HUMAN RESOURCES, ORGANIZATIONAL GOVERNANCE AND
PUBLIC POLICY: LESSONS FROM A DECADE OF
EXPERIMENTATION

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Lessons from a Decade of Experimentation

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Introduction

The past decade witnessed a tremendous amount of experimentation and innovation in human resource practices and labor management relations. We use the term "experimentation" rather generously here since most of the changes were not planned in some predetermined or careful fashion but instead were induced by the economic pressures and structural changes felt by firms and their employees in the early 1980s. Moreover, not all of the changes prompted by these pressures proved to be effective long run responses to the altered environment. But enough experience has now accumulated to sort out the key lessons that, if accepted and acted upon, can translate the experimental results into sustained transformations in organizational practices.

Over this past decade, faculty and graduate students affiliated with the Industrial Relations Section at MIT have devoted a great deal of effort to analyzing these developments and assessing their implications for theory, organizational practice, and public policy. This paper will draw on the results of those studies to explore their implications for the broader domains of technology and competitive strategy, organizational governance, and national policy. These extensions are appropriate since we see a close interrelationship between human resource policies and innovations, organizational governance, and national labor and human resource policies.

In the following sections we summarize the key lessons derived from the innovations in human resource and labor-management practices introduced in the 1980s. We then pose a series of challenges to traditional organizational

governance arrangements and national policies affecting the employment relationship that need to be addressed if these innovations are to spread to the point that they produce significant and enduring benefits to the national economy. But first, we need to outline the theoretical reasons why fundamental changes in human resource management and industrial relations policies and practices have been necessary.

Human Resources and National Competitiveness

There is growing recognition that for enterprises in advanced industrial societies to compete effectively in a world economy defined to mean: maintaining and improving the standard of living requires that firms develop and fully utilize their human resources (c.f. Cyert and Mowery, 1986; Dertouzos, Solow, and Lester, 1989; Marshall, 1987; Walton, 1987). To do so in a world of shortening product life cycles, intensified price competition, greater specialization in product markets, and rapid advances in technology requires human resource practices that support (a) development of a well educated and highly motivated and multiskilled workforce, (b) high levels of participation in problem solving and continuous improvement in productivity and quality, (c) and sustained labor-management cooperation.

Yet these are not characteristics that traditional industrial relations policies and personnel practices were designed to produce. The needs of workers, employers, and the society were quite different in the 1930s when the industrial relations system as we know it today first took shape and eventually became institutionalized following the passage of the New Deal labor legislation. The major goals and achievements of the traditional industrial relations system included (a) the steady improvement in wages and working conditions, (b) diffusion of professional personnel management practices, (c) achievement of

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industrial peace (though not necessarily sustained cooperation) through collective bargaining, (d) a high degree of skill specialization and extensive division of labor, (e) standardization of wage rates and labor costs in the major manufacturing sectors, and (f) protection of management's right to make the strategic or entrepreneurial decisions and to direct the enterprise.

Changes in the 1980s: Innovation and Confrontation

The most forceful pressures for change in the 1980s originated from changing technologies and product markets (imports, deregulation and shortened product life cycles) (Piore and Sabel, 1984). Thus, it is not surprising that employers were the dominant actors and initiators of changes in industrial relations and human resource practices in the 1980s (Kochan and McKersie, 1983; Doyle, 1989). Employer initiatives in the 1980s took on the character of a double edged sword--on one side employers introduced fundamental changes in human resource practices designed to upgrade the status and influence of personnel practices in corporate decision-making and to foster greater employee participation and labor-management cooperation. In both union and nonunion organizations line managers and top executives asserted greater responsibility for initiating and directing changes in human resource practices (Freedman, 1984; Kochan, Katz, and McKersie, 1986). The professional literature was replete with arguments urging management to upgrade the status of human resources by integrating human resource planning with strategic planning and decision-making (Craft, 1988). "Strategic human resource management" replaced the study and practice of "personnel management" (Frombrun, Tichy, and Devanna, 1984; Schuler, 1989; Dyer, 1988). These works, and the various case studies on which they were based, suggested that at least some American firms were indeed evolving, as Walton and Lawrence (1985) characterized the

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transition from a traditional human resource strategy that emphasized "control" to one that emphasized "commitment."

At the same time, however, spurred by threats of low wage competitors and hostile takeovers and the opportunities offered by a weakened and declining labor movement, significant numbers of both union and nonunion employers implemented wage concessions, major workforce reductions, and more aggressive, sophisticated, and open union-avoidance policies (Kochan, Katz, and McKersie, 1986). The maturing of product markets and the drive for leaner staffs led a number of major firms to abandon their longstanding commitments to employment security for blue and white collar workers (Foulkes, 1985).

Moreover, as noted in the Useem paper in this volume, general downsizing and restructuring produced significant numbers of layoffs and severance programs to reduce white collar and managerial workers. The net result of these changes in managerial labor markets and organizational staffing patterns, however, is rather puzzling. On the one hand, as might be expected, given teh pace of organizational restructuring, the ratio of white collar to overall unemployment increased in the 1980's from 52% in 1980 to 64% in 1989. At the same time, the 1980's also witnessed a significant expansion in income differentials between high level managers and middle managers. And for non-supervisory workers not only did income differentials expand, but real wages declined approximately 9%. Yet, despite all of the restructuring and downsizing of management, white collar productivity decreased in the 1980s (Thurow, 1987). The net of all of this could be called a "lose-lose" decade: managers and workers were asked to accept increased risks and at the same time economic performance did not improve as would be expected.

The escalation of employer initiatives produced corresponding efforts by unions to find ways to organize and represent their members in ways that went

beyond their traditional roles and strategies in the New Deal system. Like employers, union strategies have been double edged. Some supported new initiatives to foster greater cooperation and participation at the workplace. Other union strategies served to escalate and expand the domains of labor-management conflict by bringing political and financial pressures to bear on top corporate executives whose companies were involved in major strikes, union organizing drives, corporate restructuring, and ownership battles.

Regardless of whether union leaders sought to find common ground with management or to strengthen their adversarial stance, it is clear that the decade of the 1980s witnessed a dramatic increase by union leaders in their access to key business decisions and to the line managers responsible for these decisions. The agenda of labor-management relations expanded into many new areas (technology, training, and teamwork, to mention three subjects) beyond the mandatory subject of wages, hours and working conditions. Thus the 1980s were both a decade of intensified innovation and confrontation between managers, employees, and organized labor. We believe these tumultuous experiences have produced a number of important lessons that should now influence policy and practice in the 1990s. These lessons emerged incrementally as experience and analysis accumulated throughout the decade. We will review them in the rough sequence in which they arose. Some are derived from empirical research that we and others conducted over the course of the 1980s while others represent the informed consensus of management, labor and government officials who participated in or followed these developments most closely (Walton and Lawrence, 1985; Department of Labor, 1989).

Lessons from the 1980s

Lesson No.1:   The Traditional New Deal industrial relations system is no longer

<u>well matched to the needs of individual workers or firms</u>.

One of the earliest conclusions reached by management in many firms was that the traditional industrial relations system that evolved out of the New Deal legislation of the 1930s no longer worked well for either individual firms or their employees. An early version of this view was expressed in a 1981 cover story of <u>Business Week</u> on "The New Industrial Relations." <u>Business Week</u> defined the problem as an over-reliance on "adversarial" relationships at the workplace:

> Quietly, almost without notice, a new industrial relations system with a fundamentally different way of managing people is taking shape in the U.S. Its goal is to end the adversarial relationship that has grown between management and labor and that now threatens the competitiveness of many industries.

Few researchers or practitioners accepted <u>Business Week's</u> rather simplistic argument that "adversarialism" was the sole or central cause of America's productivity crisis or that differences in economic interests could be totally eliminated from employment relationships. Yet considerable empirical evidence supported the view that adversarial relationships do impose significant costs on economic performance. For example, our own research on the effects of labor relations in the auto industry during the 1970s demonstrated that plants characterized by a pattern of high conflict and low trust--i.e., ones with high levels of grievances, prolonged negotiations and disputes over work rules, and a hostile climate between workers and first line supervisors--experienced significantly lower levels of productivity and product quality compared to plants with less adversarial patterns of interaction (Katz, Kochan, and Gobeille, 1983; Katz, Kochan, and Weber, 1985). Similar results were documented in other industries and organizations as well (Ichniowski, 1986).

But most companies did not wait for empirical verification of this hypothesis. Indeed, as early as the late 1960's, many firms sought to escape

this adversarial pattern by opening new "greenfield" facilities which would operate on a non-union basis and emphasize employee participation, flexibility in the organization of work, and decentralization of authority from traditional supervisors to work groups (Walton, 1980; Kochan, Katz and McKersie, 1986). But abandoning existing plants in favor of new sites and workforces was neither a practical nor a desirable alternative for the majority of employers. So in the early 1980s a flurry of experimentation in existing union and non-union facilities took place with what turned out to be a rather narrow, and in the end, insufficient strategy for change, namely, quality circles (QC), or quality of working life (QWL) programs, which we consider next.

Lesson No. 2: <u>Narrow forms of employee involvement, such as QC's or QWL programs, are not powerful enough on their own to survive or transform organizations. Sustained support for innovation requires giving voice to employees at all levels of organizational decision-making -- including strategic management decisions</u>.

By 1988 national surveys reported that over one third of the workforce was employed in organizations with some type of employee participation experiment underway. Larger establishments were especially likely to introduce these innovations; in fact, over 50% of establishments with 1,000 or more employees experimented with employee participation (Alper, Pfau, and Sirota, 1985). Experiments were equally frequent in union and nonunion establishments (Ichniowski, Lewin, and Delaney, 1989).

While many of these efforts opened the door to significant change, many also proved to be a fad that were abandoned as soon as they experienced organizational resistance or ran into countervailing organizational pressures. Lawler and Mohrman (1985) estimate, for example, that the majority of quality

circles have been disbanded. Drago (1988) found that the attrition rate for quality circles was about 70% during the first two years and that the failure rate was higher in nonunion than union establishments. Several participants at a recent symposium on the state-of-the-art in labor-management cooperation suggest why this might be the case.

> "If new work systems are so great, why aren't more companies getting on the bandwagon? . . . Many (at the conference) agreed that commitment to change must start with top management and be institutionalized throughout the company . . . Within any company, it takes years for trust to develop between labor and management . . . officials . . . stress that building a successful program takes a great deal of hard work, self examination, training, retraining and especially communication. Any company that tries to change must deal with individual managers and union people who have their own agendas, whether it is keeping their jobs or getting re-elected" (Department of Labor, 1989; 5).

The high attrition rate for narrow employee involvement programs is not surprising, since our research showed that in most instances, as a stand alone or isolated strategy, narrow quality circles or similarly narrow forms of employee participation did not produce sufficient returns to productivity or product quality to sustain the commitment of management. From the union side of the ledger as well, QWL programs often were seen as problematical since they seldom generated major economic gains for the members. In addition, these programs could be risky if they created the impression that the labor leaders who were involved had compromised their independence. Moreover, over time it became impossible to isolate these programs from other developments in the firm. Case studies showed that the typical pattern for these experiments was a flurry of initial enthusiasm and support followed by a plateauing of interest and a questioning of commitment as conflicts arose with competing priorities such as downsizing, management turnover, labor-management conflicts, wage concessions, contracting-out, and organizational

restructuring. The joining of these competing priorities proved to be pivotal events in the history of these participation efforts--either the parties deepened their commitment by applying the participation principles to these broader issues or the process was discredited and abandoned (Cutcher-Gershenfeld, 1988). This leads to another major lesson drawn.

Lesson No. 3: QC and QWL processes can provide a good starting point for building trust and opened the door to broader changes -- and if they are allowed to expand beyond the shop floor to higher levels of policy and strategic decision-making in the firm, then they represent an effective starting point and catalyst for the broader transformation process. One of the themes that characterizes those situations that move beyond the initial phase is the provision of increased employment security for the employees and increased institutional security for the union. Efforts aimed at increasing the involvement of workers will not move very far beyond the experimental stage unless maximum feasible emphasis is given to long run enhancement of employment opportunities and the institutional security of the union (Collective Bargaining Forum, 1988). A variety of imaginative arrangements have taken shape that balance employers need for flexibility, workers need for career enhancement, and unions needs for organizational security.

It is clear that for a transformation to occur there needs to be an integration at three levels of the system: programs at the grass roots level to involve workers, policies that emphasize jointness (such as employment security) and arrangements to provide access by unions at the strategic level. The experience of Xerox over the course of the 1980s serves as both a prototype for successful expansion and continuity of participation and illustrates why so few firms or labor-management relationships were able to progress. In this

case the parties successfully negotiated their way through a sense of pivotal events in the following manner: (1) threats to contract out work were overcome by agreeing to a task force strategy that allowed employees and managers in the units at risk to search for ways to reorganize and streamline their operations to be competitive with outside alternatives; (2) concerns over layoffs led union and management representatives to negotiate an employment security package that provided for no layoffs in return for continued support for participation and work rule flexibility; (3) when a new plant was needed, the union participated in its design and choice of location and the company continued its long standing practice of not opposing unionization of new jobs and work sites, and (4) when confronted with management resistance to participative leadership styles the company engaged in a wholesale effort to change the culture of the management from the top executives to the first line supervisor. Not surprisingly, few companies or unions would be willing or able to make these types of tradeoffs of other policies to sustain human resource innovations.

But this inertia may change in the face of the impressive results achieved by companies like Xerox. Consider the comments of one senior executive from Xerox:

> As a result of our cooperative program, we've been able to reduce our unit manufacturing costs, and we've been able to get our product out to market faster. Without those changes, there's no doubt that Japan, Inc., would be able to increase its market share to our detriment. Our top management has taken the position that it's absolutely essential to our future to continue down this path (Department of Labor, 1989; 4).

Thus, the summary lesson from a decade of experience with employee participation is that standing alone it is not likely to be sustained, but if allowed to grow, exposed to broader issues and higher levels of decision-making, and reinforced and supported by top management and employee leaders, then

employee participation can be a powerful and effective force in helping to transform organizations. When nurtured and allowed to expand in this way, participation can have significant economic and social value for all the parties involved.

Lesson No. 4: Stand alone technology strategies neither transform organizations nor achieve world class levels of performance. By contrast, strategies that integrate innovations in human resource management with new technologies outperform both traditional industrial relations and stand alone technology strategies.

One of the clearest and yet most difficult to implement lessons of the past decade is that investing in advanced technology alone is not an effective strategy for transforming organizations or enhancing organizational performance. Failure to integrate new technology with organizational changes and human resource innovations leads to an under-utilization of technology and fails to capture its fullest potential. The MacDuffie and Krafcik paper included in this volume presents the most dramatic evidence on this point. Other evidence suggests that the failure of technology-alone strategies also generalizes to the information technology environment as well (Roach, 1987; Loveman, 1988; Zuboff, 1988; Chalykoff and Kochan, 1990; McKersie and Walton, 1990, as well as the Tyre paper included in this volume).

If the integration argument is correct, Thomas's paper in this volume presents some sobering conclusions, namely that the lessons of MacDuffie and Krafcik, as well as Zuboff and others are very difficult to implement in organizations that continue to separate the parties and processes that design and select technology strategies from the parties and processes that manage the implementation and execution of these strategies. Thus, to achieve the full

benefits of technology and to integrate fully technology and human resource strategies requires a fundamental reordering of organizational roles, structures, and distribution of power. It is not surprising, for example, that the most radical reformulations of work organization and utilization of advanced technologies are found in new "greenfield" sites where human resource planners or consultants, and, in a small but growing number of cases, union representatives, are brought in on the ground floor, i.e., at the outset of the planning and organizational design process. It is at this early stage of the planning and decision-making cycle that the most flexibility exists in the conceptions of both technical and human resource planners and representatives. Early involvement also allows for sufficient lead time to forecast the skills and to provide the training and retaining in technical and social skills required to make an integrated technical/human resource strategy work effectively. While no hard data exist on the frequency of this type of integrated planning and design process, it appears that this is fast becoming the accepted state of the art for new facilities in most large manufacturing firms. What varies among firms in this sector is whether or not union representatives are included in the planning process. We suspect that in may instances, for union avoidance reasons, the human resource planning and organizational design work proceeds without them.

Again, while we have only case study data to go on at this point, it appears that few organizations have made the integration of human resource and technical planning and decision-making a standard practice when contemplating the introduction of new technologies or processes for existing work sites (Goodman, 1987). While again, most large firms can point to specific examples of "factories within factories" in which experiments with an integrated approach have been tried and implemented when major investments in

new technology have been allocated, few organizations have made this a standard practice or diffused this new model to a majority of their locations. In existing organizations traditional structures and patterns of resource allocation described by Thomas seem to endure with great resiliency. Since existing sites are where the vast majority of dollars for new technology are spent, introducing the organizational changes needed to effectively integrate technical and human resource issues in these environments remains a major challenge to management today and in the future. Until practices in these environments change, there is little reason to believe that the lessons from the micro experiments with a more integrated technical and human resource model will be diffused widely enough to produce significant and sustained improvements in aggregate productivity growth and the competitive standing of key industries.

Lesson No. 5: Competitive strategies that stress low costs/low wages produce high levels of labor-management conflict and reinforce low trust, and inhibit innovation and improvement of quality.

The corollary to this lesson is:

Competitive strategies that stress value added (e.g., enhanced quality) and/or product innovation require high levels of motivation, commitment, and trust in employment relations.

One of the major developments in industrial relations and human resource profession in the 1980s was the realization that much of the variation in human resource outcomes and labor-management relations at the workplace was determined by the competitive strategies top management chooses to follow. Recognition of this lies at the heart of the argument for integrating human resource planning with business or strategic planning (Craft, 1988). But more is

involved here than simply involvement of human resource professionals or worker representatives in the process of strategic decision-making. Of equal importance is the substantive choices firms make, ie., the basis on which competitive advantage is sought.

While with hindsight this may seem obvious, the fact is that growing out of our New Deal System traditions, neither personnel professionals nor union representatives had much access to or influence over these basic competitive strategy choices. Instead, like the choice of technology strategies, these decisions were left to other top executives. It was the job of the personnel professionals and labor representatives to design or negotiate employment policies and practices after these critical choices were made.

Two key lessons regarding the role of competitive strategies have emerged out of the 1980s. The first is that the separation of human resource policy and competitive strategy decision-making no longer works well in environments where significant strategic restructuring is contemplated since such changes in corporate direction inevitably require equally significant changes in compensation policies, staffing levels and patterns, and related human resource practices, all of which are part of an existing organizational culture. Second, the choice of a competitive strategy will either reinforce or weaken employee trust and support needed for other human resource innovations and pursuit of the competitive strategy itself. For example, sustaining high levels of commitment, participation, flexibility, and cooperation at the workplace requires a competitive strategy that reinforces these attributes. A strategy that emphasizes high product quality, customer service, and adaptability to change is compatible with these objectives and can sustain and reinforce these human resource innovations. A strategy that relies solely or primarily on being the low cost competitor in either a domestic or international market is bound to

conflict with and/or undermine these human resource innovations.

This lesson was most clearly brought home in the experiences of the airlines following deregulation. Consider, for example the differences between three domestic airline firms following deregulation--Delta, Texas Air, and American. Delta historically followed the path of emphasizing quality of service, conservative financial policies, and comprehensive (some might say paternalistic) human resource policies (Business Week, 1981). For example, it maintained a commitment to employment security--even through a particularly difficult period in 1971 when it chose to avoid layoffs during a prolonged downturn. (In the early 1980s employees symbolically returned the favor by purchasing a Boeing 757 for Delta to show their appreciation). Throughout the first decade following deregulation Delta stuck to this competitive strategy and its human resource policies remained largely intact. As a result it now finds itself positioned as follows in relation to other major carriers: (1) its market share has grown modestly, (2) it has the highest labor costs and staffing ratios; (3) it consistently ranks at or near the top among major carriers in low rates of passenger complaints and other indicators of service quality, and; (4) it is consistently at or near the top in profitability. Thus Delta is a case in point of an organization driven by a commitment to a set of values and business strategies that support development and utilization of its human resources even in the face of intense competition. The result is a relatively high wage but also a highly profitable enterprise.

Compare this experience to the values, strategies, human resource policies, and economic results of the two largest subsidiaries of Texas Air Corporation--Continental and Eastern. Prior to deregulation Texas Air was a small regional carrier. But in the decade following deregulation it purchased a series of carriers in financial trouble--Continental, N.Y. Air, People Express and

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Frontier, and most recently Eastern. In doing so, it became the most highly leveraged firm in the industry. By 1988 Texas Air's market share surpassed Delta and equaled its two biggest domestic competitors--American and United. At both Continental and Eastern, Texas Air adopted a low fare/low labor cost competitive strategy, even though it inherited cost structures comparable to those at Delta, United, and American. To achieve these lower costs both firms demanded deep wage cuts from employees, went through bitter and prolonged strikes and bankruptcy proceedings, and emerged either as a nonunion carrier (Continental) or as a significantly downsized carrier with weakened unions (Eastern). As of the end of 1989 therefore Continental and Eastern are positioned with: (1) market shares considerably above the share held by Texas Air prior to deregulation but below the share it held at its peak in 1986, (2) high debt burdens, (3) labor costs approximately 40% below those of Delta, (4) hostile labor relations, (5) relatively high levels of passenger complaints, and (6) persistent financial losses. While Continental and Eastern, or some combination may yet be successful in implementing their competitive strategy and returning to profitability, in attempting to do so both companies have imposed severe economic hardships on their former and current employees and have left a trail of labor wars in their wake.

American Airlines represents yet a third approach to the business strategy-human resource policy link in the domestic airline industry. American embarked on a strategy of internal growth early in the period of deregulation. To support this growth strategy American negotiated hard with its unions to achieve a lower labor cost structure for new hires and to gain flexibility in its operations. In 1983, in return for a two tiered wage schedule it offered the roster of employees life-time employment security. By the end of 1989 American was positioned as follows relative to the other major carriers: (1) it

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experienced the greatest increase in market share of any of the major domestic carriers, (2) its labor costs approximate the average in the industry (lower than Delta's and higher than Continental's), (3) its service quality record is above average, (4) its labor-management relations are stable, and (5) it continues to be among the most profitable airlines in the industry. American continues to search for growth opportunities, most recently by purchasing landing rights and routes in Europe and South America.

Several lessons can be drawn from the experience of the airline industry. In instances where management sees labor primarily as a cost of production and presses for a reduction in labor costs so intently that the labor-management relationship is destroyed (Continental and Eastern), the long run goal of becoming a profitable carrier is not likely to be realized. On the other hand, where labor cost concerns are matched with respect for the value employees add to an operation (Delta and American), labor-management relations can be used to help achieve the organizations changes needed for economic success. Like autos, the airline industry has served as a laboratory of experimentation in the 1980s. Both labor and management have learned through difficult experiences how competitive strategies, ownership changes, financial leverage, and managerial values affect human resource policies, employee and union-management relations, and economic performance. Heretofore workers and their union representatives have been content to leave these strategic decisions to management. Given the lessons of the 1980s it is unlikely that this will be the case in the future, as illustrated by the nearly completed takeover of United Airlines by the unions and friendly investors.

From Human Resource Innovation to Organizational Transformation
The benefits of the lessons reviewed above will be lost unless the process

of transforming human resource and industrial relations practices is both sustained in those organizations that experimented with new approaches and is diffused to a broader circle of firms and employees. But if the lessons summarized above are correct, diffusion will require fundamental changes in organizational governance, management and labor values and practices, public policy, and the broad environment in which business and labor interact. We therefore now turn to changes in the broader organizational and external environment that will be needed to support and expand the transformational processes. Our key arguments are presented as propositions since they serve as the central points requiring of further research, analysis, and debate.

Proposition No.1: Management commitment alone is not strong enough to sustain and diffuse human resource innovation.

We noted that management was the driving force for both innovation and the escalation of labor-management tensions in the 1980s. Two questions therefore arise: Have the majority of American executives internalized the values and beliefs necessary to sustain the innovative process? And, can those executives who have internalized these values withstand the countervailing pressures on them to act differently? There is little evidence to answer yes to either of these questions.

Consider, for example, the following description of the dominant perspective held by American managerial leadership in the 1980s, offered by Frank Doyle, the Senior Vice President-Corporate Relations Staff at General Electric:

> Economic power in the Eighties--the power to launch and sustain the
> dynamic processes of restructuring and globalization--has been
> concentrated especially in the hands of the larger companies, along with
> the financiers and raiders who alternatively support or attack them. If
> the Eighties was a new Age of the Entrepreneur--and small business did in
> fact account for most of the new job creation in the United States--it was

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Corporate America that accounted for most of the economic disruption and competitive improvement; it took out people, layers and costs while rearranging portfolios and switching industries....Across the decade in the U.S. alone, there was over a trillion dollars of merger and acquisition and LBO activity. Ten million manufacturing jobs were eliminated or shifted to the growing service sector. Deals were cut and alliances forged around America and around the world.

From where the shots were called was well-known. Restructuring and globalization did not emerge from employee suggestion boxes; they erupted from executive suites....

So competitive rigor--imposed by companies in their employer roles and demonstrated by their restructuring and globalizing moves--was widely accepted because its rationale was widely understood. Given this climate-- along with a political environment of relative deregulation--companies in the Eighties could focus more on portfolios than on people; fire more than hire; invest more in machines than in skills.

The obvious reality of tough competitive facts inspired fear in employees and gave employers the power to act. Shuttered factories and fired neighbors is restructuring without subtlety: people could see the damage and feel the pain.

Thus, American management suffers from a schizophrenic personality. On the one hand management has been conditioned to respond to economic pressures aggressively by cutting costs, downsizing quickly, treating technology as hardware separate from its human and organizational dimensions, and relegating concern to human resources to a second level priority. Yet, as Doyle goes on to note later in his paper, the lessons of the 1980s are that management must change in ways that recognizes the lessons outlined earlier in this paper. That is, if human resources are to become a source of competitive advantage, then human and organizational dimensions of technology must be integrated with investments in new hardware or processes, human resources must be viewed as long term investments rather than as costs to be controlled or minimized for short run savings, and workers and their representatives must become partners in the adjustment and management process.

Management commitment is generally accepted as a necessary condition for sustaining any significant organizational change. Yet, if Doyle's

characterization of American management behavior and the lessons we reviewed above are correct, the management values and commitment to the policies necessary to sustain innovations will be severely tested in the upcoming decade as they compete with other, more dominant, pressures and styles of management behavior that destroy employee trust. Thus, while management leadership and commitment is a necessary condition for diffusing human resource innovations, it will not be a sufficient force. Managerial initiative will need to be supplemented and reinforced with other, more powerful and independent forces.

Looked at from what we know about how and why organization change, the turbulent economic environments of the 1980's have provided rationale for management to take the lead in a wide range of restructuring programs. But while management has the credulity to drive the unfreezing and reformulating stages, it is not clear that most organizations have developed a culture to sustain and deepen the innovations during the continuing stages of the transformation process. Our most serious competitors, Germany and Japan, to name two countries, are characterized by themes of continuous improvement and jointness that lead to a long run performance that is difficult for our organizations to match with their crisis approach to efficiency and "work out" programs.

Proposition No. 2: Continued union decline is a obstacle to diffusion of human resource innovations. Union leaders must become visible champions of these innovations for them to diffuse widely and become an on-going part of organizational practice.

Democratic societies normally assume that the labor movement serves as an important voice for articulating worker interests at the level of the firm and in national affairs. Labor serves to both encourage and reinforce management's

positive human resource practices and to counteract or constrain management actions that are injurious to worker interests. An important task for national labor policy and for labor-management practice therefore is to insure that workers are afforded effective means for having their voices heard.

The ability of American labor to serve this function effectively is presently at risk in the U.S. given the continuing long term decline in union membership and the absence of an alternative set of institutional structures and processes for employee voice and representation. An important task for national policy and private practice in the 1990s will be to reconstruct effective institutions for employee participation, broadly defined.

Throughout the 1980s the pace of union membership decline accelerated. In 1980, 24% of the labor force was represented by unions. By the end of the decade the number had shrunk to less than 17% of all wage and salaried workers and to 12% for just private sector wage and salary workers. New union organizing replaces only a small fraction of the numbers lost each year through attrition in union jobs. There are multiple reasons for the continued decline--structural changes in the economy have eroded occupations, industries, and regions with traditionally high rates of union membership, management has become more aggressive in its union avoidance efforts, unions have not adopted new organizing themes or strategies, and some employers have adopted progressive human resource management practices that substitute for the traditional union role. We need not debate the relative importance of these factors here. Instead we want to underscore the long term consequences of continued decline on the capacity of labor leaders to foster and sustain innovations in labor and human resource practices.

Union leaders constantly note that management resistance to union organizing and correcting weaknesses in labor law are serious barriers to union

support for labor management innovation and cooperation. It is politically difficult and risky for union leaders to champion cooperation and innovation in organized facilities of an employer when they face resistance from the same employer to the unionization of workers in new sites and other unorganized facilities. Cooperation in such a case is perceived by workers and union representatives as helping to generate resources through improved performance in the unionized facilities that are then siphoned off to expand nonunion operations.

A managerial strategy of encouraging worker and union input and cooperation in currently unionized facilities while simultaneously seeking to avoid unions in new operations also has adverse consequences for the macro-economy and society. If played out to an extreme, in a dynamic and changing economy, such a policy will lead to further union decline and to a labor movement that sees its institutional security at risk. Support for innovation and cooperation is hardly likely to be forthcoming from an institution that is fighting for survival and is denied legitimacy by the party seeking its cooperation. Human resource innovation is not likely to be sustained if the adversarial tensions between labor and management continue to build toward a crisis point. Thus, concern for diffusion of workplace innovations cannot be separated from the broader question concerning the future of worker representation and industrial relations policy.

While the decline of union membership poses a barrier to further diffusion, a resurgence of traditional unionism and traditional union-management relations is equally unlikely to support sustained innovation. Instead, the 1980s demonstrated that innovations were most likely to succeed and be sustained over time where union leaders became active partners in the management and design of innovations and became visible champions of

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employee participation and related practices. As yet, however, most American labor leaders have held back from making a strong endorsement of these new approaches. Indeed, an active debate is alive within the American labor movement over whether or not these innovations serve the long term interests of workers and their unions.

Our view is that a transformed industrial relations system can be beneficial for the interests of the unions as institutions, as well as for the interests of employees and stockholders. To the extent that the new concepts of work organization and participation make the enterprise more viable, then the employment and membership interests of the union are enhanced. The ultimate proof of this proposition will come when the benefits to workers accruing from union-management cooperation are sufficiently visible to increase the interest of unorganized workers and decrease the opposition of employees to the prospect of unionization of their employment relationship. The outcome of this debate will be heavily influenced by the extent to which labor representatives are treated as legitimate partners to the change process at the level of the individual enterprise and in national policy-making. Thus, we come to our final two propositions that speak to the need for fundamental changes in our conception of the corporation and in the role of labor and human resource policy in national economic and social affairs.

Proposition No. 3: Sustaining human resource innovations requires a multiple stakeholder view of organizations and governance systems that provide all employee groups a voice in the strategic directions of the enterprise.

Recall that a bedrock principle of the traditional New Deal system--one embedded not only in law but in the ideology of American management and labor--is that management is the sole agent of shareholders and is also solely

responsible for determining the strategic direction of the enterprise. This principle in turn reflects, as Dore points out in his paper, the uniquely American conception that the corporation exists solely to maximize shareholders' wealth. In this view, the corporation is simply a bundle of tradable financial assets to be managed in the interests of the shareholders. This view leaves little room for employees as legitimate or valued stakeholders.

The inherent conflict between this principle and human resource innovations came into sharper focus in the 1980s as a result of developments in financial markets that created a more active "market for corporate control" (Jensen, 1989) and the increased number of hostile takeovers, leveraged buyouts, and other ownership changes described in the Useem paper. One consequence of these developments was to make labor more conscious of the need to participate in the financial marketplace and deal-making. In addition to efforts by individual unions to participate in or influence takeover efforts, the AFL-CIO announced in 1990 the establishment of an employee investment fund designed to help employee groups finance participation in firms that can be shown to have viable financial futures. Moreover, at least twenty three states have now passed legislation allowing or requiring corporate officers and directors to take other stakeholder interests into account when making long range strategic decisions. Thus, the debate over the market for corporate control in the 1980s has opened the way for a debate over the governance of corporations in the 1990s. The 1990s, therefore, could very likely be a decade of further experimentation with new institutional forums for joining and accommodating the interests of shareholders and employees (Salter and Dunlop, 1989).

Some experience has been gained with various forums that provided employees with a limited role in organizational governance. These include

representation on boards of directors, employee stock ownership plans (ESOPS), joint participation in strategic planning or design of new enterprises such as GM's Saturn Corporation subsidiary, and a variety of more informal and ad hoc strategic level interactions that occur between worker representatives and enterprise executives. Unfortunately, this experience is both too limited and too biased toward settings where the firm was already in financial crisis prior to the involvement of employees in strategic affairs to support any broad generalizations. Moreover, the vast majority of ESOPS were enacted by managers as defensive financial maneuvers designed to ward off hostile takeovers (Blasi, 1988; Scholes, 1990). Very few of these provided employees any meaningful voice or influence in organizational governance. Until the definition and role of the corporation is modified to lend legitimacy to employees as stakeholders with a right to participate in strategic decisions, new institutional forums are unlikely to emerge that provide effective voice to employee interests outside of crisis situations where designated representatives have the power to exert influence. Therefore, we believe broader acceptance of a multiple stakeholder view of the corporation and an institutionalized role for employees in corporate governance are essential for the transformational process to continue.

Proposition No.4: Diffusion of human resource innovations requires fundamental changes in national labor and human resource policies and in the climate in which business, labor, and government leaders interact.

The federal government was the silent partner in industrial relations and human resource developments in the 1980s. Both the innovations in human resource practices and the intensified confrontations between business and labor were largely private affairs. While it may have been appropriate to leave

experimentation with new approaches to the private parties in the initial stages of change, we are now beyond the development and demonstration phase of this transformation process. National leaders in business, labor, and government now need to make critical strategic choices over which set of forces discussed in this paper are to dominate human resource practice and the governance of corporations in the 1990s.

Leadership choices are especially critical at this juncture since, as we have shown, individual firms have considerable discretion over how they compete, how they respond to changes in markets and technologies, and the importance they attach to human resource issues and innovations. Thus, there is no guarantee that individual firms or individual labor leaders will choose these competitive strategies or champion this new model. But society has an important stake in these choices since the evidence shows that when supported by appropriate competitive strategies and managed properly, human resource innovations can enhance both competitive and human goals while the alternative approach sharpens the tradeoffs between these two sets of objectives. Thus, one necessary condition has been met for these innovations to command greater support--that the new model that these innovations embody can contribute to both firm performance and worker welfare. It is far, however, from a sufficient condition to assure continued diffusion of the new model.

The analysis presented here suggests that for the transformation process to continue will require changes in labor and human resource policies that (1) encourage employee participation and representation at all levels of corporate governance, and (2) encourage and support human resource policies as long term investments in the future of the firm and the economy. Various specific proposals have been offered to achieve these policy objectives including such ideas as tax incentives for investments in training and development,

modification of labor law to either encourage or require employee participation councils similar to European style works councils, modification of corporate law to encourage or require employee representation on corporate boards, and reforms of labor law to curb employer misconduct in organizing drives (c.f. Hecksher, 1987; Kochan and McKersie, 1988; Osterman, 1988; Dertouzos et al, 1989; Weiler, forthcoming, 1990).

It is not our purpose here to argue for any specific policy initiative. Indeed, history suggests that new labor or social policies work best when they are derived from both the experience and lessons learned from private experimentation and from a prolonged process of debate, negotiations, and informed consensus among the stakeholders involved. Therefore, perhaps the best policy prescription at this point is urge that the private experiments that began at the workplace levels in the 1980s now be extended to the strategic level in the 1990s and joined by a national dialogue over the public policies and national leadership best suited for translating the lessons from these experiments into lasting benefits to the economy and workforce. In the absence of some new consensus the schizophrenic pattern of corporate and labor practices of the past will continue into the future. We have previously predicted (Kochan, Katz, and McKersie, 1986) that continuation of this pattern will produce a scenario of declining innovation, escalating labor-management tensions and conflicts, deteriorating economic performance, and increased risk of a major social and economic crisis. We now appear to be in the early stages of acting out this scenario. If the lessons and propositions presented in this paper are correct, an alternative scenario is possible, however, it will require building on and moving beyond the human resource innovations of the 1980s to achieve organizational transformations in the 1990s.

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