or its relationship with other actors in the industrial relations system. The effect of this second condition is to eliminate from the definition those minor or trivial decisions over which the parties have discretion. It is important to note that the effects of these strategic choices on industrial relations may only be evident over the long run and may appear only indirectly and may not even be the result of a consciously articulated or preconceived plan (Weick, 1979; March and Olsen, 1976).

Our argument is that the identification of the strategic choices made by the parties will help to complete the systems framework and to explain many of the anomalies noted above. The diagram in Figure 1 illustrates the locations where strategic decisionmaking occurs. The columns of the matrix represent the three key actors who make strategic decisions -- employers, labor organizations, and the government. The rows represent the levels at which these decisions are made. The effects of these decisions, however, may appear at levels other than those where the decisions were made.

Strategic choices in the bottom row are those associated with workers as individuals or work groups and their relations with the work environment. They include the design of work organization and work rules, the actions of supervisors and shop stewards in workplace

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<sup>4/</sup> Hall (1982) and Caves and Pugel (1980) cite examples of firms in the same industries who pursue widely different strategies toward their common markets.

...ing and interactions, and public policies governing individual  
... at the workplace such as occupational safety and health or  
... employment opportunity laws. Strategic choices in the middle  
... are the familiar ones associated with the practice of collective  
... bargaining, and the implementation of personnel policy. Decisions at  
... top tier represent to some extent a new frontier in industrial  
... research. Many of the choices at this global level are  
... familiar to European systems where, for example, tripartite  
... relations between the government and union and employer  
... relations (e.g., Sweden and Austria) are common over industrial  
... relations issues. The tradition of business unionism may make the  
... cell more or less empty in the U.S., however, this too may be  
... changing in situations where unions are now pressing for a more  
... significant role in management decisions regarding investment, union  
... participation, introduction of new technology, controls over  
... purchasing or subcontracting, and the design of work organization  
... in new plants. One could also see changing government  
... policies toward union organizing as representing key strategic  
... decisions by government. Business decisions usually thought of as  
... state prerogatives -- which markets to pursue, where to locate  
... plants, and whether to make or buy components -- would fill the  
... empty cell.

It would be extremely time-consuming to enumerate all the  
... possible strategic choices that could fit in each of these cells, and  
... few of them would be relevant for a given system at a particular  
... point in time. We believe that at present the most important of  
... strategic choices have been those made by management,  
... particularly those associated with the top tier of the framework.

Indeed, we believe that it is largely the strategic decisions of management that have initiated the process of fundamental change in the parameters of the system. Thus in the remainder of this paper we will focus on managerial decisions in this top tier and leave analyses of choices made by other actors and at other levels of the system to a future time.

In focussing on the role of management decisionmaking in industrial relations, we join a growing trend in U.K. research (Purcell, 1981; Gospel and Littler, 1982; Winchester, 1983; Purcell, 1983; Sisson, 1983). But while the British literature concentrates on strategic decisions at the bargaining level, our concern is with all three levels of the system.

#### Markets, Business Strategies, and Industrial Relations

Shifts in business strategies are both affected by the current state of industrial relations and in turn affect future industrial relations outcomes at all three levels of the firm. The key to understanding the dynamics of an industrial relations system during periods of significant change in product markets lies in understanding how market shifts interact with business strategies and prior or current states of industrial relations. Several propositions are outlined below to illustrate the types of interactions we have in mind.

Changes in the competitive environment can occur gradually as products change in response to changing consumer demand (e.g., the shift to small cars) or as low-cost competition grows. The environment can also change abruptly because of competitive shocks such as the deregulation of the trucking or airline industries or the introduction of new products (radial tires) and technologies (direct

casting). Regardless of the cause, a sharp increase in competitive pressures forces firms to make a series of decisions whose effects reverberate through the organization and its industrial relations system.

The sequence of decisions set in motion by an increase in product market competition are illustrated in flow chart form in Figure 2. First, the firm must reassess its commitment to the line of business it has been in and decide whether it wants to attempt to compete in the new environment or to withdraw and reallocate its capital resources elsewhere. Second, if the firm chooses to remain active in the market, adjustments in its competitive strategy may be needed. The major strategic decision for firms who remain in their more competitive market is whether to compete on the basis of low prices and high volume or to seek out specialized market niches where a price premium can be supported (Hall 1982). The evolution from a growth to a mature product market, for example, typically forces firms to be more competitive with respect to prices. This leads them to shift their emphasis in industrial relations away from maintaining labor peace in order to maximize production to one of controlling labor costs, streamlining work rules, and increasing productivity in order to meet growing price competition (Slichter, 1941; Livernash, 1962; McKersie and Hunter, 1973; and Kochan and Katz, 1983). The pressure to control or lower labor costs is especially intense if a firm decides to attempt to compete across all segments of its product market on the basis of low prices.

Third, the strategic choices made by firms that remain in the market require them to rearrange their capital in order to take advantage of new profit opportunities. This process has been



described by Schumpeter (1950) as the creative destruction of capital. One aspect of this rearrangement which has clear implications for industrial relations is the choice of production technology (e.g., degree of automation, the mix of required job skills and the level of control dictated by the technology). Another choice is whether to reinvest in existing facilities or to reallocate resources to new locations such as "greenfield" sites. This decision is influenced by the state of industrial relations in existing plants and by the potential situation at alternative sites. As will be illustrated below, management can use this choice to alter the pattern of union organization within the firm and to change the process of collective bargaining.

Related to the decision about the direction of investment is the decision concerning the speed of capital movements (Bluestone and Harrison, 1982). Some companies opt for a rapid shift, with a wholesale termination of old facilities in favor of new locations. Others shift capital more gradually and may match the rundown of financial resources to the attrition of human resources (McKersie and Klein, 1983; Verma, 1983).

Finally, changes in business strategy and their related production decisions affect the viability of existing organizational structures, particularly, the extent of vertical integration. The firm may reconsider which components of the final product it should make and which it should buy (Williamson 1975). Components that were produced internally may now be available at lower cost from new producers operating with more sophisticated technology and perhaps lower labor costs. The decision to "outsource" components to subcontractors has clear consequences for the existing workforce and for industrial relations.

While these business strategy decisions are typically made unilaterally by management, they are influenced by the history and current state of industrial relations in the firm and the industry. Indeed, it is important to consider not only the firm's own situation (the cost and predictability of its labor supply) but also the relationship between its industrial relations and the industrial relations characteristics of its competitors. The most important consideration here is whether wages and labor costs have been taken out of competition (Commons, 1919). Specifically, the motivation to alter either existing collective bargaining outcomes or to avoid unions altogether is in part a function of the degree to which the parties have been able to take labor costs out of competition. The ability of firms to pursue nonunion options is, in turn, inversely related to the current level of unionization in the firm and is directly related to the extent to which collective bargaining is decentralized.

#### Firm Level Examples

We will now attempt to illustrate the explanatory power of these propositions by reviewing how several firms have adjusted to shifts in their competitive environments given differences in their industrial relations histories and current situations.

#### Adjustments in Decentralized/Low Union Environments

In firms where union coverage is low or where bargaining is decentralized, it is difficult for unions to confront management at a high enough level to influence the process of corporate decisionmaking. These are common features of many collective bargaining relationships in the U.S. manufacturing and service

sectors. In these situations one often finds management adjusting to a more competitive environment in ways that undercut the union's position. Perhaps the most important method for doing so has been to shift production capacity away from unionized operations. An executive at one major chemical company, for example, noted that while relations with established unions had not been antagonistic, the company was nevertheless moving actively down the road toward nonunion status. This change resulted from new sites being started and continued on a nonunion basis while independent and international union sites, most of which were older and manufactured more mature products, underwent attrition. In addition, the company also made efforts to ensure that bargaining at the remaining unionized plants remained decentralized and therefore did not impinge on the company's corporate decisionmaking.

This experience parallels many other diversified firms that expanded through either opening new plants or through acquisitions since 1960 (Verma and Kochan, 1983). The move to establish competing plants (often referred to as satellite or sister plants) brought advantages to these firms both in union avoidance and in reducing the leverage of existing unions in bargaining by providing an alternative source of supply during a strike. The recent era of increased competitive pressure has accelerated the movement of investments and jobs to nonunion plants as illustrated by the following summary that Cooper Industries, a large diversified manufacturing firm provided in a meeting with stock analysts (Kidder-Peabody, 1983; 3):

Approximately 50% of Cooper's workforce is unionized but the percentage has been declining as Cooper has relocated facilities from high-to-low labor cost areas. Cooper strives to provide wage rates that are competitive in the community in which

the plant is located, but these rates must also be competitive within the industry. Where the latter criterion is not possible and the union is unaccommodating, Cooper will relocate the plant. In the past 15 years, 18 plants have been relocated from high-to-low labor cost areas, with another six moves in progress. Of the 18 plants already relocated, 15 of the newly opened plants are nonunion.

The links across decentralized bargaining, plant location decisions, union avoidance and a low cost competitive strategy are even more vivid in the case of Emerson Electric as noted in the following excerpt from Business Week (1983;61).

Several of [the previous president of Emerson] legacies remain integral elements of Emerson's philosophy. He pioneered the company's 'Southern strategy,' pushing its manufacturing out of highly unionized St. Louis into small plants scattered across the South. Today, most of the company's 116 plants (average size: 150 employees) are located in the mid-South. The company, which ties 10% of its division managers' bonuses to keeping plants union-free, has proven unusually adept at this practice: It has lost just one of 34 organizing campaigns over the past decade. Today Emerson's wage costs are 17% less than General Electric Co.'s.

These examples illustrate the dynamics of a decentralized industrial relations system operating in firms that diversify, emphasize low labor costs, and follow a union avoidance strategy. The changing patterns of industrial relations found at General Electric further amplify the evolution of this pattern over an extended period of time.

From the late 1930s until the end of World War II, General Electric sought to develop cooperative relationships at the plant level with the local unions representing its employees. This was consistent with its broader strategy of decentralizing management to the division level. This decentralizing strategy continued through the growth and diversification stages the corporation experienced

during the period 1950-70 and carried through various shifts in G.E.'s labor relations strategy before, during, and after the "Boulwarism" period. This decentralizing strategy allowed the firm to open new plants on a non-union basis. Even though the various unions representing G.E. workers were successful in centralizing negotiations through coordinated bargaining, a substantial fraction of G.E.'s capacity was not included. More significantly, the unions were never successful in either organizing the newly opened plants nor in obtaining a "neutrality" or other voluntary recognition agreement with G.E. at the corporate level. As a result, the percentage of production workers under union contract has fallen steadily (although the exact numbers are not available, the number of G.E. workers belonging to the International Union of Electrical Workers [IUE] has declined from a peak of 80,000 to 54,000 in the past two decades.)

#### Adjustments in Centralized Structures/Highly Unionized Environments

Unions are more likely to influence the process of strategic decision making in firms that are highly unionized and where bargaining is centralized. For example, a major realignment of industrial relations occurred in the trucking and airline industries, as existing firms adjusted to the competitive shocks introduced by deregulation and the entrance of new and smaller competitors. Both of these industries had been characterized by high levels of unionization and centralized bargaining. In trucking, the National Master Freight Agreement, covering most major over-the-road unionized carriers, provided the centralization, while in airlines, it was the effect of pattern bargaining across the major carriers by a few dominant unions and the existence of a mutual aid pact that provided

the stability prior to deregulation (Northrup, 1983). In the aftermath of deregulation, both industries have experienced an influx of new specialized firms competing for parts of the market on the basis of lower costs and non-union status. The nationwide character of collective bargaining agreements prevented existing carriers from simply moving their operations to nonunion sites as some manufacturers have done.<sup>5/</sup>

Another arrangement for reducing labor costs was concession bargaining which was pursued on both wages and work rules by nearly all of the unionized firms in airlines and trucking. In addition, many carriers in both industries attempted to establish non-union subsidiaries to compete against the new entrants. The net result was a general industry-wide scramble to lower labor costs with the specific focus of the cost reduction effort varying depending on the extent to which the firm attempted to compete directly in the markets being overtaken by the new nonunion firms. In the trucking industry, the Teamsters represent virtually all unionized employees, and they were able to use this centralized position to secure

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<sup>5/</sup> The degree to which capital decisions are location-bound exerts an important intervening influence between business strategies and industrial relations options. In some industries, assets are quite "fixed" and reinvestment or new investment must be made at existing sites. The steel industry is an important case in point. A steel company can choose to shift investment (e.g. U.S. Steel buying Marathon Oil) but it cannot open a greenfield site very easily as a way of dealing with high labor costs. Over time as the economic environment changes and the sluggishness of the centralized, highly unionized structure to adapt produces a widening of the competitive gap, new business options start to emerge. In the steel industry these new options took the form of: (1) deintegrating production (e.g. importing slabs and modernizing the finishing mills) and (2) downsizing (mini mills with electric furnaces and direct casting). This latter innovation has been pioneered primarily by new companies that have operated on a non union basis.

limitations on double-breasted operations as part of the nationwide Master Freight agreement. There is no equivalent centralization of union power or of bargaining in the airlines, however, and only in a few instances have the airline unions been able to secure the same tradeoff.

While the source of economic pressure has been different, the auto industry also has experienced severe shocks. The difference between the auto industry and the previous examples, however, is that the United Auto Workers (UAW) position in the industry has been strong enough to influence many of the corporate decisions that might otherwise have undercut its position. In the face of significant increases in competition from imports in the past decade, the three major U.S. auto firms each decided to continue competing across the full spectrum of the product market. However, the growth in imports meant that not only were labor costs no longer taken out of competition, labor costs became one of the vital sources of competition with the Japanese. Since the UAW represents all production workers of these firms and has negotiated agreements which grant voluntary recognition to the union in any new auto plants opened, the companies were not able to shift capacity to non-union plants.<sup>6/</sup> The companies still had the ability to outsource, however, but the union was able to force auto management to negotiate over that option and prevent it from being used to further undercut the union's position.

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<sup>6/</sup> Significantly, General Motors attempted during the early 1970's to keep a number of new plants unorganized under a program that has come to be called the "Southern Strategy" but the UAW responded to the challenge and possessed the bargaining power to compel General Motors to agree to an accretion clause providing automatic recognition to the UAW at all new GM auto plants.

This constellation of product market changes, business strategies, and industrial relations characteristics produced the following adjustments in autos since 1980: (1) concession bargaining on wages and fringe benefits in return for more significant involvement of union representatives in corporate decision-making through such arrangements as mutual growth forums to share information at GM and Ford, and formal representation on the Board of Directors at Chrysler; (2) various joint efforts to stabilize employment through limits on outsourcing and experimentation with plant level "pilot employment guarantees;" (3) major investments in new technology for both existing and new plants, and; (4) renewed and expanded QWL processes at the workplace that are focused on product quality and productivity improvements, work redesign and reorganization, and cost reduction.

The auto industry illustrates how the search for lower cost options in a highly unionized environment can produce a broadening of the bargaining agenda and new forms of union-management interactions at both the workplace and at the level of corporate strategy. The key factor producing these results, however, was the ability of the union to prevent certain strategic choices and to influence the process of corporate decisionmaking.<sup>7/</sup>

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<sup>7/</sup> Our use of the automobile industry example treats business strategy as being uniform across the major companies. We know, however, that this is not the case. For example, Ford Motor's response to product market changes has resulted in more cooperative labor-management relations (what the parties call the new partnership) than General Motors'. Whether this difference stems from differences in personalities, corporate history or economic circumstances (e.g. Ford purchases approximately 50% of its components from sub contractors compared to approximately 30% at General Motors and consequently Ford has the flexibility to pull work back in house to meet employment assurances) we are not in a position to say. Further discussion of recent developments in labor relations in autos is found in Katz (1982).



The experience of Xerox Corporation reflects a situation where a change in the competitive environment has combined with a history of cooperative labor relations to produce innovative strategies for confronting the competition. Xerox has been prominently featured in the business press in recent years as a prime example of a firm moving from a growth to a mature and more highly competitive market for its main line of business, office copiers. Between 1970 and 1981 Xerox's share of the office copier market fell from 96% to 46% (Business Week, 1981). In adjusting to this new competitive environment in the early 1980s, Xerox decided to: (1) remain active in all segments of the copier market (as well as to diversify into other office automation markets); (2) shift its competitive strategy from being a price leader to competing on the basis of price, and; (3) significantly reduce its manufacturing costs by reducing its blue and white collar labor forces and taking other steps to reduce labor costs and increase manufacturing productivity.

Production workers at Xerox (in their major manufacturing facilities in Rochester, New York as well as in other small units scattered about the country) are represented by the Amalgamated Clothing and Textile Workers Union. The union and the company have enjoyed a long history of labor-management cooperation dating back to the voluntary recognition of the union by the company in the 1940s. Bargaining is carried out on a relatively centralized basis by setting the basic pattern in Rochester and then applying it to the other facilities. Union leaders have access to top corporate decision makers both indirectly through the corporate director of industrial relations and directly through periodic meetings with top

corporate executives. In 1980 the union and the company embarked on a jointly administered quality of working life (QWL) experiment, prior to the shift in business strategy by the company.

The implementation of this new business strategy in the context of an industrial relations system characterized by centralized bargaining, union-management cooperation, and an evolving QWL process led to the following events between 1981 and mid-1983. Large scale layoffs shrunk the bargaining unit by approximately 25%. The QWL process expanded from a narrow quality circle focus to one that examined ideas for altering the work organization in ways (structure of jobs, work layout, job assignments and, team decision making) that directly lowered costs and increased productivity. A new collective bargaining agreement was signed in 1983 that broke the prior pattern of regular wage and fringe benefit improvements by freezing wages in the first year and increasing wages only one and two percent in the second and third years respectively. In return, the union received a no layoff commitment and a commitment from the company to maintain the job base in Rochester and to continue to support and expand the QWL process.

The Xerox case therefore is consistent with the proposition that given increased competition from a maturing product market and a strategic business decision to stay and compete in all segments of the market on the basis of price, a firm necessarily must take steps to lower costs and improve productivity. In the face of a commitment to continued acceptance of the union, changes designed to lower labor costs and improve productivity were implemented through collective bargaining and through jointly administered changes in the organization of work at the workplace that grew out of a cooperative union management QWL process.

## The Tire Industry

The above examples illustrate ways in which corporate strategy decisions both affect and are affected by industrial relations within the firm. By looking at a single industry over time, however, it is possible to illustrate more clearly the proposition that firms facing the same environmental changes can vary in their business strategy responses. These responses, in turn have differential consequences for industrial relations in the various firms. Thus, we now briefly examine variations in corporate responses to the same market changes within a single industry, rubber tires.

### Industrial Relations Background

The experience of the rubber tire industry parallels that of similar manufacturing industries that have made up the "core" of union strength in the U.S. The United Rubber Workers (URW) have historically held a position of great power in the tire industry, organizing virtually every plant, enforcing tight master agreements within the industry, and both helping to set and enforce pattern bargaining with powerful unions elsewhere (Eckstein and Wilson, 1963; Maher, 1960). The industry then was dominated by four large producers (Goodyear, Firestone, Goodrich, and Uniroyal) who together accounted for 85 percent of industry sales. Competition within this group was fierce, however, and was based on price competition and efforts to increase market shares. Although the union had effectively taken wage costs out of competition by completely organizing the product market, the uncertainty caused by poor labor relations was a continuing problem for the industry. There were major strikes in thirteen out of seventeen rounds of negotiations

between 1950 and 1979. At the plant level, shopfloor disputes were a constant threat to disrupt production (Kuhn 1961). Developments in the product market, however, would soon present opportunities for diminishing the bargaining power of the workers, thereby eliminating one of the main facilitating factors for those disputes.

#### Product Market Change

The key change in the product market began with the growing acceptance by consumers of higher-priced radial tires, a trend that started with imports from companies such as Michelin and caught domestic producers off guard. Direct cost competition from a nonunion (therefore non pattern following) producer became a factor in the 1970s when Michelin opened its U.S. manufacturing plant in South Carolina. Radial tires rose from two percent of the market in 1970 to 55 percent by 1980. Since new equipment was needed to build radial tires and meet that demand, domestic tire companies were confronted with two options: They could retool existing bias tire plants or build new radial plants. While retooling might a priori seem to be the simpler route, building new plants had several industrial relations advantages: the backlog of restrictive practices and the climate of antagonism at the plant level could be eliminated, and the plants could be opened on a nonunion basis.

The firms that chose to compete in this new market generally pursued the option to build. Between 1970 and 1980, ten new radial plants were constructed, all in the south. The union was able to organize only two of the ten plants. The few bias plants that were retooled were also in the south. Thus, union coverage of the industry fell from 95 percent to 80 percent during the mid 1970's.

## Interfirm Variations in Business Strategies

By the mid-1970's, total demand for tires had declined, partially because radial tires lasted longer but also because imported cars cut into the demand for U.S. cars and tires. Further, there were indications that low-cost, foreign tire makers might make inroads directly into the U.S. domestic tire market. During this period the four biggest companies each made business strategy decisions that would change the long-run direction of their operations, increase variability in the industry and, therefore, lead to greater variability in industrial relations.

Goodyear, the industry leader in price and quantity, decided to push to further dominate the market for tires. It would compete in every market and would meet the foreign competition by price-cutting (Business Week, 1982). Goodyear was in the best position to do this because it had established in the early 1970's a new radial plant in Lawton, Oklahoma that it successfully kept nonunion. In addition, a significant portion of its capacity was off cycle with respect to the pattern, e.g., Kelley Springfield. Goodyear also needed to automate if it was to become the world price leader, and while it generally was not threatening plants with shutdowns (it closed only two plants), it was offering to enhance the security of their operations by investing in plants -- but only in return for work rule concessions. For example, Goodyear secured work rule concessions in Topeka, in Gadsden, Alabama (for new radial operations), and in Akron (for a new airspring plant) before any of this investment began.

Firestone decided that it could no longer hope to compete and be a price leader in every tire market. It chose to consolidate its operations, close off certain tire lines and emphasize those in which

it could maintain a high market share (Business Week 1982).

Therefore, Firestone had the biggest employment rundown, closing five plants after 1973, each with over 1,000 employees. It was also the most successful at getting concessions at the plant level where it implicitly played plants off against each other in an effort to get them to cut costs. It was able to get concessions because the shutdown threat was clearly credible and because Firestone was also staying in the tire business; thus, there was some chance that cost-cutting might save the plants.

Goodrich had begun a slow move away from the tire business some years before by diversifying into other products. By 1985, Goodrich planned to have only 40 percent of its business in tires. It decided to withdraw further from the tire business, getting out of the competitive market for original equipment and concentrating in a few high-quality lines where volume was smaller. Unlike Firestone, however, Goodrich was less successful in negotiating plant level concessions since it had already consolidated much of its tire operations and had fewer marginal tire plants left to play off against each other. Furthermore, unlike Goodyear which depended on the leverage and low costs of its nonunion and off cycle plants in order to compete on price in all segments of the market, Goodrich agreed in 1979 to a neutrality clause in organizing drives at any new tire plants. This was a rather costless agreement since the company's business strategy did not call for building any new tire plants. Significantly, during the early 1970's when the other major companies were adding non union capacity Goodrich did not follow suit. As a result, it enjoyed the most amicable relations with the URW during the 1970's but it also found itself unable to pursue a high volume-low cost strategy.

Uniroyal was in the worst financial position. Having grown by acquisition, it found itself competing in the full tire range but without the volume or the modern low-cost plants to match competitors' prices. Uniroyal moved close to bankruptcy and was forced to cut losses and product lines quickly (Forbes, 1981). It closed three of its five plants but was less able to obtain concessions because of the pressure to cut its losses quickly.

The effects of these different business responses to new market conditions were to produce plant-level variances in company master agreements, to break up the uniformity of those agreements, and make to them more specific to the circumstances in individual plants. The decisions to consolidate productive capacity gave management a means for securing changes in plant-level industrial relations where the greatest problems had existed.

The different business strategies chosen by these firms also had a clear influence on the outcome of national negotiations in 1979. The first development was that Firestone agreed to withdraw from the industry's mutual aid pact in return for a no-strike, no-lockout agreement and the promise to accept the industry settlement. This action effectively abolished the mutual aid agreement. The pact required, among other things, that the members fill the orders of the struck firm's customers. This became increasingly difficult to do as the firms began to pursue different product lines and markets. With these changes, they were also less in need of the protection offered by mutual aid pacts because they were less in competition with each other.

The second major change was the breaking of a "followership" settlement pattern that had been established with the auto industry. That pattern had been established and maintained largely because the product market for tires was so closely tied to that for autos (labor cost increases for original equipment tires could be passed on to new car prices). Goodrich had been chosen by the union to set the pattern agreement, but it had made a business decision previously to get out of the competitive original equipment market and thus their product link with the auto industry was broken. The terms of the Goodrich settlement deviated significantly from the auto pattern, at least in part because the protection offered by the product market pattern had been broken.

In summary, industrial relations in the tire industry has undergone significant changes in the past few years, changes that have been driven directly by strategic business decisions made at the corporate level. The overall decline of unionization, the decay of uniform, multiplant contracts, the end of the mutual aid pact, the break with the auto settlement, the breakdown of uniformity in the industry agreement and the intensive efforts to change workrules to achieve more flexible and lower cost work organization systems that could compete with nonunion plants can all be traced to these strategic business decisions. Moreover, variations across firms in the size and types of concession agreements achieved also reflected differences in the competitive strategies of each firm and the markets in which they were trying to participate.

In this industry and in others like it, the important element in industrial relations has not just been changes in the environment, but diverse decisions made at the corporate level to adjust to a



changing environment. Our thesis, which the rubber industry illustrates, is that a complex interaction occurs between a more demanding competitive environment and the shaping of key business decisions -- at the same time, these factors are interacting with industrial relations factors to produce more options and diversity. Thus, a complete explanation of the changes in industrial relations that have occurred among the firms in this and other industries requires consideration of additional variables than those envisioned within the traditional industrial relations systems type of analysis.

#### Strategic Choices of Labor and Government Actors

Although we stress the effects of managerial strategies in this paper, under different environmental conditions either union or government strategies could serve as the catalyst for change. The theoretical argument developed here would apply equally to these other actors. That is, should the economic and political environment shift in ways that put unions in more powerful positions, there is no reason to assume that the only union reaction would be a singular effort to recoup their economic concessions at the bargaining table. Instead, some unions may broaden their scope of interests and efforts to seek more direct participation or influence in corporate strategic decision-making and/or in worker participation processes at the workplace. Some union leaders (Joyce, 1981) clearly recognize that the future of the labor movement requires more active participation in strategic decisions affecting worker interests that heretofore have been left to management. Likewise, we have seen major changes in the industrial relations policies and strategies of the current Administration and there is good reason to believe that a countervailing swing in government labor policies could occur if an

Administration with closer ties to the labor movement were to be elected. Thus, understanding the consequences of strategic choices of all the key actors represents an important frontier for industrial relations theory, and one that we have only begun to address in this paper.

Finally, while we have stressed the dynamics set off by changes in the environment which lead to changes in the top tier of strategic decision making, other equally important environmental changes are leading to new choices in the design of work systems at the bottom or workplace tier of our framework. The rise of flexible work systems (Piore, 1983; Walton, 1982; Kochan and Katz, 1983) in response to more specialized product markets, new technologies, and behavioral science innovations is currently leading to changes in the organization of work and the structure of compensation and progression ladders in both union and nonunion firms. Thus, future research needs to look not only at the effects of strategic choices that filter down from the top of organizations to affect collective bargaining and the workplace, but also at changes at the workplace that have implications for collective bargaining and higher levels of decision making as well.

#### Implications for Future Research

This paper provides a preliminary sketch of the framework we are developing to explain and interpret the changes that have been occurring in the U.S. industrial relations system. A strategic choice model has been presented in an effort to explain interfirm variations in industrial relations practices at the levels of corporate policy making, collective bargaining, and workplace interactions. The framework supplements and modifies the concepts

relied on by industrial relations systems theorists. Strategic choice is not a complete substitute for the explanatory power of environmental variations or changes, bargaining structures and organizational characteristics but an important additional and heretofore neglected intervening variable that is needed to help explain the dynamics of industrial relations systems.

Further analysis is also needed to better document the importance of values and ideology as explanatory variables independent of market forces and strategic choices. It is clear, for example, that the union avoidance preferences of American managers are deeply rooted in their value systems and ideology (Bendix, 1956). Thus, the growth in union avoidance strategies or policies is only partly explained by changes in the ability and the motivation of employers to carry through on their preferences.

In future work we need to examine the inter-relationships among strategies adopted at different levels of a firm. Two hypotheses we plan to pursue more fully are that: (1) instability is more likely when internal contradictions (Kochan and McKersie, 1983) exist among the strategies followed across the three levels within a firm, and (2) more significant and lasting changes occur when there is both internal consistency in strategies at the three levels and a match between the strategies of one actor (management) and the other actors with which it deals (unions and the government). Another way to state the issue is to contrast two prevalent profiles: Will more stability occur in decentralized structures in which employers pursue a union free strategy at the corporate level along with programs to achieve labor management cooperation at the plant level, or in centralized and highly unionized structures where management and

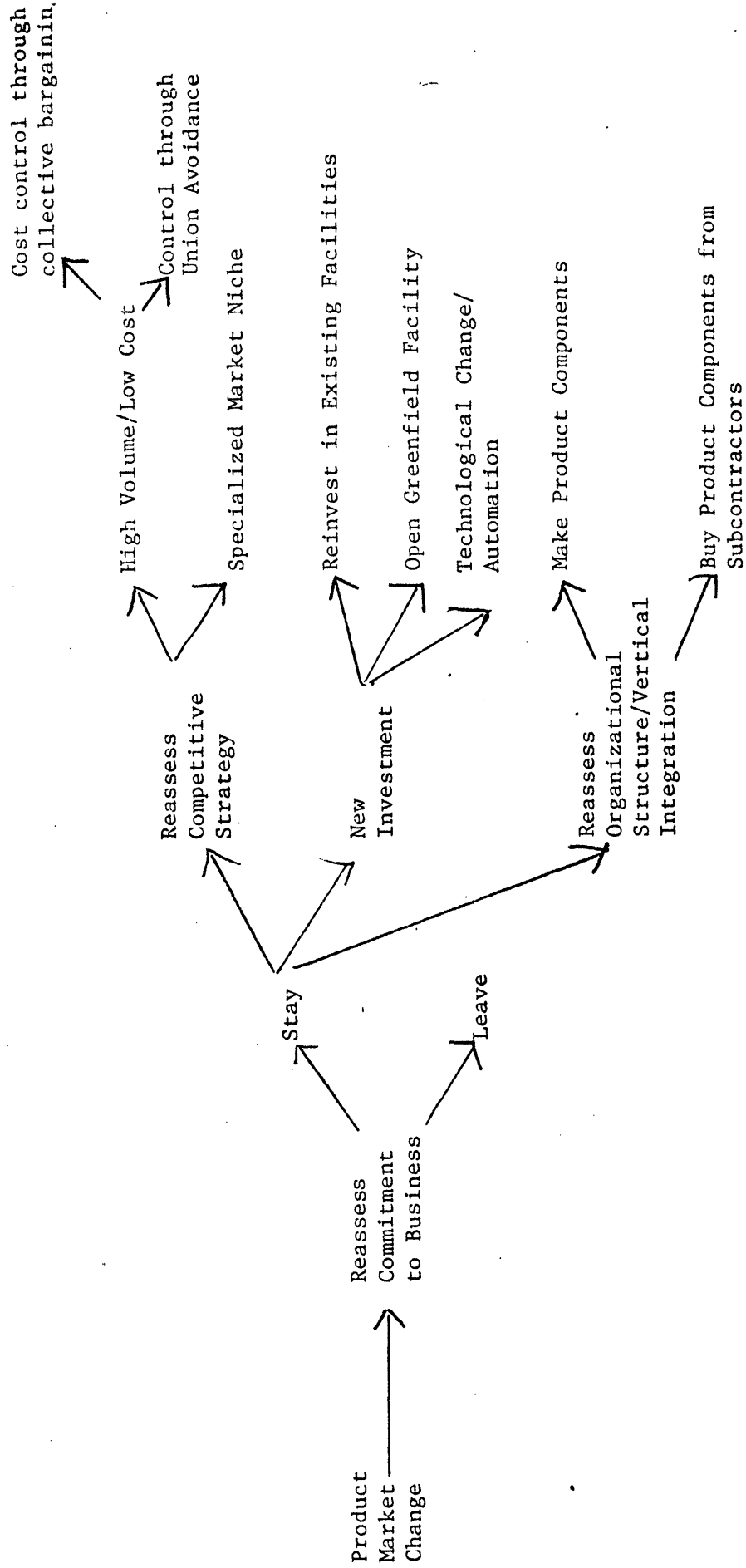
labor search for a coherent and integrated strategy for shaping their practices at all three levels of industrial relations? In the 1960s and 1970s it appears that the decentralized and low unionized firms adapted to increased competition steadily and gradually by opening nonunion greenfield sites and by using comprehensive and innovative personnel policies to reinforce their business objectives as well as to further their union avoidance objectives. In contrast, the highly centralized/highly unionized sector appeared to be rather static during this time period with industrial relations occupying a more isolated, defensive, or protected role within the firm. In the 1980s, however, the increased economic pressures facing these firms shattered this stability leading some firms and unions to attempt to restructure their relationships (as in autos, telephones and at Xerox).

Further research will be needed to answer the questions just posed and to transform the framework presented here into a more full bodied theory complete with testable propositions. However, more is at stake in this type of analysis than just the need to develop better interpretative theory. If we are correct that fundamental change is underway in the basic parameters of the U.S. industrial relations system, then the strategic choices the parties make at this critical moment in history will have profound and perhaps lasting effects on the conduct and performance of our industrial relations systems at the level of the firm as well as for society as a whole. For these reasons we must meet the challenge of accurately interpreting current developments in a way that helps better inform practitioners and policy makers about the consequences of alternative

FIGURE 1  
Industrial Relations Strategy Matrix

	Employers	Unions	Government
Macro or Global Level for the Key Institutions	The Strategic Role of Human Resources, Policies on Unions, Investments, Plant Location, New Technology, and Outsourcing.	Political Roles (e.g. relations with Political Parties and other Interest Groups), Union Organizing (e.g. neutrality and corporate campaigns), Public Policy Objectives (e.g. labor law reform) and Economic Policies (e.g. full employment).	Macro Economic and Social Policies, Industrial Policy (protection vs. free trade).
Employment Relationship and Industrial Relations System	Personnel Policies and Negotiations Strategies.	Collective Bargaining Policies and Negotiations Strategies (employment vs. income).	Labor and Employment Standards Law; Direct Involvement via Incomes Policies or Dispute Settlement
Work Place: Individuals and Groups	Contractual or Bureaucratic or Individual Employee Participation or Work Group Emphasis.	Policies on Employee Participation, Introduction of New Technology, Work Organization Design, etc.	Regulations of Worker Rights and/or Employee Participation.

FIGURE 2  
 SEQUENCE OF BUSINESS STRATEGY  
 DECISIONS AFFECTED BY PRODUCT  
 MARKET CHANGES



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