

**INDUSTRIAL RELATIONS
RESEARCH ASSOCIATION**

Proceedings of the
1989 Spring Meeting

**April 5—7, 1989
Anaheim, California**

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Industrial Relations Research Association Spring Meeting

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PREFACE
1989 Spring Meeting
Industrial Relations Research Association

How industrial relations systems are evolving, what it all means for the parties, and how they are dealing with change, as well as many current and continuing problems in the field, were discussed at the IRRA's Spring Meeting this year in Anaheim, California, where their "spring" felt more like what those from other parts of the country would describe as "mid-summer."

Various aspects of labor-management cooperation were examined, including employee involvement programs and the role of the parties in the restructuring of the steel industry and at the New United Motor Manufacturing, Inc., the General Motors-Toyota joint venture in Fremont, California. Bill Childs, the luncheon speaker, provided details on the establishment and operation of the well-known cooperative program at NUMMI, where he is Vice President for Human Resources.

Other session topics included contracting out in the public sector, dispute resolution, drug and alcohol abuse programs, privacy in the workplace, and individual rights in cases before an arbitrator. Appropriately, some of the discussions were of topics of particular import in the Southern California area, such as the effects of immigration reform.

The Association's compliments and thanks go to the hosts, the Orange County IRRA chapter; to Jonathan Monat, the chairman, and Marlene Heyser, who was in charge of the program; and to the nearby local chapters who participated Southern California, Inland Empire, and San Diego.

Barbara D. Dennis
Editor, IRRA

New United Motor: An American Success Story

By Bill Childs

Mr. Childs is Vice President for Human Resources with New United Motor Manufacturing, Inc.

This conference is grappling with some of the cutting-edge issues that will impact how our companies and our economy deal with the intensifying economic challenge we face. I think an understanding of the past and present of New United Motor, the joint venture of General Motors and Toyota, can make a contribution to this discussion, and I am delighted to have this opportunity to share my observations with you.

Frankly, I come to you today as an advocate of an approach to human resource issues that I believe can provide American business with an effective way to enhance its productivity and dramatically improve the quality of the products as well.

The life of the New United Motor or NUMMI plant spans a very significant period in American history from a variety of perspectives. As you probably know, NUMMI was established at the Fremont, California, site of a former GM facility which opened in 1962 and permanently closed in 1982. Between that opening in 1962 and today, there has been a revolutionary change in America's ability to control its own markets in many major areas, not the least of which is the automotive industry.

You are familiar with the statistics, but they warrant repeating. When the GM Fremont plant opened in the early sixties, less than five percent of the automobiles sold in the U.S. were imported; today that figure is close to 33 percent. In the machine tools industry, imports soared from four percent of the market in 1950 to over 50 percent today. The steel industry lost 25 percent of its market before

rallying in the eighties, with the assistance of protectionist legislation. Still today, 20 percent of the steel market is ceded to imports. Also, the United States consumer electronics industry, which held 50 percent of its market as recently as 1977, today has lost 82 percent of its customers to imports.

These steep declines in market share were the result of numerous factors, and the finger of blame, if you will, can point in a variety of directions. However, I believe it is beyond dispute that one primary cause is that, during this period, labor and management acted as though fighting each other was a substitute for beating the competition.

New United Motor is, I believe, an excellent example of what can be accomplished when labor and management work together toward common goals and with a common purpose. Today I want to take a few minutes exploring what was and is different about the NUMMI experience.

As I said at the beginning of my remarks, I come as an advocate of a system that I have seen work. It is not perfect; it has problems like everything else. Yet I firmly believe it has a message which could, if properly applied, help American business and industry become more productive and competitive.

The NUMMI venture, as I mentioned, is actually the second attempt to build automobiles in the Fremont facility. In 1962, GM opened the Fremont plant with state-of-the-art equipment and technology. The plant consisted of three million square feet of space and had two production lines, one for passenger cars and one for trucks.

The plant was originally opened by General Motors to replace three facilities that were in operation in Oakland, California. The employees and management

from these three plants were transferred to the new facility to begin production. The plant thus began with an undercurrent of bad, or poor, labor-management relations. Three different local unions and their power structures were in the plant vying for political control of the new local union. Each political faction from the three facilities wanted to demonstrate to the combined population that it was the rightful political entity to lead the new union. They wanted to show who was toughest and who could exercise the most control over management.

On the other hand, there were two management styles that came into the plant, and each of these management groups wanted to demonstrate how well they could handle the production process and the union. Thus, labor-management relations were severely compromised, if not doomed, from the very beginning. As to be expected, constant bickering and conflict between labor and management was a way of life for the plant throughout its 20-year life.

In addition, there was a large ethnic mix in the plant of black, Hispanic, Asian-American, and white workers, with each group having its own special culture and background. Adding to this was a significant contingent of radicals from the Bay Area/Berkeley scene who were active at the plant.

Throughout the 20-year life of the plant, absenteeism was a constant problem. Absenteeism ran, on an average, more than 20 percent on Mondays and Fridays. It has been said that you never wanted to buy a car produced on Monday or Friday because of the absenteeism on those days. Unfortunately, there was more than a grain of truth in that assertion. General Motors actually had to employ a large and separate part-time workforce to handle the attendance problem it regularly experienced; needless to say, quality and productivity suffered as a result. As if having 20 percent of your workforce regularly missing was not

enough, drugs, alcohol, and sex were readily available inside the plant grounds, and this contributed to the general lack of concern for quality and productivity at the plant as well.

Because of these problems, General Motors and the UAW would periodically institute programs, such as Quality of Work Life projects, to make the plant more effective and efficient. But these half-hearted efforts could not succeed due to the underlying unresolved conflicts between labor, management, and the workforce.

When the 1979-1982 recession hit and car sales plummeted, General Motors quite naturally took action to close its most inefficient plants. Fremont was one of those plants. While the labor-management relationship was not the sole reason for the closing of the plant, it was a contributing factor. At the time of the closing in 1982, there were over 8,000 grievances still unresolved. Also, 1,500 contested workers' compensation cases were on file, and over 50 discharge cases were still being disputed.

When the plant closed, 7,000 people were put out of work. This had a direct impact on approximately 25,000 dependents. Families were uprooted, some going to General Motors plants in Missouri, Kansas, Texas, and elsewhere. Numerous divorces occurred, homes and cars were lost, and several suicides were attributed to the plant closing. The end of production at Fremont, as you can see, had a devastating impact on the lives of thousands and the community of Fremont as well.

Joint Venture

Shortly after the plant closing, General Motors and Toyota began discussions on a possible joint venture between the two auto giants. Both companies had specific motives for seeking a joint venture.

General Motors was seeking to acquire a first-hand view of the Toyota production system, which had a reputation for

quality products and high productivity. It was reported at the time that Japanese carmakers could produce a quality small car for approximately \$2000 less than American auto companies, and GM wanted to find out why. In addition, GM wanted to acquire a high-quality subcompact vehicle for its market mix.

For its part, Toyota sought out the joint venture in order to quickly acquire a manufacturing presence in the United States. In the early 1980s, both Nissan and Honda had established manufacturing facilities in the United States, and Toyota was anxious to follow suit. Toyota also wanted to determine whether it could successfully transplant its production system into an American context and work with unionized labor and American suppliers. Since Toyota is perhaps the most conservative of the Japanese automakers, the company wanted to hedge its bet and join an American automaker in a joint venture to minimize its risk.

During the negotiations between the two auto giants, it was apparent that the UAW would have to be dealt with. A former Secretary of Labor, Bill Usery, was called upon to mediate problems that would arise. It became clear that the UAW would have to be included in the Fremont equation because they had represented the former Fremont workforce and to ignore them would be politically impossible.

After extensive negotiations, Toyota agreed to recognize the UAW and employ the majority of the plant's workforce from a pool of laid-off Fremont workers. In addition, Toyota agreed to grant wages and benefits comparable to the American auto industry.

For its part, the UAW agreed to enter into a nonadversarial, nonconfrontational relationship with the company based on mutual trust and respect. The union also agreed to accept the Toyota production system with its more flexible work rules, including limited job classifications.

The plant opened its doors on February 27, 1984, and now, more than five years later, it enjoys the distinction of producing cars that consistently rank among the very best in the United States. Absenteeism, once the scourge of Fremont, dropped from more than 20 percent to less than six percent. In addition to much higher quality, the productivity of the plant has greatly increased and its team members are, on the average, the highest paid in the American auto industry.

So, it is fair to ask, how is it that this plant came from the bottom of the barrel to the top of the mountain in just a few years? Since over 85 percent of the workforce at NUMMI had worked for GM, what changed to make this transformation possible?

Groundwork for Transformation

There were several things the company had to do when we first reopened the plant to lay the groundwork for that transformation. The most critical thing, and the hardest to do, was for everyone, management, labor, and employees, to commit themselves to a basic change in behavior. We needed to relearn the art of building bridges and unlearn the natural habit of building barricades. We all had to be willing to reexamine old patterns of behavior and to embrace new, constructive ways of doing business and dealing with each other. More than anything else, we needed to learn how to listen to each other and to respect the validity and value of other points of view.

We sought to accomplish these difficult tasks in several ways. First, the company had to create an environment of mutual trust and respect with the union leadership. To accomplish this, we had to grapple with who would be the local union leadership. Bruce Lee, Regional Director of the UAW and the primary architect and leader within the UAW of the new NUMMI concept, understood the inherent problems of the local union leadership within the Fremont plant. He molded

together a group of former leaders who, under his tutelage, began the transformation to bring about the necessary behavior change. The problem was that the union leaders he selected were the very people who had destroyed the plant in the eyes of the new owners, General Motors and Toyota. Certain risks had to be taken. If the former leaders were on the outside, they would be working against the new joint venture. If they were willing to commit to the new approach, we decided to take a risk. They committed to nonconfrontational, nonadversarial labor relations, and we hired the former local union leadership. In retrospect, this was the right move.

Secondly, we had to foster the right attitude and spirit among the former General Motors workers who were to be hired. We had to create a different perspective as to a new work ethic, one that was based on high quality and high productivity. We also had to have our new team members identify their success with the success of the company.

In order to create the environment of mutual trust and respect, one of the first things the company did was to elicit the assistance of the former union leadership in the selection process of employees for the joint venture. We asked the union for a list of laid-off employees rather than relying on the company's list.

We agreed to hire as many former GM employees as possible, rather than abide strictly to the letter of the joint agreement between the joint venture and the union, which stipulated 50 percent plus one. We utilized the former union leadership as interviewers and assessors in the selection process we developed to hire employees. UAW officers helped prepare the applications for employment, answered phones, and handled application inquiries just as any member of management would have.

Without question, certain risks were taken by the company at the outset of the

operation, but they were viewed as necessary in order to create an environment of trust. As a result of bringing the UAW leadership into the effort early on, they soon began to identify with the company's goals and became proponents and advocates of the New United Motor philosophy.

The second key concern was to create a new work ethic, one based on a concern for high quality and high productivity. For our venture to succeed, it would be necessary for the company to foster the concept that the company's success and the success of the individual team member are intertwined and mutually dependent.

These issues and themes were directly addressed in the letter of intent, signed by the company and the union in 1984, and later in the first contract negotiated between New United Motor and UAW Local 2244 in 1985. In these unique and ground-breaking documents, the company and the union openly committed themselves to creating a company and a work environment that would be a model for the entire auto industry.

Let me quote directly some of the key clauses of the preamble of that contract: "The company's primary objective is to grow and prosper. Since the catalyst for progress is its employees, it recognizes its obligation to keep them employed and improve their wages and working conditions."

The contract introduction also recognized the union's fundamental responsibility to improve the quality of life of its members. It went further to say: "[I]t is essential to the union's purpose to assure that workers are afforded the opportunity to master their work environment; to achieve not only improvement in their economic status but, of equal importance, to gain from their labors a greater measure of dignity, self-fulfillment, and self-worth."

With these responsibilities in mind, the company and the union mutually committed themselves to, among other things: (1) working together as one team; (2) building the highest quality automobile in the world at the lowest possible cost to the consumer; (3) providing workers with a voice in their own destiny in decisions that affect their lives; (4) constantly seeking improvement in the quality, efficiency, and work environment; (5) maintaining a prosperous business operation necessary to maintain fair wages and benefits, and provide secure jobs with the opportunity for advancement.

Cornerstones

So, as you can see, both labor and management set the stage from the very beginning to try to make New United Motor a different and positive place. Creating a new and untried approach to labor-management relations required developing a set of cornerstones upon which the company could flourish. I would like to take a few minutes to discuss several of the key elements that have been essential to our growth and development as a company.

These key cornerstones are mutual trust and respect, security, equity, teamwork, and involvement. Mutual trust and respect is the backbone of New United Motor. It is a commitment on the part of the company and the union to trust each other, to commit themselves to working constructively to resolve problems in a nonadversarial manner, to give each other the benefit of the doubt, and to respect the important role played by labor, management, and all team members in the successful operation of our company.

Mutual trust and respect must be lived and practiced each day. It requires constant and critical self-examination, particularly on the part of management, to see if they are living up to the ideals and values of the company.

One of the most tangible symbols of mutual trust and respect is the andon

cord. Let me give you a little background. A fundamental concept in the Toyota production system is something called "Jidoka," or the quality principle. Simply put, this quality principle requires that quality be guaranteed in the production process itself. Each succeeding work station is considered to be the customer, and the goal is to deliver 100 percent quality to that customer. The ultimate beneficiary of this principle is the real customer, the person who commits his or her hard-earned cash for a car.

To make Jidoka work, each worker must have the power to stop the production process if there is a problem, if, for instance, a part does not fit or if someone falls behind. The andon cord is the tool that permits a worker to stop the production process in order to guarantee quality. In a traditional auto plant, stopping the production line would be grounds for being disciplined or even termination. Not at NUMMI. We know that quality requires trusting and empowering workers to control their own work station.

Another key cornerstone is equity, the basic understanding that all team members are vital to the success of the company and that only by working together as a team can the company succeed. All jobs are considered important and critical to the overall effort.

At NUMMI there are several ways we try to symbolize and encourage the sense of equity. For instance, many team members, both in the plant and in the administration offices, wear the same uniform. We all work in an open office setting, including the senior executives, and only our President, Mr. Higashi, has a private office. In addition, we have only one cafeteria as opposed to the three that existed in the GM days. Also, a small thing, but we have no assigned parking. It is strictly first-come, first-served. If you start early in the morning, you obtain the best parking spots. My attendance record is displayed in our office, just as each team member's attendance record is displayed

in his or her team room. Of course, these are only symbols of equity, but they underscore a commitment to treating all team members fairly and equally.

Something that goes hand-in-hand with our sense of equity is the team concept. All production team members are organized into teams of six to eight members who are responsible for production, safety, and quality at any particular work site. With the team concept, workers can be cross-trained to perform all the tasks of a team. This contributes to overall quality since all team members are multiskilled and know all the jobs. It also contributes to the reduction of boredom since workers can rotate from job to job, and no one is locked into one task day after day. The workload is balanced in this way so there are no hard jobs that an individual is stuck on. All have to share the work.

Another fundamental cornerstone of the NUMMI human resources philosophy is the company's commitment to job security. In a unique provision in the company-union contract, New United Motor committed itself to avoiding layoffs unless compelled to do so by severe economic conditions that threaten the economic viability of the company. The normal practice in the auto industry was to consider hourly workers as simply a variable cost who could be laid off and recalled as necessary to meet production demands.

At NUMMI we view the individual team member as a vital asset to our company. His or her economic security is important to the company and only by respecting that need for economic security can we legitimately expect the best from our employees. This concept was proposed by the company in the first union contract.

This commitment to job security was put to the acid test during the difficult days we experienced in 1988. Even though our products, the Chevrolet Nova and Toyota Corolla FX, were recognized as quality cars, they simply were not sell-

ing as well as we would have hoped. NUMMI experienced a 40-percent reduction in production volume from mid-1985 to 1988, yet no team members were laid off. Instead, special training courses were developed and team members were taken off the line to attend them. In addition, team members were assigned to special project teams which had responsibility for preparing the plant for our 1989 models.

The company worked hard to meet its job security commitments. Now we are producing new products, the Geo Prizm for Chevrolet and the Toyota Corolla sedan, and the market is responding positively to these cars. While it cost the company financially in the short term to honor its job security pledges, we saw it as an investment in the future of our company and our most valuable resource, our team members.

The last human resource cornerstone I want to discuss is involvement. Simply put, NUMMI believes that its long-term success and the economic security it provides for its employees require an involved and fully utilized workforce. As I mentioned, our company asks a great deal of our employees. We are not simply employing a set of arms or a back. Quality products require an involved workforce that has more than a passing say in how their jobs are done.

Suggestion Program

One of the key ways we seek involvement is through our suggestion program. Last year more than 70 percent of our employees developed at least one suggestion that contributed to making their jobs and their company a more productive, safer, and more efficient workplace. This rate of involvement is more than ten times the national average.

For NUMMI, the suggestion program is a tool that allows team members to have a real say in their company. It is a tool that allows them to communicate to their supervisors their ideas for making their company a better, safer, and more

productive place. It is a powerful tool and one which our employees use at a phenomenal rate. It also allows the individual to be recognized for his or her contribution.

In our suggestion program, all suggestions are viewed as important. Not everyone can develop blockbuster ideas, and any program that encourages only big ideas is doomed to ineffectiveness. At NUMMI we believe that small, incremental improvements are the best way to make significant, long-term advancements.

One word you will hear a great deal at NUMMI is "kaizen," which means the pursuit of constant improvement. We know that the only way to stay ahead of the game and to remain competitive in today's demanding marketplace is to constantly improve our operation. We need to make our company a better place: It must continually become safer, more efficient, more productive, and, in a sense, a more satisfying place for everyone.

When a worker makes a suggestion about a job or, in other words, offers a kaizen idea, it increases a sense of ownership in that job and the company as well. In addition, it tells the worker that the company is listening and that the company is serious when it says the person who knows the job best is the person who performs it each day.

Involvement at NUMMI has many faces, and one critically different way we involve our workers is through a practice called Standardized Work. Simply put, Standardized Work is a method for determining the most efficient and easiest way to perform any job. Jobs are broken down into discrete elements, analyzed, and then the tasks are scheduled into a near-perfect sequence so that waste of movement, energy, and time are eliminated. Once the most efficient way to accomplish a job is determined, it is standardized so that each person doing that job does it the same way.

In some respects there is nothing new about this approach to organizing a job. Since the beginning of mass production, management personnel, often called industrial engineers, have analyzed assembly-line jobs and determined how they were going to be performed. The image of the ubiquitous time-and-motion person with a stopwatch and chart readily comes to mind. Taken to its extreme, the world of industrial engineers suggests the view that workers are but machines that need to be programmed by management, since the thinking tasks, such as designing jobs, can only be done by management personnel.

The difference at NUMMI, and it is a critical one, is that these tasks, traditionally a management prerogative, are performed by line workers and their immediate supervisors. In other words, the people performing the job are the ones designing how those tasks are going to be done.

Each team member at NUMMI has been thoroughly trained in the practice of Standardized Work because we believe it is an important way to tap the expertise and knowledge of our workers and channel it in ways that increase their sense of ownership and involvement in their company. That workers know their jobs best is not a cliché; it is a reality that is practiced each day on our shop floor, and it is a significant factor in NUMMI's high levels of productivity, job satisfaction, and quality.

One point I would like to reinforce, because I think it is so important, is the mutual dependence of all the elements at NUMMI on each other. Like a chain is limited in its ability to lift a weight by its weakest link, our company is limited by the strength and viability of each of its human resources cornerstones and production system concepts.

You cannot expect constant improvement, or kaizen, without an involved workforce. However, an involved

workforce requires trust and respect and giving workers the tools, be it Standardized Work or the right to stop the production process, if necessary, in order to produce a quality product at a competitive price.

All persons must internalize the belief that they are part of a larger team and that the way they individually approach their jobs each day is critical to the company's success. However, in order for workers to fully involve themselves, they must be confident that they will be treated fairly and with equality and that their company has a deep and abiding commitment to their job security.

Conclusion

In summary, the story you heard today is a great American success story. However, this tale will not end with its being told this afternoon. Our long-term success will depend upon day-by-day ability to continually breathe life into the values and concepts and philosophies which have carried us so far so quickly.

As I said at the beginning of my remarks, I have seen the future and it works. I believe the NUMMI experience contains a message for all of us in this room. What NUMMI has taught me is that ultimately a company's ability to compete depends upon its ability to engage, involve, and motivate its employees. To accomplish that, it takes everyone, management, labor, and workers, working as one team. This means changing our behavior and putting aside old stereotypes and comfortable, but outdated, practices. It means accepting the common-sense view that we either all succeed together or we all fail together and that confrontation, more often than not, leads both parties to the dead end of failure.

There is no auto plant in the United States that cannot produce a car that is equal to those produced in Japan. In addition, there is no auto plant in this country that cannot produce a car efficiently enough to be sold below the price of its

Japanese counterpart. In order to accomplish this, it takes a change in behavior by management, local unions, and workers.

Let us not look to what someone else should be doing. Let us look at what we as labor and management can do. How many of you who are union leaders have gone to management and said, "Let's improve our quality by 100 percent and let's improve our productivity by 100 percent"? It can be done, and we do not have to pay our workers with yen, and we do not need to turn our plants into sweatshops. How many of us in management have gone to our unions and workers and trusted them to be responsible for quality and productivity in our plants? Have any of us turned over some of the so-called management programs to our employees and made them responsible for their success? We can compete, but it takes a change in behavior.

The speakers this morning said that we are doing a better job in quality and cost. That is true, but we are still not competitive with the world market in too many areas. We have American workers represented by the UAW who tell us to get parts from Japan because our quality is still not comparable to Japanese products. Let's quit looking for managed trade or easy solutions like local content laws. Let's undertake what we can do and what has to be done to produce the quality product at a competitive price. If we do just that, we can be competitive and return our country to a leadership role in the areas that we have lost.

Though Benjamin Franklin said, "During the night, all the cats are gray," we must understand that in the cold light of day some things are black and white. That the United States needs to regain a competitive posture in today's world economy is, in my view, one of those black-and-white issues, and I think what can be learned from the NUMMI experience will help us in that effort.

[The End]

The Individual Rights Explosion: Is There a Role for an Arbitrator?

By William Levin

Mr. Levin is an Arbitrator in North Hollywood, California.

I realized, when I began research on my assigned subject, "Individual Rights: The Arbitrator's Viewpoint," that the subject required a whole new way of thinking about claims that can be considered "individual rights." These kinds of matters, which in recent years have become the subject of a great deal of legal activity and law review articles and even journals, such as one entitled "Employee Responsibility and Rights Journal," are not essentially matters that find themselves ultimately before an arbitrator, though in some situations an arbitrator and a collective bargaining agreement are involved. Essentially, these matters flow from common law rights, from constitutional rights, from rights of individual employees growing out of federal or state legislation.

The alleged "common law rights" may invoke terms of the employer's voluntarily-adopted personnel practices handbook; they may be based on public policy theories (such as claiming the discharge action was taken because the employee opposed an unlawful purpose of the employer); they may claim the discharge broke a covenant of good faith and fair dealing; they may claim damages for infliction of emotional distress or defamation; they may claim there was a constructive discharge. The legislation may be state or federal EEOC statutes, ERISA, state or federal OSHA statutes, state laws on toxic substances, or, coming up now, because of congressional enactments in 1989, the Plant Closing Act or

the Employee Polygraphic Protection Act.

In fact, the more I delved into the research material, the more I began to understand that in terms of the current labor-management situation in this country, a situation characterized by diminished union membership and diminished union strength as an inevitable consequence of that loss of membership, emphasis on individual rights and the place to assert those individual rights, either to agencies or to the courts, may well diminish the role of an arbitrator unless certain statutory developments change that situation, such as the proposed Employment Termination Act now being considered by the National Conference of Commissioners on Uniform State Laws.

In the process of beginning to understand the greatly expanded litigation dealing with individual rights, I am not forgetting the more traditional responsibility of an arbitrator in terms of individual rights, such as his possible responsibilities where there is a duty of fair representation question. We are hearing, too, on a more frequent basis, drug cases and disciplinary actions and claims of improper, unreasonable drug testing.

As arbitrators, we have all seen and at times handled disputes arising from a provision in the collective bargaining agreement dealing with an employer's and union's agreement not to discriminate or from charges that an action by a supervisor was a result of racial or sexual bias. Then there are those cases involving discipline given an employee who claims that he was not insubordinate in that the job he refused to perform endangered his

safety and that the employer violated a bargaining provision to furnish a safe working environment for all employees.

Statutory Rights

Nonetheless, the "cutting edge" at this moment in terms of determining individual rights is not found in traditional collective bargaining agreements and grievances flowing from those agreements and arbitration hearings. That cutting edge flows from statutory rights and common law rights and constitutional rights. It is found in action taken under OSHA, EEO law, ERISA, and other such statutes.

Just read your mail or your newspaper, and you will realize where things are, and are not, happening. For example, a *Los Angeles Times* article devoted almost a full page to the subject of "Genetic Bias—Medical Strides Carry with Them a Potential for Abuse." The article, which discussed blood tests given prospective employees, raises the question as to whether employers can simply filter out all but the most genetically hardy applicants rather than cleaning up an otherwise unhealthy workplace.

Certainly, an employer concerned about sky-rocketing insurance costs wants to eliminate as many risks as possible. The kinds of health problems particularly costly in terms of insurance rates are heart disease, various forms of cancer, and mental illness. There is increasing evidence that genetics is a significant factor in terms of these health conditions. The employer, then, wants to find out everything he can about prospective employees' medical conditions and medical histories.

But what about individual employees' rights? Doesn't genetic counseling or detailed family history inquiry represent an invasion of privacy? Can't blood tests be used as an indirect bias for racial discrimination? Doesn't genetic testing provide employers with an excuse for not making a greater effort to clean up a

workplace environment? Can't the same information that may help an employee decide to avoid a toxic substance also be used by an employer to force a worker out of a job, or to indirectly discriminate because of racial bias? Why *should* an employer know intimate details of the medical history of the applicant's father or grandfather? What rights does the employee have to make certain that the results of the test do not go to a computer bank or some insurance company files or to a subsequent employer?

These individual rights of employees must be considered. I am sure they *will* be, by legislatures and by the courts. I am just not convinced an individual arbitration award can be the answer.

For example, another recent *Times* article discussed the lawsuit filed by 88 former and current Lockheed employees alleging their exposure to harmful chemicals at Lockheed's Burbank manufacturing plant made them seriously ill. The plaintiffs and their attorneys hope to rely in part on OSHA's recent action citing the Lockheed plant for 440 alleged safety violations and proposing \$1.5 million in fines. This is important, very important, litigation. Yes, if all parties agreed, it could be resolved by arbitration, but somehow I do not think this will happen.

I received an announcement of the Bureau of National Affairs' 2nd Annual National Conference on Workplace Privacy and Wrongful Discharge, and the preliminary statement read as follows. "Workplace privacy and wrongful discharge are 'hot' employment topics: Employers, unions, federal and state government, and the NLRB are all struggling with the issues of drug testing, AIDS, sexual harassment, polygraph use, references, electronic surveillance, investigations, libel, slander, and the effect of employees' personal lives on their job performance." All are important concerns. All involve "individual rights." But I had to notice, with some pain, that *no* arbitra-

tors were listed in the program's announcement as part of the faculty.

The current issue of the *California Lawyer* contains an article dealing with what is happening to traditional labor lawyers and their practice. Professor David Feller, of Boalt Hall School of Law and a distinguished arbitrator, who formerly was general counsel to the United Steelworkers of America, noting what he describes as a vacuum created by the NLRB, states that there is a much larger constituency to provide legislation that will protect workers than there is to strengthen the NLRA, and that as collective bargaining covers fewer and fewer people, there is a larger and larger push legislatively and judicially to provide protection for working people.

What, then, is clear? That individual rights have assumed an ever-increasing importance in the workplace. And what is also clear? That the arbitrator's role in determining the extent of those rights is unlikely, at least in the near future, to be a significant one. Rather, the battleground will be in the courts, before administrative bodies, in Congress, and in state legislatures.

Sample Provisions

Perhaps a good way to summarize my own feeling about some of these issues would be to refer to a collective bargaining agreement involving a major aluminum company of national importance, where I have heard several cases. Three provisions are particularly relevant:

(1) The "fair representation" paragraph provides that "The arbitrator shall have the obligation of assuring that all necessary facts and considerations are brought before him by the representatives of the parties. In all respects, he shall assure that the hearing is a fair one."

(2) The discrimination paragraph provides that "The Company and the Union agree not to discriminate against any employee because of race, color, creed, national origin, sex, status as a handi-

capped person, Vietnam Era service, or union activity in all matters pertaining to hiring, wages, and working conditions."

(3) The safety paragraph provides that the employer will "Furnish each employee employment and a place of employment free from recognized hazards that are causing or are likely to cause death or serious physical harm."

The fair representation paragraph does *not* speak for itself. I do not think many arbitrators would be prepared to make a finding as to whether there has been fair representation. There is no way we really would know whether appropriate investigations were made. The best we could do, and I certainly have done this, is to give the grievant an opportunity to say whatever appears to be on his or her mind. But a finding as to a fair hearing is not one I would undertake.

As to the discrimination provision, it seems to me, notwithstanding my understanding that some weight would be given in an arbitration award under appropriate circumstances to a discrimination matter, that the kind of discrimination cases we are likely to hear are disciplinary cases involving a minority employee who believes, rightly or wrongly, that he or she has been discriminated against. But I have *not* heard an arbitration that comes close to representing a full-fledged, all-issues-discussed, all-statistical-information-presented discrimination matter.

As to the safety provision, the cases that I have heard, and I certainly have heard a number of them, generally involve a refusal to handle a particular assignment because of alleged safety concerns. But I have heard nothing in the safety cases even close to the kind of situation I referred to a few minutes ago in connection with Lockheed and an action filed by a large number of employees who claim that the company was aware of the safety problems but did not put them on notice.

I mentioned earlier the proposed Employment Termination Act. A prominent management attorney in San Francisco who is co-chairman of the ABA Labor Law Subcommittee on Individual Rights and Responsibilities in the Workplace told me about the proposed legislation. He is generally supportive of it. As he put it, "The only ones who are making money on these unlawful termination cases are the lawyers . . . they're costing my clients too much money." A similar point of view was expressed to me by the head of the labor law department of what is probably the largest public utility in California. He also supports the proposed legislation. He speaks somewhat ruefully about how he used to consider it good tactics, in an arbitration, to argue the arbitrability of the dispute; now he wants the dispute arbitrated.

As for the proposed statute itself, as of February, 1989, it is clearly still in the drafting stages, and there are a number of unresolved questions. The procedures under the Act do not apply to a termination that is on grounds subject to other state or federal law prohibiting discrimination based on race, sex, religion, age, or marital status. A critically important provision exempts all state common law rights and claims for relief sounding in tort seeking redress for termination of employment of an individual brought by any person. The arbitrator is to be selected from a panel that maintains a list of impartial competent and reputable labor arbitrators active in the state. The award can include additional liquidated damages in an amount not greater than the back pay awarded if the arbitrator finds the termination was willful and lacking in good faith.

Conclusion

I am not writing off the role of the arbitrator in disputes involving individual rights. We have had to deal with comparable situations over the years, and we certainly have had to consider language that is, in some situations, not too different from statutory enactments. In asserting some experience and expertise in these matters, I would have to acknowledge that arbitrators on the whole are not experts in court law or constitutional law, and that some are not attorneys, and that many of us are not able to evaluate the technical and scientific aspects of industry safety problems.

But there is another practicality in terms of the arbitrator's role in individual rights concerns. The fact is that, generally, we can arbitrate only when the parties, either the employer and the union, or the employer and an individual, ask us to arbitrate. We have to be trusted by both parties, and at this point we just may not be trusted, particularly by individual employees who have no reason to know the extent of our experience or abilities.

The point I would make is that I am convinced judicial litigation is extremely expensive and can take many, many months. I think that, at least in some matters, the parties would be well-served to turn to arbitration as a means for resolving a legal dispute involving individual rights. The proposed uniform statute could be the point of departure in terms of involving us.

But that is up to the parties, not us.

[The End]

New Union Organizing: A Return to the Old Methods?

By Anil Verma

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The sharp decline since the 1960s in the fraction of the American workforce that is unionized has attracted widespread attention from the labor movement and other groups, such as policy makers, academics, and employers. The success of employers' human resource management policies based on greater employee involvement, communication, and flexible work organization in opposing unionization¹ suggests that a shift in worker preferences also may have contributed to the decline in union membership.

This decline in union density has led to a soul-searching self-examination within the labor movement. Looking for answers, the AFL-CIO's Evolution of Work Committee commissioned a national survey of workers in 1984 to obtain a better view of worker preferences for unionization in the contemporary workplace and economic setting. This article presents a brief overview of some of the results of the survey, which provide an understanding of the context in which worker preferences for unionization are shaped. The results suggest some strategies for union organizing,

which form the focus of the rest of the article.

Early theorists argued that there was a breakdown of the existing "work order" in the wake of industrialization. Marx and the Webbs,² among others, pointed to class differences being accentuated by the increased use of capitalist forms of production. Commons referred to greater differentiation of the classes due to the development of markets, and psychologists such as Tannenbaum and Hoxie³ saw unionization as "a reaction to machine growth." Workers' response to this "breakdown" of the existing order was to form unions. It follows then that unions are viewed as instruments that protect workers' interests in the new order that emerges after the "breakdown" of the existing order.

There are several implications of these writings for this article. First, it suggests that for workers to form unions, there must be a general awareness of workplace exploitation. Second, workers must see unions as being instrumental in alleviating such exploitation. Third, since employer and employee interests are inherently in conflict, exploitation in some form, mild or strong, is always present unless power is equalized in the employment relationship.⁴ It is generally

¹ Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie, *The Transformation of American Industrial Relations* (New York: Basic Books, 1986); Anil Verma and Thomas A. Kochan, "The Growth & Nature of the Nonunion Sector Within a Firm," in Thomas A. Kochan, ed., *Challenges and Choices Facing American Labor* (Cambridge, Massachusetts: M.I.T. Press, 1985).

² Sidney Webb and Beatrice Webb, *Industrial Democracy* (London & New York: Longmans, Green & Co., 1897) (reprinted 1920).

³ John R. Commons, ed., *A Documentary History of American Industrial Society* (Cleveland: A.H. Clark Co.,

1910); Robert Hoxie, *Trade Unionism in the United States* (New York: Appleton, Century, Crofts, Inc., 1921); Frank Tannenbaum, *A Philosophy of Labor* (New York: Alfred A. Knopf, 1962); Tannenbaum, *The Labor Movement: Its Conservative Functions and Social Consequences* (New York: Arno Press, 1969).

⁴ Jack Barbash, "The Elements of Industrial Relations," *The British Journal of Industrial Relations*, Vol. 2, 1964; Commons, cited at note 3.

assumed that unions increase worker power in dealing with the employer.

Similarly, Perlman⁵ saw American workers as employing a pragmatic and mercantilist philosophy of maximizing economic self-interest in deciding whether to join unions. Writing in the 1920s, clearly, his ideas were heavily influenced by the success of the American Federation of Labor under Sam Gompers. In this view, American workers are essentially pragmatic in their philosophy. They want "good" wages and working conditions rather than unions per se. To the extent unions can achieve these goals, where "good" wages and working conditions are lacking, workers will be interested in joining unions. On the other hand, if the employer provides "good" wages and working conditions of its own or if the union is seen as being incapable of achieving these goals, workers are less likely to vote for unionization.

AFL-CIO Survey

The data presented here are taken from a national survey of workers commissioned by the AFL-CIO in 1984. The purpose of the survey was to ask workers about their preferences for unionization and union services. The survey covered 1200 nonunion workers and 250 union workers. For the purpose of this article, managers (222), professionals (52), and foremen (53) who indicated that their jobs included managerial duties have been excluded.⁶ This provides a sample of 895 nonunion and 228 union workers whose responses are shown in Table 1.

In general, nonunion workers felt that employers treated their employees fairly. The score on the three-item composite, Fair Employment Treatment, was not only significantly higher for nonunion workers than the average for union workers (2.83 v. 2.59), but its absolute value

on a four-point scale suggests that most nonunion workers think well of the way they are treated on the job. On the question of victimization in a unionization drive, a majority (54 percent) of nonunion workers viewed it as an unlikely response of their employer.

Fair employment treatment was measured by the respondents' degree of agreement with the following three statements. Your employer is genuinely concerned about you and other employees. Your employer will deal with workplace problems only if someone forces him to. [Y]our employer provides all the pay and benefits he can afford. Employer victimization score was based on a yes/no response to the following item: If a group of employees attempted to form a union at your place of work, do you think your employer would demote, fire, or otherwise make life difficult for those who supported a union?

A large number of workers report raising individual grievances on the job: sixty-six percent of the nonunion workers and 61 percent of the union workers. Of those who raised grievances, a very high proportion appear to be satisfied with the outcome: on a four-point scale of satisfaction, 3.12 and 3.09 respectively. Group grievances were raised much less often in the nonunion sector than in the union sector. Only 27 percent of the nonunion respondents reported raising a grievance as a group, compared to 46 percent of the union respondents. The satisfaction with resolution of the grievance, however, was nearly identical for the two groups. The grievance satisfaction composite, created by assigning a neutral value (2.5 on a four-point scale) to those who reported raising no grievances, was nearly the same for both groups in the case of individual grievances and lower for nonunion workers in the case of group grievances.

⁵ Selig Perlman, *A Theory of the Labor Movement* (New York: Macmillan Co., 1928).

⁶ In addition to the question on occupation, the following question on managerial content of the job was asked: "Do

you function in a managerial capacity—that is, can you hire, fire, discipline, or promote other employees?"

Thus, nonunion workers appear to do as well as their union counterparts in raising grievances as individuals but appear to be worse off in raising group level grievances.

Job satisfaction was slightly higher for nonunion workers (3.0) than for union workers (2.93), but the difference was not statistically significant. The level of satisfaction in this survey is higher for nonunion workers but lower for union workers compared to the levels reported in the 1977 Quality of Employment Survey.⁷ As expected, nonunion workers had a lower assessment of the union image (2.41) than their union counterparts (2.78).

On the issue of strikes, 32 percent of the nonunion workers and 39 percent of the union workers felt that workers generally gain from strikes. This difference was not statistically significant. Only 12 percent of the nonunion workers, as opposed to 24 percent of the union workers, reported a union member in the household other than themselves. This shows that only half as many nonunion workers get any information about unionism from a family member compared to those who are members of a union. The average score on the vote for union item was 2.08 on a 4-point scale for nonunion workers. This question was not asked of union workers. These results show that the majority of workers would not vote for unionization. An examination of comparable samples from the Quality of Employment Survey 1977 and this survey shows that vote for union declined among nonunion workers from 39.5 percent in 1977 to 32.4 percent in 1984.⁸ On the propensity to move from the present job, both groups of workers scored nearly the same.

In absolute terms, most workers said they would rather stay on the present job and work to improve conditions there.

When we examine the intercorrelations among the variables described above, vote for union is found to be negatively correlated with job satisfaction ($-.38$) and positively with general union image (.45). Job satisfaction in turn is positively correlated with fair employer treatment (.60) and negatively with perceived victimization in an organizing campaign ($-.33$). Lastly, vote for union is positively correlated with propensity to move (.27). All of these correlations are significant at $p = .05$.

Discussion and Implications

Nonunion workers contacted in this survey have mostly assessed employer treatment of employees as fair. This result is consistent across a number of questions asked about work-related grievances, possible victimization of union activists, and employer conduct in setting wages and in generally treating employees fairly. As hypothesized, this perception of employer conduct has a major negative impact on the propensity to vote union in an election. Given these results, it is unlikely that major growth in union ranks will come in the near future from disgruntled employees who have been traumatized by vicious employer mistreatment.

Yet, much of the effort in new organizing appears to make the assumption that there are large numbers of mistreated, disenfranchised, and underprivileged workers waiting to come to the fold. New materials prepared by many unions

⁷ In "The Recent Decline of Unionization in the United States," Mimeograph, Department of Economics, M.I.T., Cambridge, MA, 1987, Henry S. Farber provides a direct comparison of the two survey results by reducing the four-point scale to a dichotomous scale on which job satisfaction equals one if the worker responded with high or moderate satisfaction and equals zero if the worker responded with high or moderate dissatisfaction. Overall satisfaction on this two-point scale increased for nonunion workers from .875 in 1977 to .895 in 1984 while it declined for union workers from .885 to .853 over the same period.

⁸ Farber, cited at note 7. For this comparison, the four-point scale employed in the AFL-CIO 1984 survey was recoded into a dichotomous scale by coding high and moderate probability of voting for union as one and high and moderate probability of voting against union as zero. The Quality of Employment Survey 1977 used a dichotomous scale.

including the AFL-CIO to aid their organizing campaigns constantly emphasize this theme. While it is hard to argue there are not some mistreated workers out there, it is equally unwarranted by these data to assume that these numbers are large and substantial. Of course, the data reinforce the traditional wisdom that workers who are dissatisfied with their employers and jobs are much more likely to vote for unionization.

The labor movement faces two possible courses of action in this situation. One course of action is to continue to rely exclusively on the strategy of organizing dissatisfied workers. However, if there are not enough dissatisfied workers out there, then there is little labor can do but wait for managers to make more mistakes in treating their employees fairly. A second course of action would be to combine a strategy of reaching disgruntled workers with a complementary strategy that reaches other workers through appeals embracing other nontraditional issues.

Unions need to develop strategies for organizing that go beyond the search for ill-treated and underprivileged employees. The suggestion that the scope of traditional "business unionism" must be expanded is pertinent here.⁹ If it is true that workers are genuinely treated better on bread-and-butter issues, then unions need to think about those interests of workers that go beyond fair wages and due process. For example, both the data in this survey as well as in the Quality of Employment Survey 1977 indicate that workers value recognition on the job, opportunity for advancement, and a chance to be involved in on-the-job decisions quite as well (and higher in some instances) as the need for good wages and benefits. Unions have not paid these issues as much attention in the past.

Unions have traditionally stayed away from strategic issues, such as introduction of new technology and investment and divestment decisions, among others. This is not to say that such decisions do not impact bread-and-butter issues like job security. It may be argued that an appeal to workers to obtain some say in strategic issues such as plant closings, introduction of new technology, etc., is likely to be more effective than an appeal based on winning more wage increases and obtaining formal grievance procedures. Of course, workers will have to be made aware of the importance of these "new" issues.

Unions need to reach workers at a level where they can demonstrate the direct impact of strategic decisions on bread-and-butter issues. Further, they will need to establish that near-term fair wages and due process can hide longer-term dangers to worker interests. If there is subtle exploitation, the only way to overcome it is to educate and inform workers about those interests that go unprotected. Clearly, this line of thinking requires that the labor movement abandon its traditional stance that "managers manage and workers grieve." It suggests that the traditional agenda of unionism must be expanded if new and effective organizing strategies are to be formulated.¹⁰

There are two other implications of these findings for new union organizing. First, the positive association between vote for union and propensity to leave suggests that higher turnover workers may be more amenable to unionization than has been assumed in the past. In this view, disaffected workers try for both alternatives, i.e., get a union or leave the job, and take whichever comes first. The common wisdom in the past has been to pay less attention to those industries in

⁹ Charles C. Heckscher, *The New Unionism: Employee Involvement in the Changing Corporation* (New York: Basic Books, 1987); Thomas A. Kochan, ed., *Challenges and Choices Facing American Labor* (Cambridge, MA: MIT Press, 1985).

¹⁰ Heckscher, cited at note 9.

which workers change their jobs often. The old argument was that high turnover workers have low attachment to their jobs and, hence, they would rather leave than stay and fight to improve conditions on the job. These results suggest that high turnover workers may be much more amenable to unionization than has been assumed hitherto. Of course, where tenure is shorter than the time it takes to get a campaign going, this approach may not be helpful. On the other hand, there may be other workplaces where tenure may exceed the time required to organize. According to these data, those workplaces are likely to be ripe for unionization.

Second, workers who had a union member living in their home were more likely to assess unions in positive terms and vote for a union in an election. This suggests that by increasing the access to first-hand information on unions, the propensity to

vote union can be enhanced. To accomplish this objective, the labor movement will need to return to some of the old ways of organizing, namely, by campaigning at the community level. Special interest groups, inter alia, like those fighting for wildlife protection, environmental preservation, and gay rights have used this method effectively over the last twenty years to increase the ranks of their sympathizers through better information and education. Obtaining results in this way, however, is slow and demands dedicated and committed individual crusaders to lead a growing army of volunteers. Volunteers for organizing could come from the ranks of union members. The real question is: Will the labor movement be able and willing to produce the individual crusaders needed to begin a new phase in organizing?

TABLE 1:
Variable means and standard deviations for union and nonunion workers

Variable	Nonunion workers (n=895)		Union workers (n=228)	
	Mean	S.D.	Mean	S.D.
Employer treatment (1-low; 4-high)	2.83 ^a	0.81	2.59 ^a	0.81
Employer victimization (0-no; 1-yes)	0.44	0.49	*	*
Raised grievances (0-no; 1-yes)				
- as an individual	0.66 ^a	0.47	0.61 ^a	0.49
- as a group	0.27 ^a	0.44	0.46 ^a	0.50
Satisfaction with grievance resolution (1 - very dissatisfied; 4 - very satisfied)				
- for individuals	3.12	0.92	3.09	0.91
- for groups	3.03	0.87	3.05	0.86
General union image (1-low; 4-high)	2.41 ^a	0.53	2.78 ^a	0.54
Gain from strikes (0-no gain; 1-gain)	0.32	0.47	0.39	0.49
Union member in the household (0-no; 1-yes)	0.12 ^a	0.32	0.24	0.43
Propensity to vote for union (1 - definitely against; 4 - definitely for)	2.08	1.03	*	*
Propensity to move (1-low; 4-high)	1.92	1.03	1.97	1.03

*: Questions were not asked of union workers

a: Mean differences between nonunion and union workers are significant at 0.05 error level.

[The End]

The Future of Employee Involvement/Participation in the United States

By David Lewin

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What is the future of employee involvement/participation (EI/P) in the United States? An answer to this question requires (1) a definition of EI/P, (2) empirical evidence about EI/P, and (3) a forecast of employer and employee behavior in the labor market of the 1990s.

Standard concepts and, more basically, definitions of EI/P are not contained in the scholarly and professional literature on this subject. Indeed, there appears to be little in the way of standard terminology with respect to EI/P. To illustrate, the terms "high involvement (management)," "workplace innovations," "high-commitment work systems," "sociotechnical systems," "workplace transformations," and many others abound in the EI/P literature.¹ Yet, so far, there has not emerged a standard definition or conceptualization of EI/P that establishes a common ground for EI/P researchers, practitioners, and policy-makers.

One way of advancing the conceptualization of EI/P is to focus on the notions of goal congruence and goal differentiation in terms of the employment relationship. The former calls attention to the shared or common interests of employers (managers) and employees, the latter to

the disparity or even conflict of interests between employers (managers) and employees. Existing concepts of and prescriptions about EI/P are strongly oriented toward goal congruence, that is, toward more closely aligning the interests of employers and employees. The uses of, for example, quality circles, autonomous work teams, joint labor-management committees, organizational surveys, and employee consultation initiatives seem to be fundamentally predicated on the notion of goal convergence; these and related programs are intended to tighten the congruence and/or widen the sphere of shared employer-employee interests.

By contrast, relatively little of the EI/P literature and relatively few EI/P concepts and prescriptions are oriented toward employer-employee goal disparity or conflict. Nevertheless, it is proposed here that programs or initiatives undertaken to address disparate employer-employee interests can and should be viewed as falling within the sphere of EI/P. Perhaps the most prominent of such initiatives are the various appeal, complaint, due process, grievance, and alternative dispute resolution systems that seem to increasingly characterize the landscape of employer-employee relations in the United States (and about which more will be said later). Note that both goal congruence-oriented EI/P initiatives and goal differentiation-oriented EI/P initiatives can be viewed as voice-enhanc-

¹ Edward E. Lawler III, *High-Involvement Management* (San Francisco: Jossey-Bass, 1986); Thomas A. Kochan, Joel Cutcher-Gershenfeld, and John Paul MacDuffie, "Employee Participation, Work Redesign, and New Technology: Implications for Public Policy in the 1990s" (Washington, D.C.: Commission on Workforce Quality and Labor Market Efficiency, March 1989); Richard E. Walton, "Establishing and Maintaining High Commitment Work Systems," in *The Organizational Life Cycle*, J. Kimberly and R. Miles, eds.

(San Francisco: Jossey-Bass, 1980); Eric Trist, "The Evolution of SocioTechnical Systems as a Conceptual Framework and as an Action Research Program," in *Perspectives on Organization Design and Behavior*, A. Van de Van and W. Joyce, eds. (New York: Wiley, 1981); Joel Cutcher-Gershenfeld, "Industrial Relations and Economic Performance: Assessing a Transformation in Labor Management Relations," Working Paper, Michigan State University, 1988.

ing mechanisms in the employment relationship,² which in turn further supports the conceptualization of EI/P offered here.

Empirical Evidence About EI/P

There is no national data base by which to determine the extensiveness or diffusion of EI/P in the U.S. Certain selected data are available, however. For example, a 1982 New York Stock Exchange study found 44 percent of responding firms using quality circles and 46 percent using one or another type of job redesign program: job enlargement, job rotation, and production teams.³ A 1985 Alper, Pfau, and Sirota study found 36 percent of all respondents and 45 percent of the respondent businesses with 1,000 or more employees using some type of EI/P program.⁴ Moreover, a variety of case studies and reports suggest the conclusions that the use of quality circles is declining and that the use of autonomous work teams is increasing among U.S. businesses.⁵

A major limitation of these various studies and reports is their narrow conceptualization of EI/P and, relatedly, the narrow coverage of their data. In particular, this literature is limited to the aforementioned goal-congruence type EI/P initiatives, and the data are reported (usually on a dichotomous yes/no or presence/absence basis) for firms as a whole. Little attention is given to goal-differentiation type EI/P programs or to the occu-

pational and union status coverage of EI/P programs within individual firms.

Fortunately, a new study of human resource policies and practices of U.S. businesses sheds light on these matters.⁶ Consider, for example, the data presented in Table 1 for a sample of major business units of U.S. companies.⁷ Observe that a majority of these (relatively large) businesses do not have a per se EI/P program for any single occupation/union status group. Further, within any specific occupational group, unionized businesses are more likely to have an EI/P program in place than nonunion businesses, and the proportion of businesses with such programs increases as one moves from the highest-ranking occupation (i.e., managers) to the lowest-ranking occupation (manufacturing/production workers).

The incidence of organizational or employee attitude surveying exceeds the incidence of EI/P programs in U.S. businesses, and surveying is slightly more likely to be practiced among the higher-ranking occupational group. The occupation-specific union-nonunion differences in the incidence of employee attitude surveying by U.S. businesses are similar to the occupation-specific union-nonunion differences in the incidence of formal EI/P programs. While programs of information-sharing with employees have rarely been conceptualized as EI/P initiatives and while the notion of a dominant orientation of such programs as between goal congruence and goal differentiation may

² Albert O. Hirschman, *Exit, Voice, and Loyalty* (Cambridge, MA: Harvard University Press, 1970).

³ New York Stock Exchange, *People and Productivity: A Challenge to Corporate America* (New York: New York Stock Exchange, 1982).

⁴ William S. Alper, B. Pfau, and David Sirota, "The 1985 National Survey of Employee Attitudes Executive Report," sponsored by *Business Week* and Sirota and Alper Associates (New York: September 1985).

⁵ Edward E. Lawler III and Susan A. Mohrman, "Quality Circles After the Fad," *Harvard Business Review* 63 (January-February, 1985), pp. 65-71. John Simmons and William Mares, *Working Together: Employee Participation in Action* (New York: New York University Press, 1985); Walter Gershenfeld, "Employee Participation in Firm Decisions," in *Human Resources and the Performance of the*

Firm, M. Kleiner, R. Block, M. Roomkin, and S. Salsburg, eds. (Madison, WI: Industrial Relations Research Association Series, 1987).

⁶ John Thomas Delaney, David Lewin, and Casey Ichniowski, *Human Resource Policies and Practices in American Firms* (Washington, D.C.: Labor-Management Services Administration, U.S. Department of Labor, in press).

⁷ These data were obtained through a 1987 survey of major business units (business lines) of U.S. corporations that report financial data to COMPUSTAT. For details of the sampling procedure, response rates, and the survey instrument itself, see Delaney, Lewin, and Ichniowski, cited at note 6. Percentages reported in Table 1 refer to the proportion of business units reporting that they had a particular EI/P program in place for the particular occupation/union status group in question in 1987.

be debated, the data in Table 1 are among the few ever obtained about this particular initiative.⁸ These data show that a majority of U.S. businesses have a program of information-sharing in place for every occupation/union status group, that the incidence of such programs does not vary substantially or systematically by occupational group, and that the union status of employees does not bear a consistent relationship to the incidence of information-sharing by businesses, unlike in the cases of attitude surveying and EI/P programs. Perhaps most notable about such information-sharing programs is that they are more consistently prevalent among (i.e., practiced by) U.S. businesses than any of the other ostensible EI/P programs for which data are provided in Table 1.

As to grievance/complaint procedures, these as expected are almost universally in place wherever employees are unionized, and this is true irrespective of occupational group. Somewhat unexpected is the incidence of grievance/complaint procedures in nonunion businesses, which ranges between 42 and 54 percent among the occupational groups shown in Table 1. Further, in these nonunion businesses, the incidence of grievance/complaint systems declines with occupational ranking or level. In any case, it is clear that grievance/complaint systems may be interpreted to support the notion of including goal differentiation/goal conflict oriented initiatives within a fulsome conceptualization of EI/P.⁹

⁸ But see David Lewin, *Opening the Books: Corporate Information-Sharing With Employees* (New York: The Conference Board, 1984); Morris M. Kleiner and Marvin L. Bouillon, "Providing Business Information to Production Workers: Correlates of Compensation and Profitability," *Industrial and Labor Relations Review* 41 (July 1988), pp. 605-17.

⁹ For evidence about the incidence of the four types of EI/P programs shown in Table 1 in double-breasted businesses (i.e., those having both unionized and nonunion employees within specific occupational groups), see Casey Ichniowski, John Thomas Delaney, and David Lewin, "The New Human Resource Management in U.S. Workplaces: Is It Really New and Is It Only Non Union?" *Relations*

The Future of EI/P

What of the future of EI/P initiatives in U.S. businesses? Are these initiatives likely to widen and become more diffused, or are they likely to recede and narrow in their application and coverage? What may be termed the dominant view, certainly the popular view, is that such initiatives will widen and deepen.¹⁰ Additional support for this view can be found in the new recent study of human resource policies and practices of U.S. businesses referred to earlier,¹¹ selected findings from which are presented in Table 2. The table provides summary ratings of the respondent businesses' current and expected future use of five specific EI/P initiatives. Note that the differences in means for these five items were the largest (or among the largest) of all mean differences for 30 specific human resource policies and practices for which current use and expected future use information was obtained in this study. Clearly, according to these data, U.S. businesses intend to expand their EI/P initiatives considerably over the next several years.

Nevertheless, there is reason to question whether the EI/P "movement" will advance significantly among U.S. businesses in the decade ahead. Consider, first, that if the U.S. economy does indeed become more globally competitive,¹² pressures to reduce "labor" costs may deepen, with consequent negative impacts on expenditures for EI/P. Recognize that, as yet, we do not know whether expenditures for (investments in) EI/P are statistically

Industrielles/Industrial Relations 44 (Winter 1989), pp. 97-123.

¹⁰ Simmons and Mares, cited at note 5; Lawler, cited at note 1; Kochan, Cutcher-Gershenfeld, and MacDuffie, cited at note 1; David Sirota, William S. Alper, and B. Pfau, "Report to Respondents: Survey of Views Toward Human Resource Policies and Practices," sponsored by Sirota, Alper, and Pfau (New York: 1989).

¹¹ Delaney, Lewin, and Ichniowski, cited at note 5.

¹² President's Commission on Industrial Competitiveness, *Global Competition: The New Reality* (Washington, D.C.: U.S. Government Printing Office, 1985).

related to the business cycle, industry concentration, or macroeconomic competitiveness. Second, EI/P initiatives, both generally and specifically, may have a shorter half-life than is commonly thought. From this perspective, a period of EI/P experimentation and expansion may be followed by a period of retrenchment and erosion. As noted earlier, this seems to have occurred in the specific case of quality circles,¹³ and it may come to characterize other types and forms of EI/P. This is an especially large risk if EI/P initiatives cannot be shown to be significantly related to businesses' financial performance.¹⁴

Finally, the future incidence and diffusion of EI/P among U.S. businesses may be most profoundly affected by the state of the labor market. In particular, tight labor markets are associated with higher employee quit rates, enhanced job and occupational mobility, and more rapid promotions, that is, with greater churning in or instability of employment relationships. Such forces appear to be at odds with the notion of workplace stability or, more broadly, employment relationship stability that is embedded in received concepts of EI/P. Put differently, tight labor markets provide an impetus to the exit option and a drag on the voice option with respect to the employment relationship.¹⁵ As such, tight labor markets may be inconsistent with employers' current as well as expected use of EI/P initiatives.

Will, in fact, U.S. labor markets tighten further in the years ahead? This is a complex question which cannot be fully explored here. But consider that (1) demographic factors—an aging of the workforce, a declining average age of

retirement, and a shrinking female labor supply, (2) restrictions on immigration and the use of private employers to enforce such restrictions, (3) increased use of such employment "screens" as drug testing, AIDS testing, polygraph testing, etc., and (4) the apparent growth of a "phantom" labor supply of high school graduates who are unable to achieve job-related threshold levels of reading, communication, mathematical, and computing skills may combine to bring about deep and sustained labor shortages in the U.S. in the 1990s.¹⁶ Should this materialize, and following the reasoning proposed earlier, future labor market pressures may indeed serve to inhibit or even reverse the forces that have apparently brought about recent increases in EI/P initiatives in U.S. workplaces.

However, it is also possible that an "alternative scenario" lies ahead. Specifically, U.S. employers may decide to respond to increased competitive pressures and tight labor markets by using EI/P as a labor market "offering" or "incentive," that is, as a device to attract and retain employees. This will, of course, require that employees take account of and positively value EI/P characteristics of employers in their determinations of comparative net advantage in the labor market. Having experienced in the 1980s a sustained period of labor cost containment via workforce reductions, pay restraints, and fringe benefit givebacks, U.S. employers may very well decide to compete for labor more through EI/P initiatives than through conventional compensation packages.¹⁷ In other words and from this perspective, tighter labor markets may spur rather than retard EI/P

¹³ Lawler, cited at note 1.

¹⁴ See, for example, John Thomas Delaney, Casey Ichniowski, and David Lewin, "Employee Involvement Programs and Firm Performance," *Proceedings of the 41st Annual Meeting, Industrial Relations Research Association, 1988* (Madison, WI: IRRA, 1989).

¹⁵ Hirschman, cited at note 2.

¹⁶ Audrey Freedman et al., *Human Resource Outlook 1989* (New York: The Conference Board, 1988).

¹⁷ In this article, we do not examine the role or incidence of economic-participation-type policies and practices, e.g., profitsharing plans, employee stock ownership plans, gainsharing and other incentive plans, etc., in U.S. business. For information on such policies and practices, see Delaney, Lewin, and Ichniowski, cited at note 5.

initiatives among U.S. employers. In the absence of a dominant theory of EI/P, the two competing hypotheses offered here about the effects of labor market conditions on employers' EI/P policies and practices seem equally plausible. If this

provides little solace to employers and practitioners, it at least suggests a rich set of opportunities for researchers to broaden their horizons by studying the effects of labor market conditions on EI/P in U.S. businesses.

TABLE 1
Frequency of Employee Involvement/Participation Programs in U.S. Businesses, By Occupation Group and Union Status*

Occupational Status	Group/Union	Employee Involvement/ Participation Program	Attitude Surveys	Information Sharing Program	Grievance or Complaint Procedure
Managers		32% (418)	50% (444)	59% (355)	42% (455)
Nonunion Professional and Technical Employees		34% (401)	40% (426)	57% (343)	45% (439)
Unionized Professional and Technical Employees		42% (52)	51% (51)	50% (44)	96% (57)
Nonunion Clerical Employees		34% (420)	38% (431)	53% (353)	47% (460)
Unionized Clerical Employees		48% (82)	49% (80)	64% (70)	99% (88)
Nonunion Manufacturing and Production Employees		43% (296)	39% (297)	57% (261)	54% (325)
Unionized Manufacturing and Production Employees		49% (152)	44% (156)	64% (137)	98% (177)

* Sample size in parentheses

Source: John Thomas Delaney, David Lewin, and Casey Ichniowski, *Human Resource Policies and Practices in American Firms*. Washington, D.C.: Labor-Management Services Administration, U.S. Department of Labor, in press, p. 84.

TABLE 2
Current and Expected Use of Employee Involvement/
Participation Programs by U.S. Businesses*

Type of Employee Involvement/ Participation Program	Mean Rating for		Difference in means
	Current (1 = Not at all 5 = a great deal)	Next Several Years (1 = not at all, 5 = a great deal)	
Employee Involvement/ Participation	3.1 (479)	3.7 (463)	.6
Quality Circle	1.9 (479)	2.3 (460)	.4
Employee Team building	2.6 (482)	3.3 (466)	.7
Semi-Autonomous Work Groups	1.9 (475)	2.3 (456)	.4
Conduct Regular Assessments of Organizational Climate	2.3 (483)	2.9 (466)	.6

* Sample size in parentheses

Source: John Thomas Delaney, David Lewin, and Casey Ichniowski, *Human Resource Policies and Practices in American Firms*. Washington, D.C.: Labor-Management Services Administration, U.S. Department of Labor, in press, p. 33.

[The End]

Dispute Resolution and the Transformation of U.S. Industrial Relations: A Negotiations Perspective*

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Virtually every industry in the United States is grappling with fundamental changes in industrial relations and organizational arrangements. In the course of our own research tracing these changes,¹ it has become clear that the degree and nature of change varies greatly across

* These remarks represent preliminary findings from a larger study on the negotiations processes associated with fundamental change in industrial relations. The study is being conducted by Robert McKersie, Richard Walton, and Joel Cutcher-Gershenfeld with support from the W.E. Upjohn Foundation for Employment Research. Research

assistance on the project has been provided by Kathleen Scharf and Patrick McHugh.

¹ Thomas Kochan, Harry Katz, and Robert McKersie, *The Transformation of American Industrial Relations* (New York: Basic Books, 1987); Richard Walton, *Innovating to*

industries, within a single industry, and even within a single firm. As well, upon close examination, the variation can be understood as the product of a highly negotiated set of interactions among stakeholders to the employment relationship.

This article is a progress report on current research aimed at deepening understanding of the current variation in industrial relations practice via the examination of negotiations processes. In this research we have examined changes that are underway in three industries: paper, railroads, and auto supply, which have been selected to represent a range of competitive pressures and a range of production processes. In addition, we are drawing on our own prior research on current changes in a number of other industries, including shipping, automobile manufacturing, airlines, and electronic office products.

This article is divided into two main sections. The first section traces changes and strategic options in three industries, and the second section examines the implications for theory and practice. At the outset, however, it is important to note that the material reported here is highly preliminary; we are presenting our current thinking at this stage of the research rather than any final conclusion.

We observe two dominant avenues by which labor and management have engaged in negotiations that have led to fundamental changes in industrial relations. The first avenue involves urgent pressure, typically from management, for changes that are seen as essential for organizational survival. We will be using the term "necessity bargaining" to characterize the set of interactions associated with such pressure. The second avenue emerges out of the broad range of activities that labor and management leaders

may agree to jointly establish and administer, including training, employee involvement, health and safety, new technology, employee assistance programs, job security, absenteeism, health care, and strategic planning. We will be using the term "administrative bargaining" to characterize the set of interactions associated with these joint initiatives. In order to illustrate the concepts of necessity bargaining and administrative bargaining, as well as to place them in context, we will begin with an examination of three highly contrasting U.S. industries.

Throughout the analysis in this section of the article, we will make reference to Table 1, which examines management's short-run and long-run ability to impose change in three industries. These abilities are then linked in the Table to bargaining responses. As the format of the Table implies, it is the strategic choices facing management that is the point of departure for much of the analysis presented here.

The Paper Industry

The paper industry has been heavily unionized by one dominant union, the United Paper Workers, and remains heavily unionized. The primary approach to change over the past several years has been via what we would term necessity bargaining, aimed at lowering labor costs. In this context, management becomes the driving force in bargaining as it demands to eliminate "cold days" (when the mills were shut down for major holidays), to reduce Sunday premium pay, and to develop more flexibility via the elimination of work rules. While imports have not been a major factor in this industry, many companies find their overall rates of return to be unsatisfactory, and they realize that their compensation costs are typically far above market rates for the

(Footnote Continued)

Compete (San Francisco: Jossey-Bass, 1988); Joel Cletcher-Gershenfeld, "Tracing a Transformation in Industrial Relations: The Case of Xerox Corporation and the Amalgamated

Clothing and Textile Workers Union" (Washington, D.C.: U.S. Department of Labor, 1988).

(mostly rural) communities within which their facilities are located.

The strong desire on the part of the companies to lower labor costs has met substantial resistance on the part of the workers involved. For example, long drawn-out strikes have occurred at mills owned by Boise-Cascade and International Paper. The strong resistance is explained primarily by the fact that the financial pressure on the industry is not so severe as to make the demands of the company compellingly persuasive. Walton notes that economic pressure needs to be severe enough to capture the attention of the workforce, but not so severe as to make any adaptation seem fruitless.² Thus, we would conclude that economic pressure in the paper industry is on the low side of what would be considered a motivating level of economic stress.

Another factor that fosters full-fledged confrontation is the employer strategy of unilateral implementation of changes in work practices. Paper companies seem to have perfected the techniques of operating plants with supervisors and hiring replacements and initiating changes with the new workforce. Unlike our other two industries (railroads and auto supply, where it is very difficult to attain full production with a skeletal crew), it has been feasible in paper (and other continuous-process industries) for management to operate the facilities for a sustained period of time. It is for this reason that management's ability to impose short-run change is classified in Table 1 as "high."

Thus, in the short run, a number of relationships have deteriorated to the point of open conflict. Interestingly, in this contentious context, some paper companies have been quietly pursuing change on a more cooperative basis. In effect, they offer the union an alternative of seeking change more gradually and quietly, without the breakdown in labor-management relations. This quieter, more

cooperative path is not characterized by the same urgency and depth of change in contractual issues as necessity bargaining, nor has it led to extensive change via joint governance and administrative bargaining. An interesting long-run set of questions is whether the quieter approach will evolve into broader administrative bargaining and whether the direct, necessity bargaining approach to change will lead to different outcomes than the quieter, more cooperative approach.

Over time there is some evidence on the long-term dynamics associated with necessity bargaining. While the confrontations associated with necessity bargaining are certainly significant emotional events, there are indications that the contention is at least somewhat reversible. For example, after a bitter strike at the Rumford Mill of Boise Cascade, the parties have recently opened negotiations early and signed a long-term agreement that appears to meet the parties' mutual objectives.

While there are some nonunion mills that have been opened in new locations, the more typical pattern seems to be the expansion and upgrading of existing facilities (where unions are very much a part of the scene). The evidence suggests that the strategy of opening up a nonunion greenfield mill is not easily available to the parties due to the high fixed capital costs. This is why we have classified the long-term ability to avoid the union in Table 1 as "low." Thus, from an analytical point of view, an important determinant of the apparent need to improve the long-run labor-management relationship is the inability of management to move its facilities.

We are not now in a position to provide any definitive evaluation of the contrasting alternatives that we observe in the paper industry. On the one hand, the quieter, more cooperative approach produces change, but slowly. The long-term results

² Walton, cited at note 1.

from this approach could be substantial, but there is not yet evidence whether the potential will be realized. On the other hand, it is clear that the necessity bargaining approach leads to significant change in the short run, but usually at a very high cost to morale and the quality of the labor-management relationship. Over the long run, there is some evidence that some degree of reconciliation is possible. Thus, the paper industry seems broadly divided between two dynamics: one that involves escalating, highly contentious necessity bargaining followed by reconciliation, and the other that involves quiet, cooperative initiatives that expand in scope at a slow pace.

The Railroad Industry

By many measures the railroad industry has undergone substantial change over the past 10 to 15 years. Employment has dropped in half, and a number of branch lines have been sold to independent operators, often with dramatic changes in contractual arrangements. However, by comparison with other industries where significant changes have occurred in compensation arrangements and work rules, the core features of collective bargaining arrangements in this industry have primarily remained intact. Hence, short- and long-term dimensions of Table 1 for the railroad industry are labeled as "status quo."

The status quo nature of the industry in the short run is explained by several factors. First, with respect to economic necessity, the picture is similar to the paper industry. The major companies are making profits, although they are far below what would be considered an acceptable rate of return. Second, the unions and the workers are in a position to resist a lowering of their compensation (which is the highest of any industry) due to the unions' ability to engage in secondary boycotts (under the Railway Labor Act) and the willingness of the unions to do so (that is, the solidarity of the unions).

With the exception of the experience of the Florida East Coast Railway (that sought to operate trains in the face of a strike several decades back), none of the large railroads have contemplated full scale necessity bargaining.

One railroad, Guilford, a small regional carrier, did recently continue to operate in the face of a strike (until it was ordered to rehire workers via an emergency board and several arbitration decisions). It is interesting to note that now Guilford has followed the route of several of the paper companies wherein the confrontation has been followed by reconciliation.

Guilford has signed an encompassing contract with the United Transportation Union for all of the craft workers. This industrial form of union representation is preferred by management; a common complaint in airlines and railroads is that they do not have the advantages of one union as is found in the trucking industry.

Returning to the short-run status quo characterization of the railroad industry, it is important to note that a range of approaches has developed as the companies have sought to achieve breakthroughs in manning levels and work rules. CSX engaged in a very ambitious problem-solving exercise with all of the unions, and an imaginative package resulted that provided for substantial reductions of the workforce via early retirements and attrition, as well as a sharing of future benefits with the workers. However, the unions have not been able to sell the package to their members. Thus, there is no support for the union leaders to engage in the full range of ongoing administrative negotiations that would be required to give life to the dramatic changes.

Over the long run, the railroads are very much locked into their route systems and to their relationships with the unions that are "on the property." The term we hear frequently mentioned by railroad management is that, one way or another, they are seeking to develop "leverage" as

a way of compelling changes in operations. A number of major carriers have sought to break out pieces of the business and sell them to third parties or to place them under subsidiaries that would enable management to restructure operations and to renegotiate labor agreements. Some of these efforts have been successful, but others have been effectively stopped by injunctions that unions have obtained from the courts. We believe much more of this testing of the limits will take place, given the pressures for change and the difficulty of conventional collective bargaining in bringing about what management sees as the necessary adaptation. For the moment, however, the railroad industry seems to have neither the impetus for necessity bargaining nor the foundation for administrative bargaining.

The Auto Supply Industry

This industry presents a very interesting profile of a rapid decline in union density over the past 10 to 15 years. Yet, at the same time, there has been the emergence in the few remaining unionized facilities of a number of far-reaching problem-solving efforts to improve effectiveness and job security.

In the short run, change has proven difficult for management to achieve in this industry. The union is in a very good position to resist concessions because it is more difficult to maintain production and deliveries during a strike (in contrast with the paper industry), there are often other firms ready to take over any unfilled orders, and customers are pressuring firms to operate on a just-in-time delivery basis with reduced inventories. Hence, the short-term potential for change has been labeled in Table 1 as "low," and the resulting pattern is "status quo."

Faced with a perceived need for change and with initial resistance from the unions and workers, many companies have avoided protracted discussion and pursued a long-term strategy of shutting down unionized plants and opening new

nonunion facilities. Companies such as Eaton, TRW, and Dana, for example, have experienced a precipitous drop in the percentage of their blue-collar workers who are unionized. A key element of the strategy of such firms is the use of all of the latest human resource management techniques aimed at filling the functions normally assumed by a union (assessing worker priorities, dispute resolution, and sharing information). Motivating such moves are considerable economic pressures and labor costs that are a relatively high percentage of operating costs.

No doubt many companies have taken the escape option prematurely. It takes time to convince a workforce about the economic realities; sometimes two or three rounds of "education" and ratification votes are taken before a majority of union members will accept substantial changes in contractual work rules and compensation arrangements. There also is evidence to suggest that many workers can come to accept the necessity of change in order to meet competitive pressures.

Where companies have been more patient, we find a dramatic emergence of administrative bargaining. For example, in the Budd Detroit Stamping Plant, which is organized by the UAW, there recently has been a period of growth (after a long decline) that is partly fueled by a range of successful administrative initiatives. These include a revitalized employee involvement program, the use of an autonomous team structure to manage the stamping die transition process, the extension of the team concept to quality issues, and the potential use of team structures for all production operations. Sustaining these new arrangements has required a more continuous form of administrative bargaining between line production managers and union leaders. As well, since there are parallel developments in other Budd plants, the corporate industrial relations staff and the international union leadership have found it necessary to bring together the key members

of both bargaining teams on a quarterly basis throughout the term of the current contract. Similarly, the top union (UAW) and management leaders at a major parts supply plant in the Rochester Products Division of General Motors have found it necessary to meet on a weekly basis (every Monday morning) in order to administer an extensive employment security program.

Thus, in the auto supply industry the short-term picture has been constrained for many parties, while the long-term picture features two divergent extremes. On the one hand, contentious relations go beyond necessity bargaining to the elimination of the collective bargaining relationship. On the other hand, far-ranging administrative bargaining has been associated with fundamental transformation in industrial relations.

Implications for Practitioners

Necessity bargaining and administrative bargaining both involve negotiations over issues of fundamental change that are outside the traditional agenda that parties usually bring to the collective bargaining table. However, necessity and administrative bargaining represent very different paths toward these issues. In this section of the article, we will surface the implications for theory and practice of the different paths.

As we have suggested above, managers in a number of industries are coming to the bargaining table with positions that are rooted in what they see as economic necessity, which we have termed "necessity bargaining." The managers are often surprised, however, to find that bargaining over such matters does not become a joint problem-solving process over how best to respond to competitive pressures. Instead, the negotiations can deteriorate into a highly contentious proceeding. We have seen this deterioration occur around issues ranging from premium pay on weekends to the number of job classifications.

One key factor in the deterioration of necessity bargaining into a low-trust, high-conflict set of relations is the failure of both labor and management to recognize that there are more than the obvious substantive issues on the table. For example, a management demand for reduced classifications may reflect more than just a traditional management preference for flexibility; it may be seen by managers as an indispensable component of their competitive survival as a firm. For labor, the demand for reduced classifications may be seen not only as an encroachment on previously won benefits, but as a threat to the very institutional security of the union. Thus, for both parties, there are survival issues at stake that go well beyond the specifics of work rule changes.

Recognizing the existence and the legitimacy of these deeper survival issues is a key step toward avoiding the deterioration of necessity bargaining. At an interactive level, recognition may take the form of each side being explicit about what is at stake and checking to ensure that it understands what is at stake for the other side. At an institutional level, the existence of forums oriented toward problem-solving bargaining (joint committees, task forces, etc.) can play a critical, complementary role.

It is important to note an interactive dilemma associated with being explicit about what is at stake for each side. This involves the risk that the acknowledgment of the other side's deeper interests be construed as agreement with the other side's position. A related issue associated with necessity bargaining concerns distinguishing crisis pressures from rhetoric. Even if one side or the other tries to be explicit about what is at stake, it may not sound appreciably different from past management rhetoric about competitive pressures or past union rhetoric about institutional security. Typically, fundamentally deeper levels of information sharing are a necessary requirement in

order to distinguish present realities from past rhetoric.

Finally, the clear implication from the analysis in the first section on short-term and long-term options suggests that the use of necessity bargaining in the short term be linked to a realistic evaluation of long-term options. Thus, if a paper mill does not have long-term flexibility, it is predictable that even the most hard-edged strategy by management will eventually have to be followed by some form of reconciliation. This is not to say that a hard-edged, short-term strategy is ill-advised. There is some evidence to suggest that the unfreezing quality of a hard short-term strategy may lead to some important managerial gains without irreparable damage to the relationship. The evidence on this point is, however, incomplete.

Administrative Bargaining

For many practitioners, the bargaining associated with many new employment issues contrasts strongly with the bilateral, periodic set of adversarial interactions that typically characterize collective bargaining. As we noted earlier, new patterns of negotiations can be found with respect to issues ranging from training, to employee involvement, to health and safety, to new technology, to employee assistance programs, to job security, to absenteeism, to health care, to strategic planning. Setting aside current debates over whether bargaining over wages and benefits has also changed,³ there is substantial evidence that, on the above range of issues, the negotiations involve a more continuous, multilateral decision-making process, which we have termed "administrative bargaining."

As parties expand the scope of issues that they are willing to address via administrative bargaining, they quickly learn that a joint administrative responsi-

bility for a given program area does not mean that they will only face easy, consensus decisions. Rather, fundamental disagreements will periodically emerge regarding program specifics and even broad goals. We feel that such conflicts are inevitable in any mixed-motive relationships. As such, the clear implication for practitioners is to anticipate that conflict will emerge in the course of joint initiatives.

At the level of interpersonal interaction, it becomes important to be able to engage in clear confrontations without engendering defensiveness, as well as to engage in active listening and other communications skills. Equally, at an institutional level, it is important to ensure that formal and informal mechanisms for dispute resolution exist side-by-side with the joint administrative structures. Ultimately, we would hypothesize that legitimizing competing interests would lead to strong programs, even though the administration might be more complex.

Because administrative bargaining involves a more continuous set of interactions, there are a number of aspects of bargaining strategy that stand in contrast with the strategies associated with periodic collective bargaining. First, the nature of deadlines, impasse threats, and other forms of leverage become much more subtle. Second, it is possible to make a series of small (or "nickel and dime") agreements, many of which are not written down, without fully assessing the sum total of the agreements. Third, highly effective innovations do not necessarily diffuse or become institutionalized. Finally, the result of more continuous administrative bargaining is that new channels of communication and decision-making are established.

The implications for practitioners involved in more continuous relations, of course, is that it is periodically necessary

³ Richard Freeman, "In Search of Union Wage Concessions in Standard Data Sets," *Industrial Relations* 25 (Spring 1986); Daniel J.B. Mitchell, "Shifting Norms in

Wage Setting," *Brookings Papers on Economic Activity*, 2 (1985).

to step back and assess the administrative relations. In this regard, we have found off-site strategic planning sessions are often critical to assess current status and explore redirection. Equally, we have found that collective bargaining is a particularly valuable forum for codifying successful innovations, which may suggest a strong interdependency between the more informal and continuous administrative bargaining and the more formal, periodic collective bargaining. Still there are unanswered questions regarding the power implications of side-by-side administrative bargaining and collective bargaining. For example, are union leaders constrained from distributive tactics because of their administrative responsibilities, or is management more vulnerable to distributive tactics (such as holding joint programs hostage), or are both limits present?

Often the interests of various stakeholders within labor (such as officers, appointees, stewards, skilled trades, etc.) and within management (especially distinctions between the production management and staff) become more sharply distinguished in the course of administrative bargaining. Equally, new stakeholders (such as outside customers, outside suppliers, and communities) take on active roles. The result is greater intra-organizational tensions and a more multi-lateral form of bargaining.

To some extent, parties have responded by making the negotiations among these multiple parties more explicit. For example, production operations that are dependent on one another may refer to each other as internal suppliers and internal customers as they bargain over each other's quality, schedule, and cost requirements. As well, new outside stakeholders may be given formal "seats at the table"

for certain administrative structures. Still, there are deep questions to be addressed regarding mechanisms for direct and indirect participation by various labor and management stakeholders in administrative bargaining. Specifically, in what ways does administrative bargaining reinforce or undercut union democracy and the managerial chain of command?

Ultimately, the challenges of administrative bargaining operate both at the level of interpersonal interaction and at an institutional level. At the interpersonal level, the initial challenges concern building a capacity to bargain over how to bargain. That is, establishing joint administrative initiatives requires a form of negotiations over the norms of interaction associated with administrative bargaining. At an institutional level, labor and management leaders are really engaged in a process of crafting governance,⁴ whereby the parties are constructing new institutional arrangements within which they will then operate.

Implications for Theory

If, as we would agree, industrial relations in the United States have entered a period where there are deep changes occurring in the patterns of interaction, we must consider what theories will best aid us in understanding the changes. In this regard, we have found that many of the principles derived from a behavioral perspective on negotiations have proven particularly powerful. However, we have found ourselves extending the Walton and McKersie framework beyond the relatively stable, periodic, and bilateral processes of collective bargaining.⁵

Indeed, if we examine the four dimensions of the 1965 behavioral theory of labor negotiations, we see that recent

⁴ Ernest Savoie and Joel Cutcher-Gershenfeld, "Reflections on the Governance of Joint Training Initiatives," in *Union and Management Programs for the Training and Personal Development of Workers*, Louis Ferman, Michele Hoyman, Joel Cutcher-Gershenfeld, and Ernest Savoie, eds. (Ithaca, NY: ILR Press, forthcoming).

⁵ Richard Walton and Robert McKersie, *A Behavioral Theory of Labor Negotiations* (New York: McGraw-Hill, 1965).

events reveal some of the most extreme aspects of each dimension. It is these extremes that have mapped our research agenda. We list them here by way of illustration and by way of invitation for further research by others. As a field, we feel that we need to know more about:

(1) How can distributive dynamics deteriorate in the course of necessity bargaining and destroy a labor-management relationship?

(2) How can integrative dynamics expand via administrative bargaining and transform a labor-management relationship?

(3) How are intraorganizational dilemmas becoming more sharply articulated and how do they now exist side-by-side with an emerging set of multilateral dilemmas associated with parties in addition to labor and management?

(4) How does attitudinal structuring become bargaining over the very norms and assumptions that frame negotiations?

Deeper understanding along these dimensions promises to fully embed current alternative dispute resolution initiatives within a broader conception of the changing nature of U.S. labor-management relations. Further, the analysis promises to deepen and extend our understanding of the nature and dynamics of a transformation in U.S. industrial relations. Finally, it is via such an analysis that we may better learn how to assist unions in facing fundamental institutional questions and how to assist employers in facing profound competitive pressures.

TABLE 1
MANAGEMENT AND THE POWER EQUATION

	SHORT RUN		LONG RUN	
	Ability To Impose Change	Bargaining Response	Ability To Escape The Union	Bargaining Response
PAPER	HIGH ---->	Aggressive Necessity Bargaining	LOW ---->	Repair Relations
RAILROADS	LOW ---->	Status Quo	LOW ---->	Status Quo
AUTO SUPPLY	LOW ---->	Status Quo	HIGH ---->	Escape or Expanded Administrative Bargaining

[The End]

The Practices Consonant with Cooperative Labor Relations

By Paula B. Voos

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Board and a Professor at the University of Wisconsin in Madison.

In the 1980s, considerable attention has been devoted to the matter of union-management cooperation. This has occurred despite widespread imprecision about exactly what cooperation means and entails in practice. For example, most people regard extensive communication to be a part of cooperative labor relations. Does this mean that firms must share more information with unions or that they must do so earlier than is currently required by law? At present, various academics, managers, and union leaders might answer this question differently insofar as they have varying notions about which policies and practices are part of cooperation. This is the primary focus of this article.

Additionally, a further issue is addressed: whether or not managers' attitudes about cooperative practices matter for the outcome of interest—the quality of labor relations in a particular bargaining unit. That is, do we systematically observe “better” labor relations when the participants in collective bargaining are intellectually convinced cooperation requires specific acts like the early sharing of business information and thus presumably are more likely to engage in these practices? Or, are such attitudes really of little relevance because the economic context—and not the philosophy of the actors—largely determines the quality of labor relations that typically emerges in a bargaining unit?¹ This is an important question because all the currently popular programs designed to promote cooperative labor relations attempt to change the perspectives of participants. Such programs can be effective

only insofar as attitudes and practices do influence outcomes.

The data used in this study are from an anonymous mail questionnaire sent to a sample of managers of unionized Wisconsin companies in the autumn of 1984. The survey was distributed to persons listed as the “employer official to contact” on the contract reopening notices filed with the state mediation and conciliation agency for a two-year period.² Although the precise job of each manager was unknown prior to survey distribution, respondents generally turned out to be quite influential, often the company president or the vice president in charge of collective bargaining. More than half were specialized “labor relations” managers of some sort; 19 percent identified themselves as either industrial relations or labor relations specialists and 34 percent as personnel, human resources, or employee relations managers.³

A letter accompanying the questionnaire asked about labor relations in a specific bargaining unit of the company, with a limit of one per firm. Originally 624 surveys were distributed in this fashion. With two repeat mailings to initial nonrespondents, 379 questionnaires were eventually returned for a response rate of 61 percent. The research reported here is based on the 308 returned surveys that included answers to all questions used in the analysis, most critically the 22 attitude items concerning the meaning of union-management cooperation.

Those items were on the last two pages of the questionnaire. Respondents were asked to either (1) strongly agree, (2) agree, (3) neither agree nor disagree, (4) disagree, or (5) strongly disagree as to

¹ See Paula B. Voos, “Cooperative Labor Relations and the Collective Bargaining Environment,” *Proceedings of the 38th Annual Meeting, Industrial Relations Research Association, 1985* (Madison, WI: IRRRA, 1986), pp. 287-95.

² Employer bargaining associations were excluded from the sample, as were units with less than 50 employees.

³ Somewhat more than one-third (35 percent) were managers of other types, including plant or production managers

(nine percent), firm presidents or owners (nine percent), non-labor relations vice presidents (six percent), and corporate divisional or regional directors (five percent). Some vice presidents did not report their function (seven percent), a few lawyers and comptrollers answered the questionnaire (one percent each), and the rest were miscellaneous managerial types (eight percent). The four secretaries who responded were excluded from the analysis.

what they would expect to find "in a bargaining unit with *cooperative labor relations*." Specific questions were developed by examining the literature on cooperation, questions from other surveys on related topics, and responses from pretests.

"Cooperation" Items

The meaning of cooperation items used are listed in Table 1, along with the distribution of responses from respondents.⁴ Obviously, there are no "right" answers in a survey of this sort; the entire purpose is to discover what actual collective bargaining participants see as part of, or as excluded by, cooperation. Items were written to explore attitudes on the following aspects of cooperation.

Communication: Most discussions of cooperation emphasize that it entails extensive consultation.⁵ Further issues involve the formality or informality of communication, its timing, and its comprehensiveness in terms of issues discussed.

Legalism in Information Sharing: The matter considered here is whether or not cooperation truly requires earlier and more extensive sharing of information than is currently required by law, as some scholars contend.⁶

Trust, Fair Dealing, Mutuality: Many discussions of cooperation emphasize that cooperation requires that union and management principals develop mutual

respect and trust for one another as human beings.⁷ This is predicated on the recognition by both sides of the institutional integrity of the other actor, implying that management forswears efforts to undermine or disestablish the union.⁸ Furthermore, both parties presumably regard labor relations as an arena that can produce mutual gains by solving joint problems. That is, they look for opportunities for integrative, as opposed to distributive, bargaining.⁹ Issues probed here include the quality of personal relations among managers and union officials, a problem-solving rather than a win-loss orientation, and management's respect for the maintenance of the union's role as representative of the workforce.

Concessions: In the 1980s, we have witnessed the simultaneous emergence of concession bargaining and increased efforts toward union-management cooperation in certain companies under economic pressure. In some instances, the two are apparently compatible. However, management demands for concessions may be viewed by unions as highly conflictual in other circumstances. Here, the issues are whether cooperation requires unions to accept concessions or requires management to abjure demands for concessions in particular situations.

Formality: Another matter is the formality of cooperative efforts. In recent years, formal union-management cooperation efforts like joint committees have blossomed; on the other hand, many dis-

⁴ One item is not used in the analysis because its invalidity became evident after the survey was administered. The item read: "The union uses any formal cooperative programs that exist to gain advantages not provided in the contract." This was obviously read in two diverse senses by respondents, (a) as a simple assertion that unions can gain from cooperative programs, and (b) as a statement that opportunistic use by unions of such programs is consistent with cooperation.

⁵ Michael Schuster, "Problems and Opportunities in Implementing Cooperative Union-Management Programs," *Proceedings of the 35th Annual Meeting, Industrial Relations Research Association, 1982* (Madison, WI: IRRA, 1983), pp. 189-97; John T. Dunlop, "A Decade of National Experience," in *Teamwork: Joint Labor-Management Programs in America*, Jerome M. Rosow, ed. (New York: Pergamon Press, 1986).

⁶ Janice R. Bellace and Howard F. Gospel, "Disclosure of Information to Trade Unions: A Comparative Perspective," *International Labour Review* 122 (January-February 1983), pp. 57-74.

⁷ James W. Driscoll, "Discussion: Specific Experiences of Labor-Management Committees," *Proceedings of the 34th Annual Meeting, Industrial Relations Research Association, 1981* (Madison, WI: IRRA, 1982), pp. 161-65; Schuster, cited at note 5.

⁸ Thomas A. Kochan and Lee Dyer, "A Model of Organizational Change in the Context of Union-Management Relations," *Journal of Applied Behavioral Science* 12 (February 1976), pp. 59-78.

⁹ Richard E. Walton and Robert B. McKersie, *A Behavioral Theory of Labor Negotiations* (New York: McGraw-Hill, 1965).

cussions of cooperation emphasize informality.

Influence of IR/HR Managers: The question addressed is whether or not cooperation requires that human resource and industrial relations managers play a relatively influential role within management. The argument is that union leaders will be more willing to communicate with, receive information from, and trust such managers only insofar as they have significant influence within management.

Survey Results

There is very strong support among these managers for the view that cooperation is characterized by extensive informal consultation (items 3 and 5 in Table 1). There is moderate agreement that cooperation implies that management is willing to discuss matters that are not mandatory subjects of bargaining and that communication occurs relatively early in the decision-making process (items 1, 4, and 6), but there is some hesitation about agreeing that this implies willingness to discuss any issue (item 2).¹⁰

Overall, managers agreed that cooperation requires that firms provide unions with more information than is currently mandated by law (items 7 and 8). Interestingly, in a factor analysis reported elsewhere, these two items did load on a factor other than the questions listed under communication,¹¹ indicating that some respondents regard communication and information sharing as quite distinct matters.

There was strong consensus that good personal relations among principals, mutual trust, and a problem-solving orientation on their part were important elements in cooperation (items 9, 10, 11, and 13). Managers viewed mutuality as

implying union assistance in efforts to increase productivity (item 12). On the other hand, only slightly more than half of all respondents believed that management use of employee participation programs to "decrease employee dependence on the union" would violate the spirit of cooperation (item 14). This should give pause to those who recognize that management efforts to undermine unions are inconsistent with cooperation.

The responses to the concession bargaining question were also problematic for organized labor. A majority of managers believe that cooperation implies that unions accept concessions when firms are under competitive pressure (item 15). On the other hand, management demands for concessions are viewed as legitimate, and not as violative of the spirit of cooperation, even when firms are not actually losing money (items 16 and 17). Managers were far from unified on these matters, however. Similarly, a strong position on formality versus informality did not emerge from the survey (with moderate assent that formal programs could be helpful) or on the power and influence of the industrial relations or human resources staff (with some agreement that cooperation requires relatively greater influence).

The Importance of Attitudes

On a much earlier page of the questionnaire, managers were asked to categorize the overall relationship existing between their company and the union representing employees in the identified bargaining unit as either (1) exceptionally good, (2) very good, (3) fairly good, (4) neither good nor poor, (5) fairly poor, (6) very poor, or (7) exceptionally poor. This "labor relations climate" question was used to provide some information on a matter of considerable interest: whether or not those

¹⁰ Formal t-tests of whether or not mean responses differ significantly across items are presented in Paula B. Voos and Tsan-Yuang Cheng, "What Do Managers Mean by Cooperative Labor Relations?," *Labor Studies Journal*, forthcoming. In these data, variances are such that means

that differ by .15 or more typically are significantly different at the .05 level in two-tailed tests.

¹¹ Voos and Cheng, *ibid.*

managers with particular views about the practices consonant with cooperative labor relations typically had "better" labor relations in some global sense.

A word of caution is in order at this point. Obviously, causality operates in multiple directions in these matters. It is possible that persons working in different firms with exceptionally good labor relations would tend to develop similar opinions about what behavior contributes to cooperation if they are exposed to similar "cooperative practices." Probably, however, attitudes of principal labor relations actors predominantly determine practices. This is supported by earlier research on labor relations indicating that the "philosophy of the key people in a relationship is a dominant causal factor."¹² That is, when labor relations principals believe certain actions are part of cooperation, they are more likely to engage in those practices, influencing the labor relations climate.

Using this latter perspective, the labor relations climate question was used as a dependent variable in a multiple regression equation, after having been scaled from - 3 to + 3, with higher scores indicating better relations. The attitude item scores were entered as independent variables. A number of models were run, both with and without controls for those economic and organizational factors found to be correlated with the labor relations climate question in earlier research.¹³ These were unit size and its square, location, the newness of the collective bargaining relationship, and whether or not the union had experienced organizational instability in the preceding four years (internal political turmoil or insecurity in representing the unit). Results from three

representative regressions are presented in Table 2.¹⁴

One particular attitude item turned out to be very highly correlated with the overall quality of the labor relations climate: the statement that in a unit with cooperative labor relations the manager would expect to find that "good personal relations exist between managers and union officials." This was the first item on the meaning of cooperation section of the survey and, frankly, was included to make the questions appear easy to answer! That is, this statement struck me as so obviously true (given my own experience that good interpersonal relations are helpful in many situations) that I anticipated that virtually everyone would agree or strongly agree and that, in consequence, responses to this particular item would explain very little of the overall variance in the quality of labor relations. In point of fact, about 18 percent of all managers did not agree that good personal relations are important and those same managers tended to report that their firms did not have a very good overall relationship with the union representing workers in the bargaining unit in question. Hence, this question turned out to be a very significant predictor of the quality of labor relations in all models.

A couple of other attitude items also tended to be significant. Managers who considered it illegitimate to use employee participation programs to decrease employee dependence on the union (item 14 in Table 1) reported somewhat better overall labor-management relations, an interesting result given the importance industrial relations theorists accord to the institutional security of the union. Managers who thought that under cooperation unions might still be informed of business decisions only after they were already

¹² Douglas McGregor, "The Influence of Attitudes and Bargaining," Clinton S. Golden and Virginia D. Parker, eds. (New York: Harper & Bros., 1955).

¹³ Voos, cited at note 1.

¹⁴ The procedure followed was to initially include all attitude items as regressors. Then those that had little

explanatory power were eliminated and the equation was reestimated. (In practice, the same attitude items tended to be significant or insignificant regardless of whether other attitudes were or were not in the equation.)

made (item 13) reported worse relations, as did those who felt that demands for contract concessions were a legitimate way to improve the competitive position of the firm (item 17), although the concession bargaining item was only marginally significant.¹⁵

In sum, it appears likely from this rather exploratory analysis that particu-

lar managerial attitudes towards the practices consonant with union-management cooperation are important influences on the quality of labor-management relations. If that is indeed the case, then further discussion and research about the actual practices that are a part of cooperation would seem to be highly appropriate.

¹⁵ All these attitudes mattered whether or not the equations controlled for the economic and organizational vari-

ables; interestingly, once the attitude items were added, several of the economic factors lost statistical significance.

TABLE 1

Managers' Views Regarding Behaviors and Attitudes in a Unit With Cooperative Labor Relations

(Original item numbers in parentheses; * indicates an item scaled in reverse.)

		Percent responding strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree:					Mean When scaled** (Stand. Err.)
		SA	A	N	D	SD	
<i>Communication</i>							
1.	Management limits discussions to the mandatory subjects of bargaining. (Q2)*	1.9	14.0	10.2	60.2	13.7	.71 (.05)*
2.	Management discusses any issue raised by the union. (Q6)	11.2	51.9	14.9	19.3	2.8	.51 (.06)
3.	Little communication exists between managers and union officials outside formal negotiations or grievance procedures. (Q11)*	.6	6.8	4.7	55.6	32.3	1.14 (.05)*
4.	Management informs the union of business decisions only after they are made. (Q12)*	1.6	12.7	19.6	52.5	13.7	.65 (.05)*
5.	There is a great deal of informal communication between managers and union officials. (Q19)	21.1	60.9	9.3	8.1	.6	.96 (.05)
6.	Management keeps union leadership informed of upcoming decisions and solicits their response. (Q22)	10.6	58.4	16.8	12.4	1.9	.67 (.05)
<i>Legalism in Information Sharing</i>							
7.	The union receives only the information required by law. (Q5)*	1.2	8.7	15.2	58.7	16.1	.81 (.05)*
8.	Management gives the union more information than is required by law. (Q9)	11.5	61.2	14.9	11.2	1.2	.72 (.05)
<i>Trust, Fair Dealing, Mutuality</i>							
9.	Good personal relations exist between managers and union officials. (Q1)	22.0	59.6	11.5	5.3	1.6	.96 (.05)
10.	Managers and union leaders view contract negotiation and grievance resolution primarily in terms of winning or losing. (Q3)*	2.2	15.8	12.7	50.0	19.3	.69 (.06)*
11.	Contract negotiations and grievance resolution are used as one way of solving common problems. (Q8)	8.1	78.0	7.1	6.2	.6	.88 (.04)
12.	The union helps management increase productivity. (Q13)	10.2	64.0	15.8	8.4	1.6	.74 (.05)
13.	Managers and union officials distrust each other. (Q16)*	0.0	6.5	10.6	53.7	29.2	1.07 (.05)*
14.	Managers use any employee participation programs that exist to decrease employee dependence on the union. (Q21)*	1.2	17.1	27.6	46.6	7.5	.43 (.05)*
<i>Concessions</i>							
15.	The union accepts concessions if needed to maintain the competitive position of the firm. (Q10)	8.7	62.4	17.4	8.7	2.8	.68 (.05)
16.	Management only demands concessions if the firm is losing money. (Q14)	3.4	23.0	23.9	47.2	2.5	-.22 (.05)
17.	Management regards demands for contract concessions as a legitimate way to improve the competitive position of the firm. (Q20)	5.0	61.5	19.6	12.4	1.6	.56 (.05)
<i>Formality</i>							
18.	Formal programs aimed at achieving cooperative labor relations exist. (Q7)	9.6	46.3	35.1	8.4	.6	.55 (.05)

19.	Formal programs aimed at achieving cooperative labor relations do not exist. (Q17)*	.6	6.8	30.7	51.9	9.9	.64 (.04)*
<i>Influence of IR/HR Managers</i>							
20.	Industrial relations or human resource managers have considerable power and influence within management (Q4)	13.7	47.8	25.5	10.9	2.2	.62 (.05)
21.	Industrial relations or human resource managers are less influential within the firm than production or finance managers. (Q15)*	2.2	19.3	24.2	45.7	8.7	.40 (.06)*

** Scaled as follows: strongly agree=2, agree=1, neither=0, disagree=-1, strongly disagree=-2.

TABLE 2

The Relationship Between Managerial Views Regarding the Practices Consonant with Cooperation and the Overall Labor Relations Climate

(Standard errors are in parentheses)

Managerial attitudes	(1)	(2)	(3)
Good personal relations (Q1, item 9 in Table 1)	.41** (.06)	.41** (.06)	.37** (.07)
No use of participation to decrease union allegiance (Q21, item 14)	.13** (.06)	.11* (.06)	.12* (.06)
OK to decide first/inform later (Q12, item 4)	-.13** (.07)	-.14** (.07)	-.13* (.07)
OK to seek concessions (Q20, item 17)	-.09 (.06)	-.10* (.06)	-.09 (.07)
Control for economic and organizational variables	NO	YES	NO
Controls for all other attitude items	NO	NO	YES
R squared	.16	.20	.18

** Significant at the .05 level on a two-tailed test.

* Significant at the .10 level on a two-tailed test.

Regressions were OLS; all included a constant. Economic and organizational controls included unit size, unit size squared, location, age of the collective bargaining relationship, and organizational instability in the union.

[The End]

Will Collective Bargaining Outcomes in the 1990s Look Like Those of the 1980s?

By Daniel J.B. Mitchell

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In the early 1980s I made a forecast about collective bargaining based on (then) recent events and historical evidence.¹ Up to that time, wages in the

¹ Daniel J.B. Mitchell, "Recent Union Contract Concessions," *Brookings Papers on Economic Activity* (1:1982), pp. 165-201.

union sector had been determined mainly under multi-year contracts, sometimes with escalator or COLA clauses, and had shown relatively little reaction to the state of the economy. I argued that the concessions, which had just become visible, were a reaction to a compounding of the deep recession then prevailing with past growth in the union/nonunion wage differential. Concessions would recede when the economy improved and the differential was reduced; wage-oriented bargaining in a framework of long-term contracts would resume. How bad does that projection now seem? And what does the future hold?

One factor I had not anticipated was the dramatic drop of union membership during the 1980s, especially in the private sector. It is commonly assumed that the decline was due to a shift in the employment mix (deindustrialization). But as Table 1 shows, during 1980-1988 the union representation rate fell from 25.7 to 19.0 percent. Had unions simply maintained their representation by industrial sector, the drop would have been only to 24.2 percent.² Thus, less than a fourth of the decline can be attributed to industry mix. The decline seems due to intensified union avoidance, a drop in union organizing, and changes in worker attitudes.

The number of workers under major contracts as a percentage of all union workers also fell during this period. Thus, it appears that larger bargaining units, often considered pattern setters in the past, were hard hit by membership drops. There is evidence that nonunion worker perceptions of what unions could achieve for them declined in the 1980s.³ This decline may have been the result of the concessions and employment erosion in the highly visible major contract sector.

Table 1 shows that throughout the private sector, the gap between projected union representation and actual results widened during the 1980s. In the short run, union representation trends and bargaining outcomes can be treated independently. Eventually, however, shrinking unionization at the industry level, and the concomitant rise of nonunion competition, must weaken union bargaining strength. This is a major explanation of the concession bargaining movement of the 1980s and its surprising persistence long after the recession bottomed out in 1982. Any concession bargaining, by changing non-union worker perceptions about unions, contributed to lower unionization.

The Wage Concessions

The persistence of concession bargaining can be seen in Table 2A. In 1988, 27 percent of new settlements in the Bureau of National Affairs, Inc., contract survey involved either basic wage freezes or cuts in the first contract year.⁴ However, the raw numbers are misleading because of the inclusion of various contractual features in these settlements. The most severe concessions involved general wage cuts or two-tier plans (so that new hires received a reduction). But offsetting such settlements could be active COLA clauses, lump-sum payments, and profit-sharing bonuses.

To summarize the impact of such features, I have constructed a concession severity index. A basic first-year wage freeze with no other features was given a score of zero. From this score, two points were subtracted for a wage cut, one point was subtracted for a two-tier wage plan, and one point was added for each of an active (nonfrozen) COLA clause, a lump-sum bonus, and profit-sharing. As Table

² The sectors used for the projections of Table 1 were agriculture-forestry-fishing, mining, construction, durable manufacturing, nondurable manufacturing, utilities and communications, wholesale trade, retail trade, finance-insurance-real estate, services, and government.

³ Henry S. Farber, "The Decline of Unionization in the United States: What Can Be Learned from Recent Experi-

ence?," Working Paper No. 2267, National Bureau of Economic Research, May 1987.

⁴ In what follows, concessions are used synonymously with contracts featuring first-year wage freezes or cuts.

2A indicates, the severity of concession bargaining peaked in 1984 and has generally declined since, as the economy recovered.

Of special interest is whether the concessions of the 1980s injected an element of wage flexibility in response to real economic conditions into union contracts that was not there previously. Such flexibility might enter through (1) reduced contract duration (allowing more frequent negotiations, each reflecting contemporary economic circumstances), (2) use of profit-sharing (so pay could mirror the economic standing of the employer), or (3) the use of lump-sum bonuses as a de facto profit-sharing system as is said to occur in Japan.⁵ Table 2B suggests that none of these things happened on a significant scale.

First, contract duration in the concession contracts remained similar to that of nonconcession contracts and of contracts negotiated in the 1970s and before. That is, most concession contracts had durations of two to three years. Second, explicit profit-sharing was incorporated into only seven percent of nonconstruction agreements.⁶ In the most severe concessions, those involving wage cuts, profit-sharing was more prevalent (18 percent). Thus, it appears that profit-sharing was viewed as a contingent "snap-back" arrangement, to be used mainly in the most distressed situations; workers who made concessions might receive payments in the future, if and when their employers became profitable.

Third, there is no evidence to date that lump sums have become the flexible ele-

ment in otherwise inflexible contracts, although perhaps this will occur in the future. Lump sums seem to have developed as a way of partly offsetting a wage freeze. (As Table 2B shows, they were rarely used when wages were cut rather than frozen.) The fact that lump sums were less common in profit-sharing arrangements than in others makes it appear that the two were regarded by bargainers as substitutes. However, Table 2B shows that the low propensity to include lump sums in profit-sharing contracts was mainly the result of the correlation between use of profit-sharing and wage cuts.

Employers did succeed in weakening the linkage between price change and wage change via COLA clauses. Over a fifth of concession contracts that had COLA clauses in the prior agreement featured a freeze or complete elimination of the clause. Such freezes/eliminations of COLA were particularly common where the basic wage was cut. Table 2B also suggests the possibility that profit-sharing was sometimes seen, by the employer at least, as a replacement for COLA. Even where COLA was retained, limitations on the operation of the clause (such as caps and corridors) were quite common.

Wages can respond to price inflation through bargaining rather than through an escalator. As inflation picked up in 1987-1988, it appears that wage inflation did respond. Moreover, there is evidence that the use of COLA, which was declining in the mid-1980s, bottomed out and showed signs of increasing (as might be expected) with rising inflation.⁷

⁵ Richard B. Freeman and Martin L. Weitzman, "Bonuses and Employment in Japan," *Journal of the Japanese and International Economics* (1:1987), pp. 168-94.

⁶ Table 2 focuses on nonconstruction because the construction industry's short-term employer-employee attachments make such arrangements as profit-sharing and lump sums difficult to effectuate.

⁷ Use of escalation in new contracts varies from year to year due to changes in the industry mix of expiring agreements. A three-year moving average of the proportion of private-sector workers under major escalated new settlements helps correct the industry mix effect because of the

preponderance of three-year contracts. The proportion of workers under major escalated new settlements remained in the 49-52 percent range during three-year periods ending during 1981-1984. Thereafter the moving-average proportion fell to 40 percent in 1985 and 33 percent in 1986. In 1987 and 1988, however, the proportion rose to 36 and 38 percent, respectively. Source: *Current Wage Developments*, various issues, and U.S. Bureau of Labor Statistics, press release USDL, 89-45, January 27, 1989. End-of-year estimates for the proportion of major-contract union workers under escalators are broadly consistent. The proportion fell from the 56-60 percent range in 1981-1985 to 38 percent by

Apart from pay settlement trends, there were interesting developments in cooperative labor-management relations during the 1980s. Various forms of employee involvement in managerial decision-making accompanied the concession movement. Some of these experiments seemed successful; others were not. Historical evidence on such experiments suggests that they are fragile and vulnerable to both economic expansion and contraction.⁸

Major Forces in the 1980s

A list of the major factors behind the union-sector developments in the 1980s must include three key ingredients: (1) prior economic conditions in the 1970s, (2) contemporary economic conditions in the 1980s, and (3) climatological influences. Only a brief sketch of these factors can be included here.

(1) *Prior Economic Conditions:* Three influences were especially important in setting the stage for the 1980s—external price inflation, a productivity lag, and relative wage trends. The 1970s saw significant episodes of external inflation, i.e., inflation generated outside the U.S., particularly from oil prices, which did not enhance the ability of most American employers to pay. And peculiarities in the methodology used for the housing element of the Consumer Price Index produced an upward-biased measure of the inflation rate.

For reasons still not understood, U.S. productivity growth slowed markedly in the 1970s. Productivity has historically been limited to real wage growth. Hence, ability to provide ongoing real wage improvements was reduced. The 1980s may have knocked expectations of an annual real improvement in wages and productivity of three percent out of the system, i.e., the expectation once embod-

ied in the three-percent-plus-COLA formula of the auto industry contracts.

Upward pressure on wages from inflation in the 1970s, and lack of recognition of eroding productivity growth, was more pronounced in the union sector than the nonunion. Since worker interest both in keeping up with inflation and in rising real wage standards is self evident, the fact that the union sector responded to this interest is not surprising. Nevertheless, the resulting widening of the union/nonunion wage differential set the stage for an employer counteraction in the 1980s.

(2) *Contemporary Economic Conditions:* The 1980s produced volatile swings in the economy. A recession at the beginning of the decade was deeper than any postwar downturn, and the economy remained at a comparatively high unemployment level until 1987-1988. On the foreign exchange market, the dollar rose dramatically until early 1985, permitting substantial foreign inroads into U.S. markets. Dramatic depreciation of the dollar thereafter allowed some pick-up in exports, but did not fully restore U.S. competitiveness.

From a management perspective, the prospect of continued world competition and possible future dollar gyrations undoubtedly played a role in formulating bargaining strategy. In turn, this strategy put pressure on unions to agree to arrangements giving companies more flexibility in workforce deployment. It also most likely increased desires of nonunion management to remain nonunion.

Added ingredients in the 1980s to the volatile environment were deregulation of transportation and communications and reduced antitrust pressure (leading to corporate restructuring). Deregulation created wage competition pressures in

(Footnote Continued)

the end of 1987. By late 1988 it had risen to 40 percent. See William M. Davis and Fehmida Stemmi, "Collective Bargaining in 1989: Negotiators Will Face Diverse Issues," *Monthly Labor Review* 112 (January 1989), p. 14.

⁸ Sanford M. Jacoby, "Union-Management Cooperation in the United States: Lessons from the 1920s," *Industrial and Labor Relations Review* 37 (October 1983), pp. 18-33.

industries where passing along company labor costs to the customer had been standard practice. Corporate restructuring complicated bargaining by changing the management team as owners changed. These more highly leveraged firms, which sometimes resulted, sought cost saving and risk sharing from employees.

(3) *Norms of Wages and Labor Relations*: Accounts of union misfortune in the 1980s often cite the PATCO dispute as the trigger, a domino theory of labor relations. However, one public-sector strike (in the face of a no-strike law) did not by itself set the pattern for private bargaining. Rather it was but one of many events which altered the bargaining climate. One might equally well cite the changes at the NLRB or the Supreme Court's views on bankruptcy and the integrity of union contracts.

Events in labor relations fed on themselves in the 1980s, ultimately producing a shift in wage norms. A series of concession agreements were initially made with economically distressed employers. As a result, not-so-distressed employers began also to ask for concessions. Lockouts and replacement of strikers worked for management in a few widely reported situations, leading other employers to imitate.

Recent Changes in the Bargaining Climate

Statistical evidence of a diminution of concession bargaining has already been cited. But there are other, more subtle, signs of a shift toward more traditional wage bargaining. In 1988, contract ratifications seemed to become more difficult to achieve, especially if up-front wage increases were not provided. In some cases, such as Chrysler, the ratification vote was closer than union officials had expected. That is, there was a hardening of rank-and-file attitudes relative to those of their union representatives. Sometimes,

as at General Electric, lower-level union officials sought to pressure senior officials to take a more aggressive stance. The tightening labor market, which may have eased job insecurity fears, was certainly an influence.

Where direct bargaining has not been seen to be effective, unions began to adopt alternatives. In 1988, for example, safety issues were raised by unions at Texas Air, thus harnessing adverse publicity as a weapon. Large OSHA fines were stimulated at IBP in the meatpacking industry by the Food and Commercial Workers in an attempt to tip the balance of power between union and management. Law suits were filed by the Mine Workers, using ERISA and other statutes, to limit double-breasting in the coal industry.

Finally, in 1988 the political process was used to obtain what could not be won at the bargaining table. The union-supported plant closing bill became interwoven with the presidential campaign and ultimately became law despite distaste for it within the Reagan Administration. Legislative options remain open in such areas as health care provision by employers, maternity leaves, etc. Such approaches will undoubtedly be put forward by supporters as concrete examples of the "kinder and gentler" society advocated by President Bush.

The 1990s

There have been predictions that the current model of unions will be replaced with some new form that provides various services to members other than bargaining.⁹ Proponents of this approach can point to the creation of associate memberships by various AFL-CIO affiliates in the 1980s and to the 19th century benevolent society union model. For such a shift to occur, however, there would have to be a long period of transition. A rapid change in union structure could happen only in

⁹ Charles C. Heckscher, *The New Unionism: Employee Involvement in the Changing Corporation* (New York: Basic Books, 1988).

response to some unforeseen political-economic cataclysm (inherently unpredictable) as occurred during the 1930s.

It is more likely that in the 1990s there will develop "island unionism." Those unions that remain in relatively good bargaining positions will practice traditional wage bargaining tinged with a residue of the 1980s, i.e., labor-management cooperation systems. In that regard, I will stick with my early-1980s prediction of a return to normalcy. We will continue to see multi-year union agreements, COLA clauses, and other standard contractual features. A marked shift toward wages linked to real economic conditions does not seem likely, although in my view the economy would benefit from such a shift.

The public sector will contain important islands of union activity, but there will be others, for example, in the automobile industry and certain still-regulated

utilities. Within these islands, there will be pattern bargaining. However, the spheres of pattern imitation will be smaller than was the case in the 1970s; there will be fewer union workers to act as followers.

Surrounding the bigger bargaining islands will be a largely nonunion sea and lesser union archipelagos. Key issues regarding human resources will be fought out in the political arena in the 1990s, especially as the workforce ages and job security thus becomes a more and more important concern. Employee concerns may well be voiced in the 1990s through litigation (wrongful discharge, complaints to the EEOC, etc.) and legislation, a pattern that was already emerging in the 1980s. Congress, the state legislatures, and the courts will become the employee representation plan of the next decade.

TABLE 1
Trends in Actual and Predicted Union Representation, 1980-88

	All Sectors		Private Sector		Major Private Sector		Major Unionization as % of Total Unionization
	Actual	Projected	Actual	Projected	Actual	Projected	
1980	25.7%	25.7%	21.7%	21.7%	13.0%	13.0%	60.0%
1984	21.6	24.7	17.0	20.9	9.7	12.4	57.0
1985	20.5	24.6	15.9	20.7	8.9	12.3	56.1
1986	19.9	24.4	15.2	20.5	8.1	12.2	53.6
1987	19.2	24.2	14.4	20.3	7.7	12.0	53.2
1988	19.0	24.2	14.0	20.3	7.2	12.0	51.7

Note: Percent of Gap Between Actual and Private Explained by Employment Mix Shifts, 1980-88: All Sectors, 22.2%; Private Sector, 18.4%; Major Private Sector 17.1%. Major unionization involves agreements covering 1,000 or more workers; estimates are those published for the bargaining calendar of the year following that shown.

Source: *Monthly Labor Review, Employment and Earnings, Current Wage Developments*, various issues.

TABLE 2A
Percent of Contracts with Zero or Negative Basic Wage Change in the First
Year and Concession Severity, 1981-87

	1981	1982	1983	1984	1985	1986	1987	1988
% of Contracts	2	12	29	27	25	37	34	27
Mean Severity*	.10	.19	-.20	-.35	.12	.27	.26	.47

* Severity is a weighted index running from -3 (most severe) to +3 (least severe). Concession contracts with decreases are given -2 points, with two tier wage plans (-1) with active escalator clauses (+1), with profit sharing (+1), and with lump-sum payments (+1). Mean severity for 1981-88 was .08.

TABLE 2B

Characteristics of Contracts with Zero or Negative Basic Wage Change in the First Year, 1981-88

Contract Feature	Excluding Construction							
	All	All	Two Tier	Wage Cuts	Profit Sharing			Lump Sum
					All	With Cuts	Without Cuts	
Active COLA ¹	18%	22%	21%	15%	16%	11%	19%	14%
Limited COLA ²	57	59	53	83	62	40	69	50
Frozen or Eliminated COLA ³	20	22	29	44	45	62	36	19
Two-Tier ¹	10	13	100	15	13	13	13	13
Wage Cut ¹	17	15	17	100	36	100	0	4
Profit Sharing ¹	5	7	7	18	100	100	100	5
Lump Sum ¹	30	41	43	10	27	11	37	100
Duration ⁴	31	34	35	33	35	32	38	35

¹ As percent of all contracts in column.

² As percent of COLA contracts.

³ As percent of contracts with active COLA plus those with frozen or eliminated COLA.

⁴ In months.

Source for Tables 2A and 2B: *Daily Labor Report*, various issues, based on Bureau of National Affairs, Inc. contract survey.

[The End]

Labor and Management Cooperation in Restructuring Steel Firms

By William D. Torrence

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This article reports a study of organized labor's involvement in the restructuring of two steel firms in the United States. Firms in the blast furnace and basic steel products industry were selected for exami-

nation because enterprises in this industry suffered severe losses in employment, particularly over the past ten years. Total U.S. employment in the industry was 437,000 in 1978; by December 1987 this number had declined to 284,000. Most of this job loss affected hourly production workers.¹ It is useful to examine the approaches by which individual firms can strive toward survival through their own

¹ *Employment and Earnings, United States, 1909-76*, Bull. 1312-11 (Washington: Bureau of Labor Statistics, U.S.

Department of Labor, 1979) and *Employment and Earnings* 35 (February 1988).

efforts. Case examinations of union and management cooperation in contributing to survival are useful in revealing some of these approaches. The first enterprise examined is Weirton Steel Corporation in Weirton, West Virginia, and the second is Milton Manufacturing Company in Milton, Pennsylvania.²

Weirton Steel Corporation is an integrated steel mill which is 100 percent employee owned through an Employee Stock Ownership Plan (ESOP). The majority of the employees are represented by the Independent Steelworkers Union.

In 1982, National Steel Corporation, of which Weirton Steel was a division, announced its intention to sharply curtail future capital investments in that division. Factors responsible for this decision were essentially those affecting the steel industry generally in the United States: the prolonged recessionary business climate, which reduced total demand for steel; increasing changes in consumer desires for substitute materials for steel; operations at low levels of production capacity; relatively high fixed costs (e.g., employee compensation); very large amounts of capital needed for new plant and equipment with long time horizons for a return on investment. Due to these reasons, and despite the fact that the Weirton division was still marginally profitable, National Steel Corporation wished to invest its available capital in projects with a potential for higher returns than those promised by Weirton.³

Employee Buyout

National Steel did not believe it possible to profitably sell the Weirton division to another corporation, and it did not want to close Weirton because of very large amounts of invested capital, severance pay, and pension obligations that would be involved. Consequently, an

employee buyout of the division appeared as the only viable alternative for the workers, the community, and National Steel Corporation. The rationale underlying National's offer to sell Weirton to its employees was that an employee-owned firm could possibly tolerate the level of compensation cost reductions required to develop a financially viable enterprise.

In response to the buyout offer, a joint study committee composed of union and management employees of the Weirton division was formed in March 1982 to examine and evaluate the feasibility of acquiring the division and operating it as an independent corporation. The feasibility study commissioned by the joint committee concluded in July 1982 that a new independent Weirton Steel Corporation could be a viable economic entity if certain conditions were met. At the core of these conditions were a cost savings of at least \$25 million annually, a new cooperative labor-management contractual relationship, and a 32 percent reduction in annual total employee compensation (wages, salaries, and benefits). However, National Steel Corporation agreed to retain certain pension funding and retiree life insurance and health care liabilities for employees retired as of May 1983. This reduced the total compensation concession needed from Weirton employees to approximately 20 percent.

On September 23, 1983, the employees voted by an overwhelming margin to purchase the Weirton division from National Steel Corporation, and on January 11, 1984, Weirton Steel, a new corporation, paid National Steel \$194 million for the Weirton division under this arrangement: an immediate \$75 million cash payment with two notes stipulating \$47.2 million payable in 1993 and \$72 million payable in 1998. The \$75 million,

² Appreciation is here expressed for information provided in March 1988 by: Walter Bish, then President, Independent Steelworkers Union; Charles R. Cronin, Weirton Steel Corporation; Kenneth Dorman, President, Local 4549; Nelson Demarest, Staff Representative, United Steelworkers;

Peter Davidson, President, Milton Manufacturing Company.

³ *Disclosure Document*, Weirton Joint Study Committee, August 19, 1983, p. 7.

which Weirton Steel borrowed from a group of lending institutions, and the two notes were secured by a Deed of Trust through a lien in favor of National Steel on the land, buildings, machinery, and equipment to be acquired.⁴

At the same time, the Employee Stock Ownership Plan purchased all of the 6,500,000 shares of Weirton Steel common stock then issued and outstanding. In exchange for the stock, the trustee paid \$65,000 in cash (which was advanced by Weirton) and issued a promissory note to Weirton Steel Corporation in the amount of \$300 million, due in 1994. The note is to be repaid in minimum installments of at least \$30 million per year plus interest, beginning in 1985. As stipulated by law, all the stock purchased by the ESOP by a loan must remain in a Suspense Account until the loan, or portions thereof, is repaid. At the beginning of the ESOP, all stock is held in the Suspense Account and none is in any individual employee's account. However, as the ESOP loan is repaid, stock that has been paid for is taken from the Suspense Account and allocated to Participants' Accounts. In order to avoid tax consequences for employees each year as the stock is added to their respective accounts, the stock remains in the Trust until they request a distribution.⁵

The employees also agreed to a new collective bargaining contract with Weirton Steel, which included a compensation reduction; a six-year wage freeze; modifications and reductions in vacation, holiday, overtime, and supplemental employment benefits; elimination of a cost-of-living adjustment to be replaced by a profit-sharing plan. The wage freeze did not apply, however, to promotions, critical skills hiring, and new job combinations. The profit-sharing plan provided that if Weirton Steel finishes any year with a net worth of more than \$100 mil-

lion but not more than \$250 million, the total profit-sharing amount would be equal to one-third of adjusted net earnings for that year. However, the total profit-sharing amount for any year would not be greater than the excess of net worth over \$100 million. If net worth exceeded \$250 million, profit-sharing would be one-half of net earnings except, again, it was never to be greater than the excess of net worth over \$250 million.⁶

Participative Decision-Making

What does employee ownership mean in terms of participation in decision-making? Since the purchase of the Weirton division, the employees have three seats on the 13-member Board of Directors. These three representatives are the current Independent Steelworkers Union president, a former union attorney, and a retired vice president of the United Automobile Workers union.

Since 1984, the workers and the union have also been represented in day-to-day activity and long-range planning in several other significant ways. First, there is a strong participative management concept called Employee Participation Groups (EPGs). At the end of 1987, there were 117 such groups, each comprised of 10-12 employees drawn for common work areas. The current anticipated schedule is to train a group a week; training consists of a three-day seminar in team problem-solving and effective communication. The teams meet weekly to address problems such as cost reduction, productivity, and safety. The EPG concept attempts to take full advantage of the experience, skill, and knowledge of the employee-owners.

Second, groups of employees are involved in Statistical Process Control (SPC), concentrating on the production of quality steel. Customers and suppliers are also involved in SPC training, and, since

⁴ *Id.*, p. 49.

⁵ Weirton Steel Corporation, *ESOP-Employee Stock Ownership Plan*, Employee Handbook, January 11, 1984.

⁶ Weirton Steel Corporation, *Profit Sharing Plan*, effective January 11, 1984.

1984, more than 1800 persons have gone through the program. Third, there is another employee group concept called Operations Improvement Program (OIP), where teams of both hourly and salaried employees are concerned with major cost reduction and containment. A total of 61 cost-reduction projects were undertaken in 1986, with a savings of approximately \$10 million.⁷ In order to be successful, all of these participative, quality, and improvement group concepts required, and received, the commitment of the union. None of the concepts, however, address topic areas covered in the collective bargaining agreement.

Also in position is a comprehensive communication program operating through the EPC, SPC, and OIP programs, as well as through a plant newspaper supported by weekly videotaped newscasts for employees. In addition, and also on a weekly basis, the Weirton chief executive officer and the union president jointly address the workers on the shop floor and listen to anything the employees have to say. Finally, there is a joint union-management Long-Range Planning Committee which meets once a month. Its responsibility is to develop and implement action plans to increase and maintain profitability.

Areas of concern remain for both management and labor. There have been no major changes to date concerning flexibility in the use of manpower in the workplace. However, work rule arrangements are on the agenda for discussion when the labor contract is discussed in the Fall of 1989.⁸ Also, some employees have complained that since they are now owners as well as workers, they should not be sanctioned. In response, the union leadership has reminded them that there is a need to subscribe to the collectively bargained contract and to normal and legitimate work rules.

One area of major concern has been the need for \$650 million for the capital investment and modernization program if the company is to remain competitive. Changes recommended by investment bankers to generate the necessary capital would impact both the Employee Stock Ownership Plan and the profit-sharing plan. For example, consideration was given to the creation of a public market for Weirton stock, which would allow joint employee and public ownership, but would maintain employee control of the enterprise. Since only Weirton employees may now own stock, such a change would not only aid in raising the necessary capital, but would also relieve the company of the stock repurchase liability.

Discussions were also being held on modifying the profit-sharing formula. In early 1989, the employees approved modifications to reduce employee profit-sharing for 1989 and later years to 35 percent of income rather than the 50 percent allowed in 1988. In addition, approval was given to consider implementing, later in 1989, a public offering of approximately 23 percent of the company's common stock. This will require establishment of a new ESOP to insure employee control.

Although Weirton Steel Corporation is an employee-owned firm, the workers appear to understand that an effective and efficient management is essential for the well-being of the enterprise. The role of owner-worker identification has not been a major problem to date. Labor-management relations prior to the employee purchase were somewhat controversial and mistrusting, but to a lesser degree than at other steel companies in the U.S. Currently, there is a very good relationship on a day-to-day basis. For example, absenteeism is low and fewer employees have been terminated for this problem

⁷ *Annual Report*, Weirton Steel Corporation, 1986.

⁸ Telephone conversation with Virgil M. Thompson, President, Independent Steelworkers Union, March 7, 1989.

because stock allocation is based on earnings.

This general attitude change at Weirton Steel appears to have arisen from the following combination of factors: a willingness by both sides to take financial risks for the sake of the enterprise and job survival, the development of a more cooperative and less adversarial labor-management relationship, a highly improved system of communications, a sense of common purpose, closer contact between management and labor in the running of the enterprise, and the workers' equity position in the firm. As of December 1987, Weirton Steel Corporation was the seventh largest United States' steel producer in terms of production, shipments, and sales and the fifth largest in terms of earnings.⁹

Milton Manufacturing Company

Milton Manufacturing Company is a mini-mill and is not employee owned. The majority of the workers are represented by the United Steelworkers of America. Although the Milton example is substantially smaller than Weirton in terms of size, it is no less important in terms of lessons to be drawn regarding union-management cooperation for purposes of survival.

Prior to July 1982, the Milton Manufacturing division was owned by the Ceco Corporation of Chicago. Several factors, based on a financial study done by Ceco headquarters in 1980, contributed to the determination that the Milton division was not meeting Ceco targets. First, other mini-mills were being constructed that were more efficient in terms of cost and labor. Second, replacement of obsolete equipment at the Milton plant would require a large capital investment. Third, product prices in the competitive market were lower than Milton production costs. Finally, Ceco had earlier closed a plant in

Birmingham, Alabama, because of labor discord. For all of these reasons, Ceco Corporation decided it no longer wished to be in the steel business.

However, neither Milton or Ceco management nor the United Steelworkers Union wished to ignore the plight of the Milton workforce. Also, Ceco wanted to sell the Milton division in such a way as to get book rather than liquidated value for the assets. Both of these considerations led the Milton division general manager and the assistant general manager, with the support of the union, to approach Ceco Corporation in December 1980 with a proposal for a management buyout. This buyout required the cooperation of Ceco Corporation, local and regional banks, suppliers, the nonrepresented salaried employees, and particularly the production and maintenance employees represented by Local 4549 of the Steelworkers Union.

All of the interested parties held a series of meetings over the next 18 months, but it was three major actions during this period that persuaded the workers and the union to participate in aiding the new management in accomplishing the buyout. First, before the banks would agree to participate in the purchase of Milton from Ceco, they insisted that workers and unions contribute through compensation concessions. Second, Milton management opened the firm's books to allow union accountants to examine them and establish the economic credibility of the need for concessions. Third, both written and face-to-face communications between management and all Milton employees were employed to explain, step-by-step, what was occurring as plans for the buyout progressed.¹⁰ The opening of the books and the series of meetings established a high level of management credibility in the eyes of the employees and the union.

⁹ Interviews with union and management officials, Weirton Steel Corporation, March 31, 1988, and data from *American Metal Market* 96, No. 35 (1988).

¹⁰ Employee Notice, *General Proposal of New Milton Manufacturing Company*, February 12, 1982.

Financial analysis determined that approximately \$1.6 million was required as a concession from all workers toward the purchase of the enterprise. This amounted to \$1.3 million from the unionized production and maintenance employees. Salaried workers were to concede \$300,000, which was to be assessed on a percentage basis. As of 1982, employee compensation (direct hourly wages plus fringe benefits) averaged about \$11.90 per hour. Thus, for production and maintenance workers, the giveback amounted to \$1.01 per hour of total compensation, or approximately 8½ percent. In addition, it was determined that a workforce reduction of ten production and maintenance workers and three salaried workers was necessary and that this was to be accomplished by attrition. Employees were given the option of reducing their compensation through wage and/or fringe benefit reductions. All employees chose to take the reduction in the hourly wage rate and to leave the fringe benefits intact. Approximately 80 percent of the union members approved the reduction.¹¹

An agreement was also made for employees to participate in a profit-sharing plan with the following provisos: First, the plan called for cash distribution in any fiscal year if the company had pre-tax profits excluding consideration of depreciation, and, second, before pre-tax profits were determined, the company had to accrue 5 1/2 percent of sales revenues for capital investment.¹² These provisions were to aid in safeguarding the viability and competitive position of the company. Although the profit-sharing provisions never took effect because of the provisos, the company survived and provided employment.

The Milton division was purchased from Ceco Corporation on July 15, 1982,

and became known as Milton Manufacturing Company. The financing arrangements ultimately included Ceco's providing considerable financing with no interest as well as taking a subordinate position on ownership of Milton assets, with that position being considered as cash by the banks; bank provision of an industrial development loan, a part of which was for capital improvement; a bank loan against inventory and receivables and a letter of credit; customer cooperation in providing support to generate cash flow; utilities' cooperation in providing services; and employee and union willingness to concede a portion of the annual compensation cost.

Both labor and management agree that, prior to the buyout, relationships were adversarial. The current situation is cooperative, and both sides admit that this is due not only to a new pattern and intensity of communication, but also to economic enlightenment. Both labor and management have developed a new view of the other's credibility. Decisions continue to be made by management in the traditional sense, but the communication patterns and credibility have reduced antagonisms. Also, since the management buyout there has been a substantial decline in both grievances and arbitration cases as well as very low absenteeism and turnover. There have been no work stoppages at Milton since 1977. In the early phases of the restructuring, there were discussions concerning the establishment of labor-management participation teams, but these have not materialized. Both union and management agree that they have not been needed because of the very strong communication that exists between the current union and management leadership. The wage concessions made by production, maintenance, and salaried employees were fully restored by 1983.

¹¹ Interviews with Peter Davidson, President, Milton Manufacturing Company; Kenneth E. Dorman, President, Local 4549, United Steelworkers; Nelson Demarest, Staff Representative, District 9, United Steelworkers, March 23, 1988.

¹² *Tripartite Memorandum of Agreement*, Milton Manufacturing Company, United Steelworkers of America, and Local Union No. 4549, United Steelworkers of America. April 27, 1982.

The local United Steelworkers Union leadership attributes the ultimate survival of the enterprise to the hard work and dedication of the current company president as he arranged for financing. The president of Milton Manufacturing Company, in turn, contends that nothing could have been done without the full cooperation of the union and its members at both the local and national levels. The national union gave considerable latitude to the local union to establish the range of concessions in order to accommodate local circumstances. Also, the national union significantly aided both the local union and the company management in arranging the final financial agreement.

Conclusions

In the cases examined it was necessary for the union and the employees to participate with management in searching for a path to survival. Economic reality and the need for job preservation forced all parties to consider new ideas, but did not guarantee success in the ventures. This success seems to have come about when all parties began to behave toward and think about each other in a different manner. What were the key elements of these changed behavior patterns and what commonalities appear to be present in the cases?

First, it became understood very quickly that both labor and management had to make financial sacrifices. The nature of the financial problem in each case was so severe that one party alone could not generate a meaningful solution. An exposure to economic reality was achieved in both cases by management's disclosure of the financial position of the enterprise to the union. When the books were opened to all, a measure of credibility was achieved that had been lacking earlier.

Second, the concept of communication, which is so often a workplace cliché, became a fundamental and ongoing tool manifested in either new relationships or

new workplace arrangements and committee structures. Again, such communication changes not only kept everyone informed about what was happening, but also added to the credibility necessary for the development of increasing mutual trust. Third, sacrifices and gains were to be shared by all, not just hourly production workers. When it became known that reductions in both income and jobs were to be made at all organizational levels, the sense of equity arising from that knowledge made the difficulties of restructuring more acceptable.

Fourth, seemingly tertiary partners such as suppliers, customers, utilities, and financial institutions became major actors and made significant contributions to enterprise restructuring. The cooperation of this "external environment" with the basic labor-management relationship, the "internal environment," was fundamental in generating appropriate survival mechanisms. The best intentioned labor-management relationship will not, by itself, be able to effectively restructure an enterprise without the support of the surrounding economic apparatus.

Fifth, there appears to be some point during the restructuring analysis when the historical labor-management adversarial mindset is exchanged, or at least set aside, for more responsible cooperation. That point appears to have been reached when there was a critical mass of both disseminated information and believability of that information. The concern now of both union leaders and managers in each case is to find the balance where there is continuing cooperation, yet enough constructive engagement so that the desires and needs of each side are fully represented.

Finally, influential union and management representatives with high levels of acceptability to their own and other constituencies were critical in presenting the needs and opportunities of restructuring to the employees of these enterprises. There is no guarantee, of course, that

either of these firms will survive in the future, but it appears that if new and different internal and external relation-

ships had not been devised, they would have had difficulty surviving to date.¹³

[The End]

The Ohio Steel Industry: Restructuring and Labor Relations in 1989

By Paul F. Gerhart*

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Over the past ten years, steel mills and furnaces in the Mahoning, Cuyahoga, Ohio, and Miami Valleys have been shut down, Ohio's largest steel producer, LTV Steel, has been through bankruptcy, and three prominent names in the history of Ohio steel (Republic, Youngstown Sheet and Tube, and Jones and Laughlin) have disappeared through merger. During the blackest part of this period, 1981-1983, informed opinion concluded that steel was dead in Ohio. Steel reflected the essence of the "rust belt" collapse. Figure 1, discussed more fully below, shows the precipitous drop in employment during the 1981-1983 period, especially for the two

largest steel-producing areas, Youngstown-Warren-Mahoning Valley and Cleveland-Cuyahoga Valley.

Steel also epitomized the changing balance of power in labor-management relations during this period. Industry-wide bargaining that had been established during the 1950s was disbanded in the early 1980s. The resulting company-by-company negotiations universally ended with major union concessions. By 1989, however, a new environment has emerged in the industry which both employer and union representatives applaud.

This article examines the effect that the collapse and restructuring in the Ohio steel industry have had on employment and labor relations.¹ Ohio steel is worth examining because, in many respects, it is a microcosm of the steel industry in the

¹³ In early 1988, after the restructuring of Milton Manufacturing Company and because of its economic potential, it was purchased by North Star Steel Company, the eighth largest steel producer in the United States.

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¹ For this article, the steel industry is defined as the "integrated" and "specialty" producers and "mini-mills" as

those terms are defined by the *Directory, Iron and Steel Plants*, published by the Association of Iron and Steel Engineers.

Integrated companies are those having blast furnaces or direct reduction facilities whose principal commercial activity is the production of carbon steel. Specialty mills produce stainless, alloy, and tool steels or bars, wires, pipe, or related products.

Mini-mill production is based on electric furnace, continuous caster, rod, or bar mill operations or production of rounds, flats, or small shapes.

In general, the above definition coincides with SIC 331, although the SIC code includes many steel service companies which engage in some processing, but are mainly oriented toward distribution, not manufacturing. Such firms typically employ fewer than 100 employees and are not the focus of this study. Total SIC 331 data are used here, however, to reflect the overall impact of restructuring on employment.

nation. In 1986, 31 percent of the nation's 273,000 steel industry employees were here. Seven of the eleven former "Big Steel" firms were headquartered in Ohio or had major production facilities in the state. Finally, being in the heart of the "rust belt," the impacts of collapse and restructuring have been felt as keenly in Ohio as anywhere.

Pre-1980 Developments: The collapse of steel in Ohio during the early 1980s was not the result of any single event in that period. There is no doubt that the depth of the Reagan Depression (1981-1983) compressed the time frame within which this collapse occurred, but the initial cracks in the steel industry came much earlier and, to the foresighted, were evident in the 1950s. Nationally, steel industry employment fell from over 570,000 to under 360,000 between the early 1950s and late 1970s.²

Figure 2 shows the total Ohio employment in steel (SIC 331) from 1949 to 1975. From the Korean War peak of over 130,000 jobs, employment dropped to under 100,000 during the recession year of 1958. Shorter industry-wide strikes occurred in 1952 and 1956, but the 116-day 1959 strike led many domestic customers to turn to long-term supply contracts with foreign producers. As Figure 2 illustrates, this pattern, combined with the 1960-61 recession, caused the steel industry in Ohio to reach a new and lower plateau of operations during the second half of the 1949-1975 period.

Though production was relatively stable during the Vietnam era, the 1970-1972 recession started a new decline. The Experimental Negotiations Agreement (ENA), which provided for binding interest arbitration over economic issues in the event of an impasse and thereby eliminated the threat of an industry-wide strike, failed to stem increasing imports. By 1978, one major integrated mill in

Youngstown had already closed, and operations at others had been substantially curtailed.

Collapse and Structuring-1978-1986: Table 1 shows the loss of nearly 40,000 jobs, almost half of the state's employment in the industry, over the eight-year period from 1978 to 1986. Youngstown-Warren-Mahoning Valley lost three-fourths of its steel industry employment over the period, while the Cleveland-Cuyahoga Valley area lost over half of its steel industry jobs.

Starting in the mid-1970s, the Mahoning Valley was particularly hard hit. At the beginning of the period, it had six fully integrated steel mills, two owned by Republic, two by Youngstown Sheet and Tube, and one each by U.S. Steel and Sharon Steel. There were other finishing and fabrication operations in the Valley. By the end of the period, all but one, Republic's Warren Works with its relatively efficient basic oxygen furnace, had closed. None of the companies remain. The Warren Works was recently sold by LTV, a successor to Republic, to a local investor group and is now operated by Warren Consolidated Industries.

Although the data in Table 1 for individual SMSAs are estimated, it is safe to say that the decline was not uniform across all six major steel-producing areas of the state. Particularly in Canton, Hamilton-Middletown, Lorain, and Steubenville, production declined, but the decline was not as precipitous as in the two large centers. Table 2 reflects the dominant steel-producer in each labor market as well as its size, where available, for 1989.

Cause of Collapse: The focus of this article is on the *effect*, not the *cause*, of the decline in steel. A brief word concerning the conventional wisdom surrounding the demise of steel may be helpful in explaining the response of labor and man-

² Jack Stieber, "Steel," in *Collective Bargaining: Contemporary American Experience*, Gerald G. Somers, ed.

(Madison, WI: Industrial Relations Research Association, 1980), pp. 151-208.

agement to it, however.³ Few would argue that the lack of investment was a key element in the decline of the U.S. steel industry over the past 30 years. Others focus more generally on the quality of management. "Management bashing" was common in the press of Ohio through the earlier part of the collapse.

A third related element that allegedly led to decline has been labeled "union intransigence" or, in a less pointed way, a "poor labor climate." The relative role of these elements, and particularly the interaction of labor relations, investment, and the decline of the industry, is likely to be debated for some time to come. Often disagreeing, the parties are looking over their shoulders at these factors as they approach each other at the bargaining table as well as in cooperative programs.

Restructuring and Labor Relations

Others have discussed the decline of union bargaining power that has followed the weakening of the economy and of particular industries.⁴ The collapse of the steel industry, as noted above, has been a prototype for this phenomenon. The pattern of concessions has been universal in the industry. Perhaps even more important than changes in wages and benefits have been the revisions in job descriptions, particularly the consolidation of jobs, and the breakdown of traditional craft jurisdictions.⁵ Both the Steelworkers and independent unions in the industry have accepted such changes.

The responses of labor and management to the weakening of their industry have varied. United Steelworker and com-

pany labor relations representatives discussed the development of "cooperative programs."⁶ Directors of area labor-management committees and Ohio's regional labor-management cooperation centers also contributed information about such programs in their areas. What is immediately apparent is that employee involvement and cooperation have evolved in substantially different ways in different companies.

The question investigated here is the manner and degree to which labor-management relationships have changed. In particular, to what extent have relationships become more "cooperative"? And what, if anything, does the picture of Ohio steel contribute to our understanding of whether there has been the dawn of a "new era" in labor-management relations?

Major Innovation

The consensus in these interviews is that LTV Steel has been the most active in the development of what are called Labor Management Participation Teams (LMPTs) in their plants. Every LTV facility has undertaken LMPT activity, but spokesmen for both the Steelworkers and the company readily admit that not all facilities have had the same degree of success, nor have all teams within particular facilities been successful. The process of employee involvement has taken place with complete union cooperation and participation at LTV.

A working hypothesis for this research has been that cooperation is likely to be relatively more extensive where economic

³ Although no systematic review of sources for this discussion has been undertaken, any review of local newspapers in Ohio would support the following comments. Many of those interviewed for this article reflected the sentiments expressed here.

⁴ Harry C. Katz, "Collective Bargaining in the 1982 Bargaining Round," in *Challenges and Choices Facing American Labor*, Thomas A. Kochan, ed. (Cambridge, MA: MIT Press, 1985), pp. 213-26; Peter Cappelli, "Concession Bargaining and the National Economy," *Proceedings of the*

35th Annual Meeting, Industrial Relations Research Association, 1982 (Madison, WI: IRRR, 1983), pp. 362-71.

⁵ Takahara Yamagami, "The Survival Strategy for the U.S. Steel Industry," Master's thesis, Massachusetts Institute of Technology, 1987, cited in Thomas A. Kochan and Harry C. Katz, *Collective Bargaining and Industrial Relations*, 2d ed. (Homewood, IL: Irwin, 1988), pp. 382-84.

⁶ See the asterisk note for a list of those interviewed.

distress has been greater.⁷ In the words of Jim Tinnen, Director of the Kent State University Regional Center for Labor-Management Cooperation: "When your back is against the wall, you look at what you can do." There is no doubt that LTV's back has been against the wall to a greater extent than any of the other companies. It has just emerged from bankruptcy, having sold or closed more than half of its production capacity. Thus, LTV's example supports the hypothesis.

Even within LTV there is some evidence supporting the proposition. George Banks from the Steelworkers identified LTV-West, the former Jones & Laughlin plant on the Cuyahoga, as the best example of LMPT at LTV. That particular plant was one of the earliest mills threatened with closure, at least among those still in existence. It is also the oldest LMPT program in the Cleveland area, having started before the 1982 steel industry negotiations.

Wheeling-Pittsburgh: A unique pattern developed at Wheeling-Pittsburgh Steel during the 1978-1986 period. Despite the development of Labor-Management Participation Teams following the 1982 negotiations, "the Company attitude" apparently reflected a traditional confrontational style of labor-management relations. By 1985, the situation came to a head in a 98-day strike, which was directed at the chairman of the board as much as toward the company as a whole. The chairman's resignation effectively settled the dispute. It is fair to say that the future of the company was at stake as a result of the strike, so that although the economic crisis may have been self-imposed, it was nevertheless present.

By the time the 1985 negotiations occurred at Wheeling-Pittsburgh, there was complete dissatisfaction on the part of both union officials and employees with the earlier LMPT program. This intangi-

ble element coupled with the frustration of having virtually no control or voice as their jobs rapidly faded away led to the "Cooperative Partnership Agreement" (CPA), a program of much more aggressive involvement by employees in the operation of Wheeling-Pittsburgh Steel.

The CPA requires the company to establish labor-management programs "with teeth." Employees participate on a voluntary basis. CPA provides for a union representative on the Corporate Board of Directors, a "mini-Board" consisting of the four top officials of both the company and union, and a "Plant-Board" at Steubenville consisting of six representatives of the company and union at the plant. Company spokesman, Bob Narrish, reported that the program has gone substantially beyond the old LMPT programs in the sharing of financial information and participation in production and investment decision-making. As at LTV, the union is fully involved and supportive of the cooperative program.

Employment in Steubenville has increased from a low of about 2,600 in 1986 to over 3,500 employees in 1989. As a result of CPA, and substantial capital investment, production has grown even more substantially.

Alternative Employee Involvement

Timkin in Canton and Armco Steel in Middletown represent a more moderate form of change and one that does not enjoy union support or involvement. It is noteworthy that neither company has been threatened with complete collapse, although both have experienced substantial economic pressure over the past ten years.

Timkin is a special case because its principal product is roller bearings, and it began the production of steel primarily as a means of controlling the quality of its input to the bearing manufacturing pro-

⁷ Katz, cited at note 4, suggests that the economic distress of the 1982 bargaining round in a number of industries inspired greater labor-management cooperation.

cess. About half of its steel production is marketed to other steel fabricators, however. In the late 1970s, Timkin decided to build a new, state-of-the-art mill both to increase its capacity and to assure continuing improvement in the quality of its steel. The negotiations with the Steelworkers to build the new mill in the Canton area were concluded in 1981, and the mill was subsequently located just outside Canton at Faircrest.⁸

The new plant negotiations centered on work rules that represented a substantial departure from those in existence at the older Canton mill. The company attempted during the new plant negotiations to negotiate modifications of some rules in the existing Canton mill also. The union asserted that the company was attempting to hold the new plant hostage for the changes and refused to make any concessions at the existing plant. Negotiations concluded without such changes, but there was lingering distrust on the part of the union membership.

At about the same time as the new mill negotiations, local union leadership and the company began to develop cooperative labor-management programs at the Canton facility as well as at Faircrest. The labor-management climate was stable throughout 1982, but by 1983 demand was off significantly. Following the pattern set by the major steel producers, Timkin sought and received substantial concessions in the 1983 contract negotiations.

Although the rank and file voted to accept the concessions, the local leadership of the union was subsequently voted out of office. It was labeled as "soft," primarily because of the concessions, but the developing union-management cooperation program was also seen as an issue reflecting their "softness." Therefore, the

new leadership has shown no interest in labor-management cooperation programs.

On the other hand, though there has been no support, formal or informal, for employee involvement activities, the union has not attempted to block such programs. Quality circles have been developed unilaterally by the company at the department level. Development has not been consistent across departments, however. Some remarkable successes as well as failures have emerged. Much appears to depend on the interpersonal relations of the supervisors and employees involved at the department level.

Employee involvement at Timkin is therefore quite different from what was described earlier. The conservative style of management that is traditional at Timkin is not compatible with the type of extensive involvement and union participation that both LTV and Wheeling-Pittsburgh Steel have developed. Don Simonson, Director of Labor Relations at Timkin, asserts that the "company attitude" toward employees has changed, however. There is more information sharing about the financial status of the company as well as planning, especially with regard to shop-floor operations. "Joint-decision-making" is not part of the picture, however.

At Armco Steel employees are represented by an independent union. Nonetheless, the pattern is similar to the Timkin experience. Labor-management cooperation and a program called "Q+" were in the initial stages of development in the early 1980s when the 1983 concession negotiations occurred. Local union leaders associated with the concessions as well as "Q+" were replaced at the next election, and formal union-management cooperation programs were discontinued.

John Moore, Personnel Director at the Middletown plant, reported that the new

⁸ The new jobs at Faircrest were much more broadly defined, and the scope of supervision was substantially reduced. The company also negotiated the right to select individuals using its own criteria from among volunteers for

assignment to Faircrest. See Paul F. Gerhart, *Saving Plants and Jobs, Union-Management Negotiations in the Context of Threatened Plant Closing* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1987), pp. 80-88.

union officers "do not actively oppose" employee involvement, however, so the company has unilaterally initiated a program with a different name, "Corrective Action Teams" or CATs. Success has varied considerably from department to department. Moore's view is that the "culture" of the mill is slowly changing. Employee surveys over the past two years have indicated a substantial positive movement in employee attitude, and the company is optimistic about the future, especially in light of the recent agreement with Kawasaki Steel, discussed below. In Moore's view, employee involvement will continue to be a key element in the company.

Traditional Industrial Relations

George Banks of the United Steelworkers District 28 gives credit to the professional management at USX in Lorain for sustaining operations there and recently reviving lines that had been shut down. He adds, however, that there have been only modest changes in the "old traditional confrontation relations" that have always existed in the plant.

On the other hand, a local union official, Maurice Allen, who is more familiar with recent developments, reported a "drastic turnaround" at the plant. It has evolved over the past two years, since the six-month USX lockout ended. (The lockout ran from August 1986 to February 1987.) "The table pounding is gone," he said, and "relations are more cooperative now than ever before at Lorain." Tom Kowal, Labor Relations Manager at the plant, reported that there have been no grievances submitted to arbitration in over two years. As many as 400 grievances were filed in a year during the early 1980s. Allen reported that there were only 20 filed last year.

Both union and management spokesmen indicated that employee involvement and union-management cooperation had not developed evenly throughout the mill. Much more progress had been made in the

"lower works" around the furnaces. Allen's view was that cooperation had developed slowly at U.S. Steel because the company was slow to embrace any new idea. It was his opinion that the company ordinarily "let someone else debug any new idea" before it was adopted at U.S. Steel. It is also noteworthy that the Lorain Works does not use the term "LMPT" to describe its activities despite the use of the LMPT label at the corporate level. Both union and management spokesmen indicated that the Lorain pattern might be somewhat different from what is happening elsewhere at U.S. Steel. In part, this may explain the interest that Kobe Steel of Japan has in the Lorain Works.

The Japanese Influence

During the course of the research for this article, it became apparent that there is a trend developing in Ohio steel that may be as significant as the collapse and restructuring itself. Three Japanese steel firms have formed, or are forming, joint ventures with three of the companies and locations discussed in this article. A small, 60-employee operation involving electrogalvanizing was started by LTV in cooperation with Sumitomo Metals in one of LTV's vacant Cleveland facilities about three years ago. The joint venture, L-SE Electrogalvanizing, Inc., provides employment and income security for all employees as well as extensive training in technical skills, communication skills, and problem-solving. The significant fact is that L-SE is currently in the process of building a major new facility in the Columbus, Ohio, area.

In addition, Kobe Steel and USX have recently announced that they will form a joint venture to operate the Lorain Works. Kobe has apparently announced to employees at the plant that they intend to make a major investment to modernize the mill. Finally, Kawasaki Steel and Armco recently announced that Armco would sell half of its interest in the

company to Kawasaki so that all of what is now operated by Armco would become a joint venture.

In each case, the promise of an infusion of new capital and technology has substantially raised the expectations of both management and union representatives. Moreover, all individuals interviewed indicated that a factor in their plant's being selected by the Japanese suitor is the quality of labor-management relations and employee involvement programs. At this point it is not possible to draw any conclusions about the ultimate effects these ventures are likely to have on the labor relations environment. It is already evident that the joint ventures, as well as the prospect of them, has had a positive impact. A review of the experiences of these joint ventures five years from now will undoubtedly be enlightening. New capital as well as a new labor climate will necessarily have an impact on the patterns of labor relations that are observed.

Conclusion

Labor relations among all remaining employers in the Ohio steel industry appear to be moving toward a more cooperative mode. To some extent, there is evidence that the rate of movement is related to the economic stress experienced by the companies, although it is not as clear that job loss is a particularly good indicator of such movement.

Viewed from the larger perspective of much recent industrial relations research concerning the effect of firm-level human resource strategy on firm performance,⁹ the picture of Ohio steel in 1989 provides little clarification at this point. It appears, however, that an empirical test of the Human Resources Strategy-Performance model is in progress. This study did not set out to examine the question of whether there is a "new era" in U.S. labor

relations, as proposed by Kochan and Piori,¹⁰ or whether the present pattern is merely a temporary response to severe economic stress that will fade when the stress is gone. A more general consideration of the findings of this study may contribute to that debate, however.

First, it is apparent that there is no one single approach to labor relations that has developed. The "strategic response to labor" by the various companies seems to be influenced, but not dictated, by the economic conditions facing the company. The United Steelworkers are well aware of conditions specific to each company so that the union's response to a company is likely to be made with the economic context in mind also. Naturally, the different company initiatives and union responses will create different forms of labor-management relationships.

Second, if the above generalizations concerning the role of economic conditions is true, what does that portend for the permanence of the "new strategies"? Some might conclude that as soon as a new economic equilibrium is reached, and the threat of immediate closure is no longer apparent, there will be a tendency to revert back to the "old ways." One skeptic, outside of LTV, pointed to the threat by the Steelworkers Union during recent negotiations. As LTV was emerging from Chapter 11 bankruptcy, one top union official allegedly stated that if LTV expected the union to continue to support its Labor Management Participation Team projects, it had better be willing to cooperate with the union at the bargaining table. Such holding of LMPTs hostage in the negotiations process supports the view that the "new era" is extremely fragile and will disappear as soon as economic conditions improve.

On the other hand, no one is projecting that the steel industry will ever return to

⁹ Morris M. Kleiner, Richard N. Block, Myron Roomkin, and Sidney W. Salsburg, eds., *Human Resources and the Performance of the Firm* (Madison, WI: Industrial Relations Research Association, 1987).

¹⁰ Thomas A. Kochan and Michael J. Piori, "U.S. Industrial Relations in Transition," in *Challenges and Choices Facing American Labor*, Thomas A. Kochan, ed. (Cambridge, MA: MIT Press, 1985), pp. 1-12.

the powerful economic status it held throughout the 1940-1960 period. Thus, some economic threat is likely to motivate "cooperation" for some time to come, so the "debate" over whether the new era will end as soon as the economic stress subsides is probably academic. Moreover, experience at LTV-West in Cleveland

seems to suggest that after cooperative programs have been in place for a long period of time, that mode of operation seems to become the standard, not the anomaly. Though the experience of one plant hardly makes the case, it does suggest that what we are currently observing is not a passing fad.

TABLE 1
Ohio Steel Industry Employment
1978-1986
(thousands)

SMSA	EMP78	EMP80	EMP81	EMP82	EMP83	EMP84	EMP85	EMP86	PERCENT
									DECLINE
									1978-1986
CANTON	10.8	11.6	11.3	9.6	7.0	8.8	8.8	7.9	-27 %
CLEVELAND	19.6	19.3	13.6	11.2	9.2	10.2	9.3	9.1	-54 %
HAMILTON	5.1	5.0	5.0	5.1	5.0	5.0	5.1	5.1	-1 %
LORAIN	5.4	5.4	6.6	5.3	4.0	4.1	3.9	4.6	-15 %
MANSFIELD	2.5	2.4	2.5	2.3	2.3	2.2	2.2	1.8	-28 %
STEUBENVILLE	5.2	5.3	5.0	4.7	4.5	4.5	4.5	4.5	-13 %
YOUNGSTOWN	23.3	16.9	15.7	11.9	8.0	9.3	7.0	5.8	-75 %
REST OF STATE	13.6	14.0	11.1	8.7	7.1	7.9	7.8	7.5	-45 %
TOTAL	85.5	80.0	70.8	58.8	47.1	52.0	48.6	46.1	-46 %

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns, Tape File

NOTE: The data for individual SMSAs in this table are estimated. The Census Bureau has suppressed actual numbers to protect the confidentiality of data for specific firms. Thus, although trends are accurately reflected, care must be exercised in drawing other conclusions.

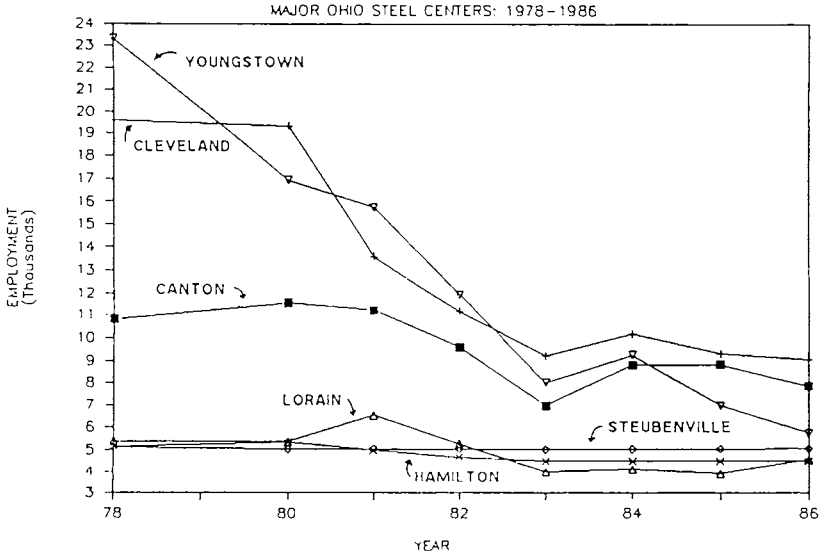
TABLE 2
Major Steel Producing Centers And Employers
In Ohio: 1989

SMSA	MAJOR PRODUCERS	APPROXIMATE EMPLOYMENT
CANTON	LTV Timkin	3660 na
CLEVELAND	LTV	8060
HAMILTON/MIDDLETOWN	Armco	5400
LORAIN	USX	1700
STEUBENVILLE	Wheeling-Pittsburgh	2600
YOUNGSTOWN/WARREN	LTV Copperweld	3075 2220

Source: 1989 Harris Ohio Industrial Directory

Figure 1

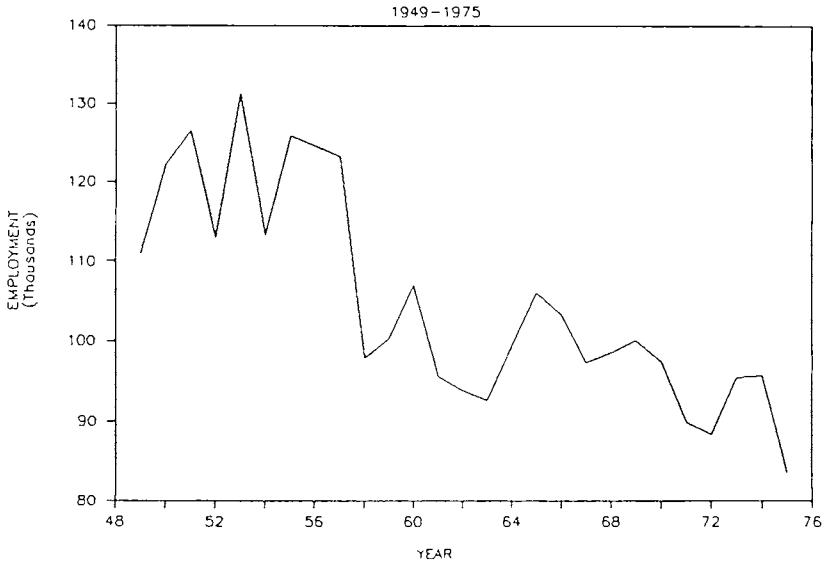
STEEL INDUSTRY EMPLOYMENT



Source: Same as Table 1

Figure 2

OHIO STEEL INDUSTRY EMPLOYMENT



Source: U. S. Department of Labor, BLS, Bulletin 1370-12, Employment and Earnings, States and areas, 1939-75

[The End]

Lessons for Labor-Management Cooperation Drawn from Cases of Noncooperation in the French and American Steel Industries or What We Have Heah Is a Failya' to Cooperate

By Lawrence E. Rothstein

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Many discussions of labor-management cooperation seem to assume that cooperation is a mutually exclusive alternative to the "adversarial" nature of collective bargaining. Cooperative mechanisms, integrating workers and managers in the enterprise "community," are recommended to replace the hostile confrontation between unions and management. Directly related to this assumption is the view that the major obstacles to cooperation are militant and autonomous workers' organizations and the insistence by these organizations on formal (either statutory or contractual) guarantees of job security, union security, decent working conditions, fair treatment, participation in important decisions, respectable wages, and opportunities for advancement and comfortable retirement.¹

All too often those who advocate cooperation do so in much the same way as the school disciplinarian or the prison warden who insists that their charges be "more cooperative," i.e., conform more readily to the authority's unilaterally prescribed rules, desires, and interests and trust wholeheartedly in the benevolence of that

authority.² The realities of the steel industry, in the United States and abroad, belie these simplistic assumptions about cooperation and the obstacles to it.

Two classic cases of noncooperation and unilateral employer action, one from the U.S. and one from the French steel industries, illustrate well the obstacles. On September 19, 1977, which came to be known as "Black Monday" in Youngstown, Ohio, Youngstown Sheet & Tube, owned by the Lykes Corporation since 1969, announced that it would close the Campbell Works. This would entail 5,000 layoffs, the first of which would begin the following Friday. More were to come with the closing of the Brier Hill Works and U.S. Steel's Youngstown Works.

In Longwy, in the Lorraine region of France, successive shocks came on December 11 and 12, 1978. First Sacilor and then Usinor announced the elimination of more than 20,000 jobs in the steel industry, including 15,000 in Lorraine. This entailed the closing of all but one small part of the La Chiers plant in Longwy. The town of Longwy itself would lose 6,500 steel jobs. Each region suffered the elimination of more than 10,000 jobs in the steel industry, i.e., one third to one half of the local employment in that industry along with the complete or par-

¹ Charles C. Heckscher, *The New Unionism: Employee Involvement in the Changing Corporation* (New York: Basic Books, 1988); Karl E. Klare, "The Labor-Management Cooperation Debate: A Workplace Democracy Perspective," *Harvard Civil Rights-Civil Liberties Law Review* 23 (1988), pp. 39-83; Seymour Martin Lipset, ed., *Unions in Transition: Entering the Second Century* (San Francisco: Institute for Contemporary Studies, 1986); Thomas A. Kochan, Harry C. Katz, and Nancy R. Mowrer, *Worker Participation and*

American Unions: Threat or Opportunity? (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1984.)

² Daniel B. Cornfield, "Dualism in Contemporary Union-Management Relations," *Proceedings of the 39th Annual Meeting, Industrial Relations Research Association, 1986* (Madison, WI: IRRR, 1987), pp. 358-67; Fred Foulkes, *Personnel Policies in Large Non-Union Companies* (Englewood Cliffs, NJ: Prentice-Hall, 1980).

tial closings of several steel plants. These closings and layoffs were part of a major restructuring of the industry in both countries.³

Obstacles to Resolution

There were several obstacles to a cooperative resolution of the controversy common to both cases. A major one was the difficulty of reaching and pinning down the decision-makers responsible for the closings. Neither Longwy nor Youngstown were the seats of power of the primary corporate or governmental actors. Lykes Corporation, owner of Youngstown Sheet & Tube, was based in New Orleans. LTV, which merged with Lykes just before the Brier Hill closing, was based in Dallas. U.S. Steel was based in Pittsburgh, and crucial Board of Directors meetings were held in New York City. The key governmental decisions affecting the Youngstown worker/community buyout attempts were made in Chicago (EDA Regional Office) and Washington, D.C. Furthermore, all of the key decisions were made in relative secrecy, closed to worker participation and announced amidst efforts to characterize the decisions as unplanned, but immediately necessary, responses to external economic forces.

The buck was passed constantly from the corporations to government and then back again. The corporations blamed the EPA's anti-pollution regulations and the Carter Administration's failure to limit foreign competition. The government passed the decision-making responsibility on redevelopment funds back and forth between the Department of Housing and Urban Development and the Economic Development Administration of the Department of Commerce. In postponing decisions on the award of loan guarantees, the White House referred the Youngstown Ecumenical Coalition back to Lykes for a

firm price and conditions of sale. Lykes delayed making the commitments on the grounds that the Justice Department had not yet approved the Lykes/LTV merger and later because the approved merger had not yet been completed. The action of the Justice Department in approving the merger, against the recommendations of its own Anti-Trust Division, changed the marketing basis on which the buyout projections had been made and required revised applications to be made to HUD and EDA.

The workers of Longwy were faced with similar maneuvers. The government refused to engage in tripartite negotiations which would bring together itself, the unions, and the steel companies. They used separate negotiations to dilute responsibility and heighten the workers' and the public's confusion about where responsibility for the closings and job reductions lay. When the Minister of Labor, Robert Boulin, agreed that the restructuring of the industry would be suspended during the negotiations of February-March 1979, the Minister of Industry, Andre Giraud, announced that the restructuring was not suspended. When the Chief Executive Officer of Usinor agreed to postpone workforce reductions during the negotiations, the Chairman of the Board announced that there would be no postponement.

When the CGT and CFDT negotiators indicated that they were prepared to discuss only the restructuring plan, not benefits, the Minister of Industry said that he had no authority to discuss changing the plan. He referred the federations to MM. Mayoux and Etchegarray, the Chief Executive Officers of Sacilor-Sollac and Usinor. When the negotiators met with these executives, they stated that they were required to follow the government's plan

³ Lawrence E. Rothstein, *Plant Closings: Power, Politics, and Workers* (Dover, MA: Auburn House, 1986); Staughton Lynd, *The Fight Against Shutdowns: Youngstown's Steel Mill Closings* (San Pedro, CA: Singlejack Books, 1982); Claude Durand, *Chomage et Violence* (Paris: Editions Gali-

lee, 1981); Thomas O. Feuchtmann, *Steeple and Stacks: A Case Study of the Youngstown Ecumenical Coalition*, Ph.D. dissertation, University of Chicago, 1981; Gerard Noirel, *Vivre et Lutter a Longwy* (Paris: Maspero, 1980).

for restructuring because the government, in fact, owned the controlling interest in the steel companies. Both the government and the steel companies blamed the EEC for requiring reduced French steel production.

The exclusion of workers, the secrecy, and the buck-passing were accompanied by the protestations of governmental and corporate officials that workers were unqualified to participate in or to question economic or financial decisions. Workers' attempts to intrude into these decision-making processes were considered unjustified burdens on the power of capital to pursue its interests which were deemed to coincide with the public interest. Those acknowledged experts who supported the workers' position were silenced, e.g., the Chief of the Anti-Trust Division of the Attorney General's Office, who opposed the Lykes-LTV merger, and the Director of the Usinor-Longwy plant, who questioned the analysis that led to the closings.

Lykes employees were threatened with "blacklisting" in the steel industry if they communicated with the media or community organizations about the closings. That such a threat was credible indicates that the steel companies formed a powerful network in opposition to the interests of the workers and the community.

Local executives seemed to have had no influence on the decisions made in corporate headquarters. Many, seeing the handwriting on the wall, resigned before the closing or shortly thereafter. William Kirwan, Superintendent of the Youngstown Works of U.S. Steel, apparently presented several plans for saving the Works to top executives and directors of the corporation. Yet, when the decision to close the Works was made, the Chairman of the Board and the Chief Executive

Officer claimed that they had never heard of the plans. In Longwy, the powerlessness of the Director of the Usinor plant was even more obvious. When he suggested that the company should keep the mills in Longwy open rather than build a new plant at Neuves-Maisons, he was dismissed.⁴

Steelworkers' Cooperativeness

What about the cooperativeness of the steelworkers and their unions? American steelworkers and the USWA have cooperated very closely with the steel companies. There were no strikes in the industry for 25 years following the 116-day strike of 1959. Early in this period, strikes during the term of a contract were outlawed. A Human Relations Committee made up of top union and company officials was created to establish a cooperative relationship. Union leaders were compliant with management's demands that wage increases be a share of productivity gains and remained silent when the then oligopolistic industry raised prices far beyond that justified by the wage increases.

Under the Experimental Negotiating Agreement of 1973-1980, the USWA conceded the right to strike at the end of a contract's term. Even before the ENA, the 1971 industry agreement established joint, plant-level Productivity Committees which were promoted as a mechanism for improving the competitive position of American steel while protecting jobs. The 1980 Basic Agreement, resulting in substantial wage and benefit concessions, also created the framework for plant-level Labor Management Participation Teams. Even at the moment of the first Youngstown closings, the reaction of the USWA locals on the scene was a petition drive to Washington on behalf of steel company demands for import quotas and the easing of environmental restrictions.⁵

⁴ Olivier Kourchid, "Workers' Struggles in Steel in France and in the U.S.A.: Autonomy and Constraint at Longwy, Lorraine and at Youngstown, Ohio," in *Redundancy, Layoffs and Plant Closures*, Raymond M. Lee, ed. (London: Croom Helm, 1987); Rothstein, cited at note 3.

⁵ Cynthia Deitch and Robert Erickson, "'Save Dorothy': A Political Response to Structural Change in the Steel Industry," in *Redundancy, Layoffs and Plant Closures*, Raymond M. Lee, ed. (London: Croom Held, 1987); Lawrence E. Rothstein, "Government Intervention in the Steel

What has been the result of all this cooperation? Productivity in the American steel industry almost doubled between 1960 and 1982, despite aging facilities and poor investments. This was also despite major productivity declines in 1975, 1980, and 1982, each time following large reductions of blue-collar employment of 53,000, 50,000, and 88,000 workers, respectively.

The ratio of the percent increase in employment costs versus the percent increase in productivity between 1960 and 1982 gave American steelworkers a monetary share of productivity improvement equal to or lower than that in any of the major steel producing countries. The employment costs for American steelworkers, whether or not adjusted for inflation, increased at a much slower rate than those of other major producers. In the 1974-83 period, the average annual wage increase in the American steel industry was 8.2 percent. This wage increase became a real decrease in buying power once the average rate of inflation, increases in the social security tax, and the income tax bracket creep over this same period are considered. The faster increase of nonwage benefits kept ahead of inflation, but it is important to note that wages and benefits were paid to about half of the number of workers in 1983 than in 1974. This reduction in steel industry employment was greater than that of any other OECD country except Great Britain.⁶

Autogestion

It might be said, then, that American steelworkers have cooperated themselves

(Footnote Continued)

Market," paper presented to the Conference on Steel Trade Problems, Urban Institute, Washington, November 30, 1984; Rothstein, cited at note 3; Kochan, Katz, and Mowrer, cited at note 1.

⁶Trevor Bain, "Industrial Relations Systems and the Restructuring of the Steel Industry," paper presented to the IRRRA Study Group on Industrial Relations Theory, Quebec City, August 1988; U.S. International Trade Commission, *Carbon and Certain Alloy Steel Products*, Report to the President on Investigation No. TA-201-51, July 1984; Hans Mueller, *Prospects for the U.S. Steel Industry*, Middle Ten-

into oblivion. French steelworkers also, despite being ideologically anticapitalist, had been lulled into a sense of confidence that the joint privately/publicly financed steel industry would grow and guarantee employment to them and their children. Following bitter strikes in 1947 - 48, there was little strike activity until the uprisings of May 1968. Even then, the steelworkers joined in the national movement belatedly. The strengthening of plant-level worker representation arising out of the Grenelle Protocol of 1969 fit in as well with management's newly developing human resources policies as it did with workers' demand for *autogestion* (self-management). The emphasis of union activity remained at the national industrial and political levels until the layoffs were announced in December 1978.

Since 1978, the emphasis of union activity in pursuit of *autogestion*, even during the plant closings of 1984, was on negotiating various types of power-sharing agreements with management and demanding government programs to help displaced workers. This emphasis was further bolstered by the Socialist government's Auroux Laws of 1982. Despite, or possibly because of, this overall decline in union militancy and increase in union participation in cooperative efforts, steel industry employment was reduced by over 30 percent between 1975 and 1986.⁷

Four major differences between the French and American steelworkers and their unions did affect the extent to which French steelworkers fared somewhat better than their American counterparts in the restructuring of the steel industry,

nessee State University Monograph, April 1983; Rothstein, cited at note 5.

⁷W. Rand Smith, *Crisis in the French Labour Movement: A Grassroots' Perspective* (New York: St. Martin's Press, 1987); Yves Meny and Vincent Wright, eds., *The Politics of Steel: Western Europe and the Steel Industry in the Crisis Years (1974-1984)* (Berlin: Walter de Gruyter, 1987); Sharon Zukin, "Markets and Politics in France's Declining Regions," *Journal of Policy Analysis and Management* 5 (Fall 1985), pp. 40-57.

both in terms of protecting employment and in securing compensatory benefits. First, as their reaction to the 1978 closing announcements demonstrated, the French steelworkers were capable of explosive militancy, supported by their national unions and confederations. Second, the plural unionism of the French system, with the three major unions opposing capitalism in principle, but with the possibility of differing levels of militancy and strategic choices, allowed for a sort of "good cop, bad cop" approach to labor-management relations. For fear of the confrontational tactics of the CGT, management may have agreed more readily to the demands of the CFDT or the FO. Third, the ideological commitments and left-party-oriented activity of the two major French steelworker unions allowed French unions to present alternative policies for industry restructuring. Even when these were quickly rejected by the steel companies, they provided a rallying point for workers, affected communities, and the general public. Fourth, the threat of left-wing victories at the polls and the later election of a Socialist government restricted somewhat (but not a lot) the employers' intransigence.

Political Factors

These same factors, paradoxically, often allow French unions to function better in cooperative relationships with management. They provide institutional strength, even in the face of declining membership. Since 1968, French governments have made several improvements in the legal status and protections for trade unions. The Socialist government has also been instrumental in providing the legal framework, with certain guarantees for union influence, for labor-management cooperation.

American unions have enjoyed little government support since the New Deal. American unions, lacking an ideological

commitment and a view of the future structure of industry and work, can show their opposition to management and their strength only to the extent that they can oppose what management proposes. French unions have perspectives and plans that provide some basis for evaluating and agreeing with management on mechanisms that enhance worker participation. French employers, to lessen workers' allegiance to the most confrontational unions, must grant more of the demands of the more cooperative, but still *autogestionnaire*, unions. Since 1987, the CGT, the Communist-party oriented and most confrontational trade union federation, has signed more plant-level agreements on participatory mechanisms than any of the other unions.⁸

The lessons about cooperation to be learned from this somewhat rambling and impressionistic analysis, but bolstered by many other studies of cooperation and restructuring in OECD countries, are the following.

(1) Real cooperation means power-sharing. Real cooperation is not possible without a strong and autonomous organization of the workers. Just as citizens in a political community need political parties or interest groups to effectively represent them, so do workers in the "enterprise community."

(2) The role of unions *in all enterprises* must be accepted by the firms that wish to establish cooperative mechanisms.

(3) Management must be committed to the cooperative processes and to improving working life, not just to the achievement of productivity or flexibility gains.

(4) Unions must be active in training workers to participate fully and knowledgeably in the cooperative processes.

(5) The cooperative processes must allow for early (before decisions are hardened) and equal participation of workers in any matters (particularly including

⁸ Smith, cited at note 7; Kourchid, cited at note 4; Rothstein, cited at note 3.

investment, disinvestment, and planning decisions) that might affect staffing or working conditions. If the cooperative processes are to have a more limited subject matter, then the above-mentioned decisions must be presented in a timely and open manner for collective bargaining.

(6) Unions must be proactive in formulating and presenting plans for the development of their firms and industries. This means that they must have access to expert assistance and all corporate information.

(7) Unions and the cooperative processes must have strong government and legal support and protection.

(8) Job and income security are the sine quo non of worker commitment to cooperation.

This is not to say that all of these lessons must be fully realized before any cooperative processes may be instituted. Steady movement in the direction of realizing these lessons is necessary, however, to guarantee effective and fair maintenance and extension of cooperation.

[The End]

What Makes Labor Mediators Effective?

By Steven Briggs and Daniel J. Koys

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The mediation process so widely embraced in private-sector unionized employment was institutionalized by the passage of the Labor-Management Relations Act in 1947. Mediation has since been adopted as a conflict management tool in numerous public employment jurisdictions and is showing promise in the resolution of family, community, and even international disputes.¹ In comparison to strikes in the employment arena, and to litigation in other forums, mediation is an inexpensive and expeditious alternative. Moreover, mediation produces a voluntary settlement between the parties themselves, making it far preferable to

litigation for enhancing the continuing health of the parties' long-term relationship.

A host of factors influences the probability that mediation will produce a voluntary settlement at the bargaining table, and many of these factors are beyond the mediator's control. For example, upward pressure on the cost of living can heighten union wage expectations. Settlements in other industries can shape negotiator aspirations.² And intra-organizational circumstances perhaps known only by one of the parties can be an invisible obstacle to a mediated settlement.

Still, the overwhelming body of conventional wisdom on effective mediation emphasizes the influence of the mediator him/herself. We continue that stream of research by investigating the relationship between mediator effectiveness and the

¹ On family disputes, see David Saposnek, *Mediating Child Custody Disputes* (San Francisco: Jossey-Bass, 1983); on community disputes, see Charles A. Cooper, "Community Mediation: A Med-Arb Model," in *The Elements of Good Practice in Dispute Resolution: Proceedings of the Society of Professionals in Dispute Resolution* (Washington, D.C.: SPIDR, 1985), pp. 71-74; on international disputes,

see Janice Gross Stein, "Structures, Strategies, and Tactics of Mediation: Kissinger and Carter in the Middle East," *Negotiation Journal* 1 (October 1985), pp. 331-47.

² James A. Wall, "Mediation: The Effect of Mediator Proposals, Number of Issues, and Altered Negotiator Aspirations," *Journal of Management* 10, 3 (1984), pp. 293-304.

characteristics and practices of mediators. We seek to answer the question, "Why are some labor mediators more effective than others?"

Previous Research

A wave of literature on mediation followed the first few years under the Labor-Management Relations Act. It was largely anecdotal, with most being focused either on the appropriate role for the mediator or on various mediator strategies and tactics.³ A conclusion common to these studies was that effective mediators assume an *active role* in the process, using persuasiveness and creativity to obtain compromise from both parties. Subsequent empirical studies confirmed the importance of mediator persuasiveness and creativity in particular,⁴ and of an active role in general.⁵ Overall, the literature suggests that the effective mediator employs an active strategy during the mediation process, whereby he/she develops creative solutions to the parties' differences and attempts to persuade the parties to adopt them.

There is also some evidence linking mediator experience to effectiveness. This opinion has long been expressed by veteran mediators themselves.⁶ More recently, Brett et al. found that while the

styles of five experienced mediators in the coal industry varied, their effectiveness did not.⁷ Karim and Pegnetter concluded from a study of 129 labor and management advocates that perceived mediator expertise was positively related to mediated settlements.⁸ And Kochan and Jick found a positive relationship between mediator experience and mediation effectiveness.⁹ The implication from these studies is that experience as a mediator can help one acquire a supply of settlement tools and develop the judgment to know when and how to use them.

Mediator *tenacity* is also characterized in the literature as an essential ingredient to effectiveness.¹⁰ For example, while the researchers in one study found that male and female mediators seem to have different perspectives on the effectiveness of various practices, both groups reported that mediator tenacity is one of the most important elements of voluntary settlement.¹¹

There is no shortage of literature on mediator effectiveness. The bulk of it, however, does not stem from empirically based research. Rather, it reflects the personal opinions of the respective authors based largely upon their own mediation experience. Such reports are rich in depth but constrained by the inevitable limita-

³ On appropriate role for the mediator, see Harold L. Enarson, "Mediation and Education," *LABOR LAW JOURNAL*, Vol. 7, No. 8 (August 1956), pp. 466-71; William H. Knowles, "Mediation and the Psychology of Small Groups," *LABOR LAW JOURNAL*, Vol. 9, No. 10 (October 1958), pp. 780-84; Adolph M. Koven, "Psychological Aspects of Mediation," *LABOR LAW JOURNAL*, Vol. 9, No. 10 (October 1958), pp. 784-86; and Edward Peters, "The Mediator: A Neutral, a Catalyst, or a Leader?" *LABOR LAW JOURNAL*, Vol. 9, No. 10 (October 1958), pp. 764-69. On mediator strategy and tactics, see Paul Prasow, "Preventive Mediation: A Technique to Improve Industrial Relations," *LABOR LAW JOURNAL*, Vol. 1, No. 8 (August 1950), pp. 866-68; Hugh G. Lovell, "The Pressure Lever in Mediation," *Industrial and Labor Relations Review* 6 (October 1952), pp. 20-30; Edward Peters, *Conciliation in Action* (New London, CT: National Foremen's Institute, 1952); Clark Kerr, "Industrial Conflict and Its Mediation," *American Journal of Sociology* 60 (November 1954), pp. 230-45; and Evelyn Hooker, "Psychological Aspects of the Mediation Process," *LABOR LAW JOURNAL*, Vol. 9, No. 10 (October 1958), pp. 776-79.

⁴ Joseph Krislov and John F. Mead, "Labor-Management Attitudes Toward Mediation," *Personnel Journal* 51 (Febru-

ary 1971), pp. 86-94; Thomas A. Kochan and Todd Jick, "The Public Sector Mediation Process: A Theory and Empirical Examination," *Journal of Conflict Resolution* 22 (1978), pp. 209-40.

⁵ Wall, cited at note 2.

⁶ Knowles, cited at note 3; Peters, cited at note 3.

⁷ Jeanne M. Brett, Rita Drieghe, and Debra L. Shapiro, "Mediator Style and Mediation Effectiveness," *Negotiation Journal* 2 (July 1986), pp. 277-85.

⁸ Ahmad Karim and Richard Pegnetter, "Mediator Strategies and Qualities and Mediation Effectiveness," *Industrial Relations* 22 (Winter 1983), pp. 105-14.

⁹ Kochan and Jick, cited at note 4.

¹⁰ Kochan and Jick, *ibid.*; Kenneth Kressel, *Labor Mediation: An Exploratory Survey* (Albany, NY: Association of Labor Mediation Agencies, 1972); David Kuechle, "The Making of a Mediator," *Labour Gazette* 74 (January 1974), pp. 23-30.

¹¹ Helen R. Weingarten and Elizabeth Douvan, "Male and Female Visions of Mediation," *Negotiation Journal* 1 (October 1985), pp. 349-58.

tions of personal perspective. The few empirical studies of mediator effectiveness have been based either upon relatively small samples or upon studies of students in a laboratory setting.

Research Design

We distributed a questionnaire to 33 mediators, 16 of whom were full-time employees of a state labor relations agency. The remaining 17 were ad hoc mediator/arbitrators listed on the agency's master panel of neutrals. One of the authors was present as the questionnaires were completed, so that questions of interpretation could be addressed contemporaneously.

The sample consisted of five females and 28 males, most of whom were between the ages of 30 and 59. The average age was 35. Average mediation experience in the group was eight years and just over 150 cases. Nearly all of the respondents had earned advanced degrees of one type or another. The overwhelming majority of the respondents had received formal legal training (70 percent = J.D., 15 percent = Ph.D., 15 percent = M.S. or M.B.A.). With the exception of the relatively young chronological age of our sample, the other background characteristics are generally comparable to those of other samples of mediators.¹²

Our measure of mediator effectiveness was obtained from the Director of the state mediation agency. He evaluated each respondent's overall effectiveness as a mediator on a seven-item scale (1 = low, 7 = high) and reported using the following criteria in his assessments: acceptability to the parties, ability to handle pressure, and ability to apply pressure to create movement. Settlement data were used by the Director as well, but only loosely, since he felt that a legion of factors beyond the mediator's control could delay

settlement. For example, an emerging settlement pattern across several school districts might make a mediated settlement in a given comparable district relatively easy to accomplish in one time frame, but difficult if not impossible just days earlier. The Director's assessments were fairly evenly distributed across the scale (range = 2 - 7; mean 5.3; standard deviation = 1.4). Another high level official of the state agency also rated the effectiveness of each mediator in the sample. His assessments closely approximated those of the Director, thereby supporting their reliability as indicia of effectiveness.

Measures of mediator tenacity and the extent to which they used "active" mediation techniques were constructed from multi-item scales. (A complete discussion of the statistical methods employed is available from the authors upon request.) Mediation experience was measured in terms of each mediator's career caseload. Using a variety of statistical methods, we compared the effectiveness of each mediator against his/her experience, tenacity, and general approach to mediation.

Results

Mediator tenacity was strongly associated with mediator effectiveness. That is, those mediators reporting that they did not give up without exhausting themselves, the parties, and all reasonable avenues of settlement were also the ones identified as being the most effective. One of the most effective mediators offered the following comment: "Mediation doesn't start until both of the parties have told the mediator there's no more room for compromise."

Mediator experience was also closely tied to effectiveness. The more times a respondent had been called upon to mediate a labor dispute in his/her neutral career, the more effective he or she tended

¹² See, for example, Henry A. Landsberger, "Interim Report of a Research Project on Mediation," *LABOR LAW JOURNAL*, Vol. 6, No. 8 (August 1955), pp. 552-60; Allan Weisenfeld, "Profile of a Labor Mediator," *LABOR LAW JOURNAL*, Vol. 13, No. 10 (October 1962), pp. 864-73; Monroe

Berkowitz, Bernard Goldstein, and Bernard P. Indik, "The State Mediator: Background, Self-Image, and Attitudes," *Industrial and Labor Relations Review* 17 (January 1964), pp. 257-75; Deborah Kolb, *The Mediators* (Cambridge, MA: MIT Press, 1985); Kressel, cited at note 10.

to be in settling current disputes through mediation.

Finally, those mediators who assume an active, independent role in the mediation process were more likely to be judged effective by the state agency Director than were those who saw their role merely as instruments of the parties. The use of pressure tactics by the mediators, including the generation of their own settlement terms for the parties' consideration, was connected to their mediation success.

Discussion

Our results confirm what veteran labor mediators have claimed since mediation was institutionalized by the Labor-Management Relations Act in 1947: there is no substitute for experience. While formal mediator training programs may teach participants certain mediation skills and techniques, field experience appears necessary to test them through trial and error. We are reminded of a comment from one experienced mediator who responded as follows to another survey: "How do you teach a course in 'I'll think of something?'"¹³ Our study suggests that while mediator training programs might provide novice mediators with a knowledge of several approaches to achieving settlement, and even with specific solutions to various unresolved collective bargaining issues, such knowledge is most effective when combined with the seasoned judgment that only mediation experience can provide.

This is not to say that being tenacious and assuming an active role in the mediation process do not contribute to mediator effectiveness. Both of these strategies were significantly related to effectiveness. Indeed, most of our respondents said that both of these factors were important ingredients in moving the parties toward settlement.

A few qualifying comments about our methodology are in order. First, the data

obtained about the mediators in our sample were self-reported. Their accuracy is therefore subject to the usual caveats. Second, the mediation episodes reported upon by our correspondents occurred at various stages of the mediation/arbitration process in municipal and education sector jurisdictions where the strike weapon has been virtually nonexistent for a number of years. Generalization of our results to the private sector should therefore be made with extreme caution. Third, while the ad hoc mediator/arbitrators in our sample reported only upon their mediation experiences, their potential decision-making authority as arbitrators in the same cases may have influenced the parties' willingness to settle.

Further research in this important area should employ a more refined measure of mediator effectiveness. What appears effective from the perspective of an agency director, for example, might not seem effective to someone on a bargaining committee. Perhaps one effectiveness estimate could be obtained from labor and management advocates and another from agency heads, with the two being combined to form an effectiveness index.

In summary, this study provides preliminary empirical evidence that mediation experience is a critical ingredient to effectiveness as a mediator. Being tenacious (not taking "no" for an answer) and taking an active role (pressuring the parties with successive proposals for compromise) also appear important to mediator effectiveness, but in and of themselves they are not sufficient. Field mediation experience appears to be the proving ground for experimentation, so that through trial and error new mediators can develop the judgment to know when and how to employ the skills and techniques of the profession.

[The End]

¹³ Kressel, cited at note 10.

Divergent Organizational Responses to Substance Abuse

By Philip K. Way

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Substance abuse is commonly held to be a major problem in society. The workplace is believed to be no different. For instance, an American Management Association (AMA) survey found that 93.5 percent of organizations surveyed nationwide had to deal with drug abuse problems in 1985.¹ In consequence, business incurs costs such as lower productivity, greater absenteeism, and increased use of sick leave and benefits.² Estimates of the annual losses involved are typically put at tens of billions of dollars.

In view of the pervasiveness of substance abuse incidents, this article first investigates what measures are being taken by employers in response. Second, it probes the precise motivations of organizations in deciding to establish or to forgo substance abuse policies — in particular, whether the widely quoted economic costs of drug abuse or other noneconomic forces are of paramount importance. Third, the article analyzes the factors responsible for divergences in the particular type of substance abuse policy implemented.

The findings presented here have been generated from an original survey, conducted in 1988, of private-sector workplace policies to counter substance abuse (excluding alcohol abuse). Of 1,000 surveys mailed, 232 usable responses were returned. Although most industries, regions, and firm sizes were represented, the responses were disproportionately from manufacturing, the Middle West and the East, and larger firms.

¹ Dale Masi, "Company Responses to Drug Abuse from AMA's Nationwide Survey," *Personnel* (March 1987), pp. 40-46.

Organizational Responses

Substance abuse strategies have three main dimensions: prevention, detection, and correction. Employers may seek to prevent substance abuse from arising in the first place. In case it is not completely obviated, there may be attempts to detect the possession, sale, transfer, or use of drugs. In conjunction, remedial steps may be taken to deal with employees involved in drug activities. Within each dimension there are several policy options. Table 1 identifies the most popular.

Prevention policies usually take the form of educational programs. While only a small proportion of firms surveyed regularly circulate to employees written materials concerning substance abuse or hold regular meetings where education takes place, a larger number distribute literature and have meetings as the need arises or at the time of hiring.

Security is also used relatively widely to prevent drug activities. More unusual are attempts to change job content to relieve stress and boredom in order to reduce drug use by employees, and efforts to change the physical layout of work so that employees cannot hide their drug symptoms.

Detection policies aim to uncover the drug activities of both job applicants and current employees. Job applicants may be asked about their drug history and may be required to undergo pre-employment drug screening. Inquiries into drug felony convictions are more common than questions about misdemeanors and use. Pre-employment drug screening, seen in approximately half the firms, is generally carried out for all new hires.

² Charles S. Pendleton, "Drug Abuse Strategies for Business," *Security Management* (August 1986), p. 75.

In seeking to detect drug activities among incumbent workers, a strategic emphasis is on a general policy involving vigilant supervision to ensure fitness for duty. Surveillance through other means such as cameras and undercover agents is comparatively rare. Workplace searches for controlled substances are seen in a majority of organizations. However, they tend to be with probable cause, and on a case-by-case basis. Routine and random searches are very rare.

Current employees are susceptible to drug testing in one-half of the organizations, but generally only in specified circumstances. The most common situation is where workers show signs of drug-intoxication and are creating hazards or have impaired productivity. Less significant is testing after prolonged absences and testing as part of a periodical medical examination. Random testing is carried out in few of the responding private-sector organizations.

When drug activities are detected, organizations take a variety of corrective steps. Where job applicants fail drug tests, most companies always refuse them employment, although more than half permit reapplication at a later date. For incumbents, the most common course of action is to use the disciplinary procedure. Nearly one-half always channel drug abusers into a rehabilitation program, such as an employee assistance program, while one-third do so on occasion.

Overall, 56 percent of the organizations surveyed have a formal drug abuse policy and an additional 18 percent are currently considering formulating one. The majority of the policies have been introduced during the 1985-1988 period.

Two important conclusions can be drawn from the survey results. First, the general incidence of many kinds of substance abuse policies is increasing. For

example, pre-employment drug screening and incumbent testing were found in approximately 20 percent of organizations in 1985 and 1986,³ but the present survey finds that testing was conducted in roughly half of the companies by 1988. These figures are entirely consistent, since this survey also found the proportion of firms with substance abuse policies more than doubled over the intervening period. A second conclusion is that there is considerable differentiation among the organizations' approaches.

Pros and Cons of Substance Abuse Policies

The survey findings underscore the importance of discovering the rationales behind the spread of substance abuse policies and of understanding why many organizations have not followed suit. Of particular interest is the relative weight attached to the widely discussed net economic benefits of substance abuse policies, such as improved safety and productivity, vis-a-vis noneconomic factors, such as employee welfare, external pressure on the organization, and procedural considerations, including the need for due process and consistency. The most significant reasons for the presence or absence of substance abuse policies were investigated in the survey. An open-ended question elicited the most important factors in the opinion of the respondent without forcing a choice or prompting answers.

Substance abuse policies appear to be significantly motivated by economic forces. As Table 2 shows, the reasons given by respondents for their policies predominantly reflect the potential costs of drug activities. The most commonly mentioned rationale is safety, presumably at least in part because drug intoxication can cause accidents which may lead to expensive litigation and workers' compensation costs. Organizations care most

³ Bureau of National Affairs, Inc., *Alcohol and Drugs in the Workplace: Costs, Controls, and Controversies* (Washington, D.C.: BNA, Inc., 1986); American Management

Association, *Drug Abuse: The Workplace Issues* (New York: AMA, 1987).

about the safety of workers, for example, where heavy equipment is used, but also evince wider concern where employees drive vehicles or come into close contact with the public in service organizations such as hospitals. Worries about the costs of substance abuse are also evident in responses citing the need to maintain productivity, accuracy, and quality, and to preserve company security.

At the same time, it is clear that substance abuse policies are in part the product of noneconomic forces. Corporate social responsibility appears to be a motivator. Certain organizations believe their role should encompass helping employees to recognize their problems and providing them with assistance. While some companies explicitly recognize that rehabilitating employees can be cost-effective for the organization, the majority seem sincere in their desire simply to improve employee welfare.

Political pressures are pertinent in some cases. A few organizations have policies because their head offices require them. Others find it expedient because of the need to obtain government funding, or because their labor market competitors have them.

Finally, on a procedural level, it is held that the establishment of a substance abuse policy enables the company to set clear expectations concerning drugs and to make plain that transgressions of rules regarding drug abuse may result in discipline. This may be absent when substance abuse is handled through generic personal conduct and discipline procedures. Greater consistency of treatment may also be facilitated by explicit drug policies.

In contrast, in organizations where there are no substance abuse policies, these motivations are not apparent, as Table 2 shows. Commonly, no economic payoff is envisaged if policies are implemented. Many organizations do not perceive substance abuse as a problem for

reasons such as the demographic, occupational, and educational composition of the workforce. Interestingly, however, only one organization reported being deterred by the cost of substance abuse control methods, such as testing.

A variety of political, procedural, and organizational factors are also relevant. The style of management in some small firms is to handle substance abuse problems on an individual basis and to minimize rule-making. Some management teams have other priorities such as formulating basic human resource policies in new companies and handling relocation. A small number of organizations report that progress is bogged down in intra-company politics, involving management, the employees, or their union.

However, it should be noted that although much of the furor over drug abuse policies relates to the invasion of employee privacy, only two organizations surveyed refuse to adopt a policy for this reason. Lags sometimes also arise in the decision-making process while legal concerns are sorted out and counsel reviews proposals. In a few cases, implementation of a policy is being hindered by understaffed personnel departments, the lack of a suitable testing facility nearby, and the absence of an employee assistance program. Finally, some organizations maintain that there is no need for specific substance abuse policies since, to the extent that drug abuse affects the company, it is evident in absenteeism, tardiness, and job performance and can be dealt with through existing disciplinary and medical procedures.

While it is now apparent that the introduction of substance abuse policies reflects both economic and noneconomic forces, the question remains as to why particular policies are preferred. Logically, it is to be expected that the emphasis reflects the general rationale for having a policy. Since the survey did not include a question specifically addressing this issue, indirect evidence must be used.

Table 3 summarizes the chi-squared statistics for the relationships between major types of policy and the rationales for a policy in the survey sample. The significant chi-squared statistics indicate that the initial hypothesis is largely confirmed.

Organizations preoccupied with the costs of substance abuse and justifying policies in terms of safety and work performance not surprisingly emphasize prevention and detection (especially the relatively intrusive policies). Weaker detection policies and post-abuse corrective treatment are not accented.

Companies concerned with employee welfare naturally emphasize prevention, involving education through the more personal medium of meetings. Detection takes the less intrusive form of inquiring into drug problems. Surprisingly, however, such organizations, do not appear to emphasize employee assistance programs distinctively more than do other firms.

Organizations experiencing pressure from external sources can be distinguished by their emphasis on drug testing of applicants and their use of employee assistance programs. This no doubt reflects government regulations and guidelines for some companies, and, for others, the screening practices of labor market competitors which repel abusers to non-testing organizations.

Finally, the organizations that emphasize due process and consistency concentrate on educational policies, as might be expected when the goal is to publicize corporate expectations of drug abstinence and when management is concerned

enough about the employees to want to be fair. Further, the procedural nature of these motives indicates that substance abuse is not likely to be a major concern, and hence that detection and correction policies are unnecessary.

Conclusions

In summary, this article makes three primary contributions to the study of substance abuse policies. First, using an original data set, it provides a more recent picture of the drug abuse policies now in operation. It indicates that there is no question that organizations are increasingly adopting anti-drug policies and are employing varying tactics. Second, the overwhelming thrust in the media and the literature that costs motivate the establishment of substance abuse policies is found to be exaggerated. While the primary motivation is economic, the importance of employee welfare, external pressure, and the desire for due process and consistency in handling substance abuse cannot be denied. Third, the article reveals that the chosen drug policy mix is related to the specific economic or noneconomic rationales of the policy.

In conclusion, this article is of course a snapshot of substance abuse policies in a fast-changing world. The federal Drug-Free Workplace Act of 1988 and two Supreme Court decisions in March 1989 relating to the Fourth Amendment may encourage private-sector employers to step up their drug offensive. Further research is therefore required on a continuing basis.

TABLE 1
Organizational Responses To Substance Abuse

Policy		% Yes	Organizations Always	Responding Sometimes
<i>Prevention</i>				
Education: written materials:				
	regularly	23.1		
	as need arises	40.2		
	at hiring	15.3		
	never	26.2		
	meetings:			
	regularly	17.7		
	as need arises	37.6		
	at hiring	12.4		
	never	36.7		
Greater security		42.7		
Changes in job content		16.6		
Changes in work layout		10.6		
<i>Detection</i>				
Interrogation:				
	drug felony convictions		45.0	10.0
	drug misdemeanor convictions		22.8	11.4
	drug use		25.9	16.7
Supervisory training and observation		53.7		
Surveillance:		21.9		
	cameras			
	undercover agents		0.4	27.6
Searches with probable cause			20.7	36.6
Drug testing:				
Applicants:				
	all	46.6		
	certain jobs and situations	6.0		
	randomly	0.9		
Incumbents:				
	all	1.7		
	certain jobs and situations	48.3		
	randomly	2.6		
<i>Correction</i>				
Discipline			41.4	51.6
Rehabilitation			47.2	35.8

TABLE 2
Organizational Motivations For and Against Substance Abuse Policies

Motivations	% Organizations
Positive	100.0
Safety	43.0
Employee	39.3
Client	7.5
Performance	24.3
Employee welfare	19.6
External pressure	16.8
Due process	22.4
Consistency	15.0
Negative	100.0
No drug problem	42.1
Cost of policy	1.3
Management style	19.7
Other priorities	7.9
Organizational politics	10.5
Ethical questions	2.6
Organizational lag	14.5
Inadequate staffing and facilities	5.3
Alternative policies	15.8

TABLE 3
Causes of Divergences in Responses to Substance Abuse

Substance Abuse Policy	Policy Rationale					
	Safety	Performance	Welfare	Pressure	Due Process	Consistency
Chi-squared statistics						
<i>Prevention</i>						
Education						
Written materials	7.06***	5.20**	0.61	2.31	1.26	3.53*
Meetings	5.99**	0.45	5.01**	1.77	6.77***	4.36**
<i>Detection</i>						
Supervisory Training	5.83**	2.31	1.58	0.10	2.59	0.54
Searches With Cause	5.92**	5.92**	0.23	0.12	0.97	2.22
Interrogation	0.31	2.48	3.70*	0.50	1.27	0.13
<i>Testing</i>						
Applicants	15.58***	6.49**	0.31	2.76*	0.25	3.21*
Incumbents	29.49***	16.74***	1.57	1.12	0.26	2.64
<i>Correction</i>						
EAP Referral	1.55	0.50	0.90	4.03**	0.00	0.04

Note: *** denotes significant at 1% level
 ** denotes significant at 5% level
 * denotes significant at 10% level

Note: *** denotes significant at 1% level **
 denotes significant at 5% level * denotes
 significant at 10% level

[The End]

The Impacts of Immigration Reform on the California Economy

By David Hensley

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One of the most striking features of the historical data on employment in California is the tremendous growth in the state's manufacturing sector relative to the whole United States. Over the period from 1972 to 1988, manufacturing employment in California rose 40 percent; in the U.S. such employment is only two percent higher than in 1972 (see Chart 1). Some of this discrepancy is due to California's relatively high concentration of manufacturing employment in the aerospace sector. Over the period, aerospace employment has risen faster than overall manufacturing employment for the state. However, as shown in Chart 2, California's nonaerospace manufacturing employment has risen 25 percent since 1972, but has fallen four percent in the U.S.

While no firm empirical connection has been established, it is reasonable to credit part of this difference in employment growth to Mexican immigration to California. Although the stock of Mexican immigrants in the U.S. is not known, the 1970s and 1980s have been characterized by high rates of immigration from Mexico. According to the 1980 Census, which is believed to have undercounted illegal immigrants, 6.6 percent of California's working-age population was born in Mexico, and Mexican immigrants accounted for an even greater 11.3 percent share in Los Angeles county.

Both in California and in Los Angeles, the Census shows that roughly one-half of all employed Mexican immigrants work in

manufacturing. In Los Angeles, these immigrants accounted for almost one-fourth of the total manufacturing workforce. If Mexican immigration has contributed to the growth of the manufacturing sector in California, and particularly in Los Angeles, then a disruption of such immigration to the region could have important consequences for future growth in the area. Such a disruption may have occurred with the passage of the U.S. immigration reform legislation in November 1986.

The Immigration Reform and Control Act of 1986 sought to legalize the pool of undocumented immigrants residing in the U.S. and discourage future illegal immigration. The first aim was accomplished through the historic amnesty program, in which qualified immigrants gained temporary legal residence in the U.S. and were given temporary work permits. Ultimately, most of these "amnesty immigrants" will win permanent legal residence (and "green cards") and can apply for U.S. citizenship. The restrictive qualifications for amnesty probably excluded a large number of undocumented U.S. immigrants; whether they still remain in this country is unknown.

To discourage this latter group from remaining illegally in the U.S. and to deter future illegal immigration, U.S. law incorporated penalties for hiring undocumented workers. Since the U.S. has less influence over the factors affecting the supply of immigrants, sanctions were designed to curtail demand for immigrant labor by denying undocumented immigrants the opportunity to earn a living in the U.S. Because of the lengthy amnesty program and the associated education of

U.S. employers concerning the new law, employer sanctions were not enforced until May of 1988. Due to this short period of actual enforcement, this article provides a very preliminary assessment of the impact of immigration reform on the U.S. and Los Angeles economies.

Effects of Sanctions

Should the employer sanctions reduce illegal immigration to the U.S., this reduction in net immigration probably would affect California more than any other state. California is believed to be the residence of roughly half of the illegal immigrants in the U.S. Similarly, within California the impacts will probably not be evenly distributed across all industries. Instead, "immigrant-intensive" industries, defined as those in which immigrants comprise a relatively large share of the workforce, will be most affected. Such immigrant-intensive industries would be faced with a smaller supply of labor than before reform, evident either in less growth in the industry's labor supply than would otherwise have occurred, or an outright decline compared to pre-reform levels.

If the immigrant labor supply actually shrank after immigration reform, then employment in the affected industries would contract and wages would rise. On the other hand, if the supply simply grows less rapidly, then we would expect slower growth in output and industry employment, and somewhat higher wages. These might be short-run phenomena that occur before industries have time to make adjustments. Such adjustments would include attracting labor from other industries and/or locations by raising wages and shifts in the production processes away from the type of labor provided by undocumented immigrants.

Descriptive Data

In this article, my assessment of the impacts of immigration reform on the U.S. economy focuses on employment growth in Los Angeles county. The Census Bureau estimates that roughly half of the illegal immigrants residing in the U.S. live in California. As might be expected, based on Mexico's proximity to the U.S. and the huge differences in its standard of living, the majority of these immigrants were born in Mexico. Within the state of California, the 1980 Census indicates that more than half of the Mexican immigrants in California live in Los Angeles county.¹

With about one-fourth of the nation's Mexican immigrants and only one-thirtieth of its total population, any impacts of U.S. immigration reform on the U.S. labor market will be magnified in Los Angeles. An examination of Table 1 shows that 55.2 percent of Mexican immigrants residing in California at the time of the Census lived in California; 42.6 percent of the state's non-Mexican immigrants also lived in Los Angeles.

Based on a distribution of immigrants residing in Los Angeles county, 44.2 percent of all immigrants living in the county were born in Mexico (see Table 2). No other county accounts for more than six percent of the immigrant pool. An examination of the education, English-language skills, and employment of non-Mexican immigrants indicates that these immigrants are fairly similar to U.S.-born workers—in particular, their employment by occupation and industry.² These similarities suggest that non-Mexican immigration to Los Angeles may be treated as an increase in the overall labor supply, without material differences in employment or wages on an industry basis.

¹ Data cited in this article are from U.S. Bureau of the Census, *Census of Population and Housing, 1980: Public-Use Samples A and B* (Washington, D.C.: 1983). The Census does not distinguish between legally resident aliens and illegal aliens.

² David Hensley, "The Effects of Mexican Immigration to Los Angeles on the Wages of Native Workers," Ph.D. dissertation, University of California, Los Angeles, January 1989.

By contrast, Mexican immigrants have less schooling than U.S. born workers, averaging seven years of completed schooling versus more than twelve for natives, have poor English-language skills, and have a very different distribution of employment by occupation and industry. The concentration of Mexican immigrants in certain occupations and industries, primarily assembly and machine operation occupations within manufacturing, suggests that Mexican immigration may result in industry-specific effects on output, employment, and wages. Thus, if immigration reform produces a marked decrease in illegal immigration from Mexico, immigrant-intensive industries should be most affected.

Tables 3 and 4 illustrate the shares of the total Los Angeles workforce, by major employment grouping and occupation, held by Mexican immigrants. As can be seen from Table 3, Mexican immigrants hold 40.5 percent of the area's agricultural jobs (not a major employer in Los Angeles) and, more importantly, 21.8 percent of Los Angeles's manufacturing jobs. On an occupational basis, 41.7 percent of the area's machine operators, 34.1 percent of its assemblers, 29 percent of its laborers and helpers, and 17.8 of its precision production workers are Mexican immigrants.

These data illustrate the dependence of Los Angeles manufacturing industries on Mexican immigrant labor in virtually all production occupations, and they imply that the region is vulnerable to a major shock in this supply of labor. Indeed, while one in nine workers in Los Angeles, according to the Census, is a Mexican immigrant, about one in four workers in manufacturing was born in Mexico.

Testing for Impact on Job Growth in Los Angeles

Since almost one-fourth of its workers are Mexican immigrants, Los Angeles manufacturing industries are most likely to be affected by U.S. immigration

reform. In particular, if the employer sanctions were effective in denying job opportunities to undocumented immigrants, fewer workers would be available and industries that are dependent upon this type of labor, especially manufacturing, would not be able to expand as rapidly as they could without sanctions.

To test the hypothesis as to whether immigration reform has reduced job growth in Los Angeles, one needs a benchmark, an estimate of what job growth would have been had immigration reform not occurred. Since more than half of the Mexican immigrants working in Los Angeles are employed in manufacturing industries, I examine job growth by manufacturing sector before and after immigration reform. As shown in Table 5, considerable variation exists in the distribution of Mexican immigrant employment (as a share of the total workforce) within the 20 two-digit SIC manufacturing industries. This variation allows for comparison of job gains in relatively immigrant-intensive industries to gains in industries that are not particularly dependent upon immigrant labor.

To construct an estimate of what industry employment would have been in the absence of immigration reform, I have estimated equations explaining employment in each two-digit SIC manufacturing industry, 20 in all, based on pre-immigration reform data, and then used these equations to "forecast" employment growth after immigration reform (i.e., performed a historical simulation using actual data for the independent variables in the equations). The test of whether immigration reform has depressed job growth in immigrant-intensive industries is to see if the forecast residuals are correlated with the share of Mexican immigrants in the industry workforce, specifically, whether industries that are immigrant-intensive employers have experienced less-than-expected job growth in the two years following immigration reform.

The equations are similar in structure to those in the UCLA Business Forecasting Model of the State of California. In each case, employment in Los Angeles is related to U.S. industrial production and California "real wages" in the industry. Presumably, industrial production in Los Angeles (for which no data exist) is positively correlated with U.S. output, as should be employment, so that a percentage increase in U.S. industrial production implies a certain percentage increase in local production and employment. The estimated equations are consistent with this notion and imply a positive relationship between U.S. output and Los Angeles employment. As can be seen from Table 5, the production-employment elasticities vary considerably, from a low of 0.21 in transportation equipment to a high of 0.81 in the furniture manufacturing industry.

Since Mexican immigrants form a relatively small share of the U.S. manufacturing workforce, immigration reform is not likely to affect production and job growth by industries nationwide. Thus, the test amounts to whether the implicit historical relationship between U.S. output and Los Angeles production and employment has been disrupted by immigration reform. Presumably, a given increase in U.S. output, if immigration reform has substantially reduced illegal Mexican immigration to Los Angeles, will now imply a smaller such increase in Los Angeles output (which goes unobserved) and an observed, smaller increase in local employment.

Additionally, a "real wage" in the industry is used as an explanatory variable in the employment regressions, where the real wage is defined as the average hourly wage in the industry (in California) relative to product price (approximated with relevant U.S. producers price indexes). Other things constant, Los Angeles industry employment is expected to decline with an increase in the real wage.

Quarterly historical data were used in the regressions over the interval from first quarter 1972 through third quarter 1986. These equations were used to forecast employment from fourth quarter 1986 through fourth quarter 1988, based on realized production and real wages. The resulting forecasts are compared with the actual employment values over the same two-year period, and the test is whether immigrant-intensive industries have experienced less-than-expected employment growth. For fourth quarter 1988, the last quarter for which official employment data are available (at this writing), the actual and predicted employment values are presented in Table 5, on an industry basis, along with the differences between the two.

The hypothesis that immigration reform has restricted job growth in immigrant-intensive industries implies that the forecast residuals (defined as actual minus predicted values) will be negatively related to the Mexican immigrants' share of the industry workforce. As is obvious from inspection of the results presented in Table 5, the hypothesis is not supported by this test. A regression of the forecast residuals on the share of the Mexican immigrant industry workforce confirms the result: the immigrant industry workforce shares have no explanatory power with respect to the residuals.

Typical of the simulation results, Charts 3 and 4 depict historical and projected employment growth in two immigrant-intensive industries, apparel and furniture, industries whose workforces are comprised of 45.6 and 49.5 percent Mexican immigrants, respectively. As can be seen from Chart 3, realized employment growth in the apparel industry has been quite strong since passage of immigration reform, exceeding the expected total by 9,800 jobs by fourth quarter 1988. On the other hand, job gains in the furniture industry have been weaker than expected over the past two years, with 4,600 fewer

jobs than predicted by fourth quarter 1988.

Summary and Conclusions

Although relatively old, the best cross-section data set for immigration research remains the 1980 U.S. Census. Examination of the Census indicates that while non-Mexican immigrants are fairly similar to U.S.-born workers in employment by occupation and industry, Mexican workers are quite different. In particular, Mexican immigrants are concentrated in Los Angeles manufacturing industries, and despite the fact that they form only an 11.3 percent share of the region's total workforce, they comprise a significantly larger 21.8 percent share of its manufacturing workforce.

Since almost a quarter of the Los Angeles manufacturing workforce are Mexican immigrants, manufacturing may be most vulnerable to a shock to this immigrant labor supply. U.S. immigration reform, enacted in November of 1986, could have produced such a shock, if the employer sanctions specified in the law had turned out to be extremely effective in denying employment to undocumented immigrants.

To test the hypothesis that immigration reform had disrupted the supply of undocumented Mexican immigrant labor in Los Angeles, regressions were run to relate local employment to U.S. industrial production and real wages, based on pre-immigration reform data ranging from first quarter 1972 through third quarter 1986. The resulting equations were used to perform a two-year historical simulation from fourth quarter 1986 through fourth quarter 1988. If immigration reform had depressed job growth in immigrant-intensive industries, actual employment values two years after immigration reform would be below predicted values.

However, the simulation did not support this hypothesis.

There are numerous reasons why immigration reform did not depress job growth. Most important is that employer sanctions are enforced only when an employer is shown to have knowingly hired an undocumented immigrant. The law requires employers to request certain forms of employee documentation (e.g., driver's license, passport, or INS temporary residence card), but does not require the employer to verify the authenticity of these documents, nor must the employer photocopy them. This loophole allows for the use of phony documents purchased in the black market and is a major flaw in the new law, although it is not at all clear that tightening the document verification procedure would dramatically increase the effectiveness of the sanctions in reducing the employment of undocumented immigrants.

A second reason why immigration reform might be ineffective is that supply-side influences on illegal immigration are largely ignored. The Mexican economy is burdened by more than \$80 billion in externally held public debt, and the Mexican economy, battered by the slide in oil prices, has not grown sufficiently to service this debt without outside help. In recent years this help has come from the World Bank and the International Monetary Fund, but these new loans have been tied to an economic restructuring program based on privatization, currency devaluation, and export growth. As pointed out by some prominent economists,³ this program has resulted in a sizable reduction of the standard of living in Mexico during recent years, which surely caused increased illegal immigration to the U.S. from Mexico.

Finally, the immigrant amnesty program has expanded the "beachhead" legally resident Mexican immigrant com-

³ For example, Rudiger Dornbusch, "Treasury Policy Is Wrong on Mexico," *The Los Angeles Times*, February 22, 1989, Part II, p. 7.

munity in Los Angeles, which probably makes it much easier for illegal immigrants from Mexico to find lodging and employment in Los Angeles.

In summary, this study finds no evidence to indicate that illegal immigration from Mexico has been reduced by U.S. immigration reform or that job growth in immigrant-intensive manufacturing

industries in Los Angeles has been reduced. Instead, some industries most dependent upon Mexican immigrant labor (apparel, for example) have added jobs at a faster than expected rate. Factors affecting both labor supply and demand explain the failure of reform to stem illegal immigration from Mexico.

TABLE 1
Distribution of Workers in California: All Workers, Mexican Immigrants, and Other Immigrants. All data are percentages.

SMSA	Immigrants		
	All Workers	Mexican	Other
Los Angeles-Long Beach	32.4	55.2	42.6
San Francisco-Oakland	15.0	4.2	21.6
Anaheim-Santa Ana-Garden Grove	9.1	8.0	8.1
San Diego	7.2	6.6	5.7
San Jose	5.9	2.8	6.5
Riverside-San Bernardino-Ontario	5.8	3.4	2.7
Not in SMSA	4.5	3.8	1.6
Sacramento	4.2	1.3	2.4
Oxnard-Simi Valley-Ventura	2.3	2.7	1.6
Fresno	2.1	2.6	0.8
Bakersfield	1.5	1.3	0.5
Stockton	1.4	1.0	0.8
Vallejo-Fairfield-Napa	1.2	0.4	1.1
Santa Barbara-Santa Maria-Lompoc	1.2	0.7	1.0
Santa Rosa	1.2	0.3	0.6
Modesto	1.1	1.0	0.5
Salinas-Seaside-Monterey	1.0	1.9	0.9
Visalia-Tulare-Porterville	0.9	1.6	0.3
Santa Cruz	0.8	0.9	0.4
Chico	0.5	0.1	0.1
Redding	0.4	0.1	0.1
Yuba City	0.3	0.3	0.2
Totals	100.0	100.0	100.0

TABLE 2
Nativity of Immigrants in the Los Angeles-Long Beach SMSA by Country.

	N	Percent
Country of Birth:		
Mexico	2827	44.2
Philippines	370	5.8
Canada	256	4.0
El Salvador	231	3.6
Korea	168	2.6
W. Germany	167	2.6
China	159	2.5
Japan	134	2.1
Cuba	130	2.0
England	125	2.0
Guatemala	123	1.9
Italy	71	1.1

TABLE 3
Employment in the Los Angeles-Long Beach SMSA. Industry Profile of Mexican Immigrants versus All Workers. All data are percentages.

Job Category	Mexican Immigrants	All Workers	Immigrant Share of Total
Agriculture	3.7	1.0	40.5
Mining	0.1	0.3	2.9
Construction	4.9	4.8	11.4
Manufacturing	52.9	27.4	21.8
Trans., Comm. & P.U.	2.7	7.8	3.9
Trade	18.1	18.6	11.0
Finance, Ins. & R.E.	1.6	7.2	2.5
Services	15.2	29.5	5.8
Public Administration	0.7	3.4	2.5
Total (Average)	100.0	100.0	(11.3)

TABLE 4
Employment in the Los Angeles-Long Beach SMSA. Occupational Profile of Mexican Immigrants versus All Workers. All data are percentages.

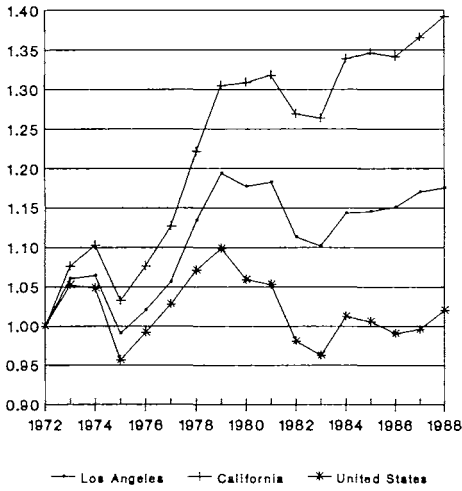
Occupation	Mexican Immigrants	All Workers	Immigrant Share of Total
Managerial	2.3	12.2	2.1
Professional	1.1	12.8	1.0
Technical	0.6	2.9	2.2
Sales	3.2	9.9	4.0
Administrative	6.1	19.7	3.5
Services	15.2	10.4	16.6
Agriculture	3.6	1.0	41.9
Mechanic & Repairer	3.3	3.8	9.7
Construction Trade	4.2	3.9	12.1
Precision Production	8.8	5.6	17.8
Machine Operator	26.0	7.0	41.7
Assembler	9.4	3.1	34.1
Other Production	5.3	4.4	13.6
Laborers & Helpers	10.8	4.2	29.9
Total (Average)	100.0	100.0	(11.3)

TABLE 5
Comparison of Actual Versus Predicted Employment
in Los Angeles Manufacturing Industries Since Passage of
Immigration Reform in Fourth Quarter 1986.

	Employment in Fourth Quarter 1988:			Mexican Immigrant Share of Industry Employment	L.A. Production Elasticity
	Actual (Thou)	Predicted (Thou)	Diff. (Thou)		
Food	49.0	50.1	-1.1	29.1	(0.80)
Textiles	10.9	9.9	1.1	38.5	0.29
Apparel	94.5	84.7	9.8	45.6	0.39
Lumber & Wood	13.5	12.5	1.0	40.0	0.32
Furniture	38.6	43.3	-4.6	49.5	0.81
Paper	19.1	18.9	0.2	20.9	0.31
Printing & Publ.	60.9	61.1	-0.3	7.6	0.38
Chemicals	28.4	32.5	-4.0	20.2	0.26
Petroleum & Coal	10.7	11.3	-0.6	4.6	(0.76)
Rubber & Plastics	33.5	34.8	-1.3	28.7	0.50
Leather	5.0	5.3	-0.2	69.0	0.37
Stone, Clay & Glass	17.8	18.5	-0.7	27.7	0.46
Primary Metals	21.1	24.7	-3.6	31.3	0.46
Fabricated Metals	68.9	75.4	-6.5	24.2	0.50
Nonelectrical Mach.	63.8	73.8	-10.1	13.5	0.43
Electrical Mach.	151.5	161.5	-10.0	14.6	0.57
Transportation Equip.	174.1	166.0	8.1	8.0	0.21
Professional Equip.	28.7	31.7	-3.0	8.3	0.40
Miscellaneous Mfg.	19.3	21.7	-2.4	30.8	0.30

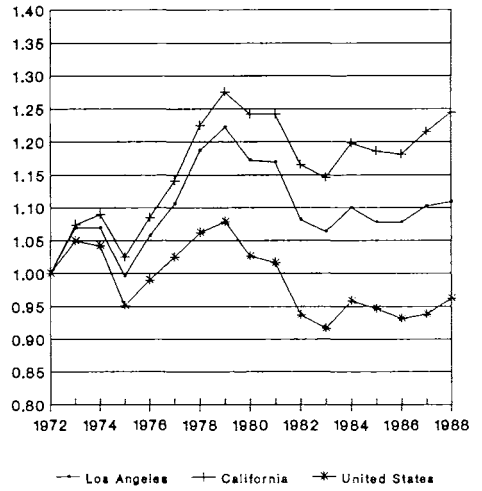
Elasticities in parentheses are based on U.S. employment in the industry; all other elasticities are based on U.S. industrial production.

Chart 1. Manufacturing Employment



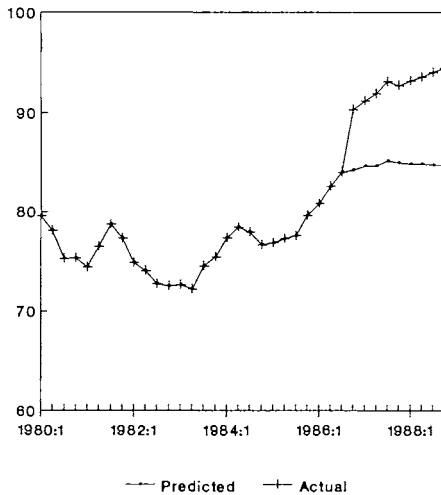
(indexed 1972=1.0)

Chart 2. Non-Aerospace Manufacturing Employment



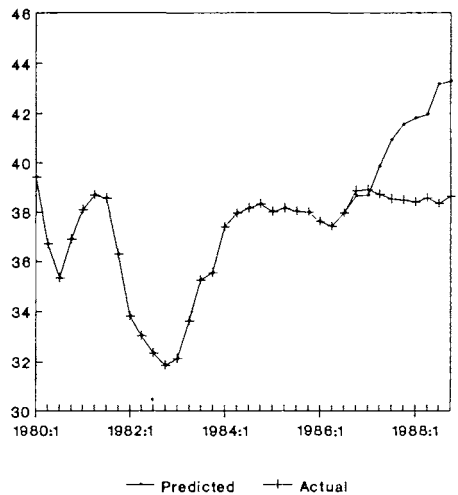
(indexed 1972=1.0)

Chart 3. Employment in Los Angeles: The Apparel Industry



(Thousands)

Chart 4. Employment in Los Angeles: The Furniture Industry



(Thousands)

[The End]

The Economics of Contracting Out: The Labor Cost Fallacy

By Werner Z. Hirsch*

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Ronald Moe of the Library of Congress has come to the conclusion that "When administrative historians some years hence study the 1980s, they are likely to conclude that 'privatization' was the single most influential concept of the decade."¹ The interest in privatization is not unique to the United States. It has been strongly advocated during the 1980s in the major Western industrialized countries, especially in the United Kingdom, Netherlands, France, and Japan, as well as in the United States.

It is unfortunate that much of the discussion of the subject tends to be driven by ideology. Conservatives in general and business in particular tend to offer eloquent claims of its virtues. Liberals in general and labor in particular tend to point to its shortcomings and dangers. A review of the literature does not reveal careful studies, particularly of temporary privatization.

Typology

It appears useful to separate privatization into two forms, *permanent privatization*, which basically involves transfer of rights and entitlements from government to private industry, predominantly in the form of sale of government assets; and *temporary privatization*, under which rights and entitlements are transferred by

governments to private firms for a specified time.

Temporary privatization can appear in a number of different forms. They are best understood when we consider privatization as a form of vertical disintegration of what formerly was in-house public production. Thus, when vertical disintegration occurs, government, which before had complete control of all production, management, allocation, and financing activities, hands over one or more of these activities to private firms. (Allocation involves decisions about whether a service should be supplied, who should receive it, and at what price.) Reasons can relate to efficiency or to government's difficulties in raising funds. Such privatization mainly takes the form of contracting out to private firms for goods and services that could be (or indeed previously have been) produced by governments themselves, or of franchising, where government confers on a private firm the right to produce and sell the final product at a market-determined price, possibly at a regulated and/or subsidized price.

The vertical disintegration can take place in different parts of the vertical supply chain. In upstream vertical disintegration, privatization assigns to the private sector responsibility for producing an input used mainly for governmental production of intermediate or final goods and services. In downstream vertical disintegration, government privatizes the activities surrounding the end product.

*The author gratefully acknowledges the help provided by Unghwan Choi as Research Assistant, and by the Institute of Industrial Relations of the University of California, Los Angeles, which gave financial support.

¹Ronald C. Moe, "Exploring the Limits of Privatization," *Public Administration Review* (November-December 1987), p. 453.

Downstream vertical disintegration, as an example, can be seen where government contracts to have its fleet of trucks, buses, and cars driven, repaired, and maintained by private firms. Thus, while government buys and owns its fleet, it contracts with private firms for operating the fleet under specified performance criteria.

There is also franchising in terms of downstream vertical disintegration. An example would be a government that owns an out-of-town water reservoir and the pipelines that lead to the city as well as the water distribution system within the city. Such a government, while still owning and operating the reservoir and the pipeline, may let a private company maintain the distribution service within the city, meter usage, and collect the water fees. The private contractor then is taking on the downstream supply process. In some instances, vertical disintegration is comprehensive and amounts to temporary disintegration of the entire supply chain.

An Economic Framework

Within our framework, the decision to adopt a specific privatization mode, e.g., contracting out, will depend primarily on expectations regarding its effects on (a) efficiency, (b) quality of output and accountability for it, and (c) distributional effects.

The basic argument of our framework is that privatization, for instance, in the form of contracting out as opposed to government production, will have either positive or negative effects on each of the three factors, and summing over these three factors will yield an estimate of the net benefit (or cost) of contracting out. In the abstract, as long as the net benefit is expected to be positive, a government will contract out; conversely, if contracting out is expected to yield a negative net

benefit, the service will be produced in the public sector.

The general equation representing this framework is: $(1) NB = F(Xa, Xb, Xc, Xd)$ where NB = net benefit from privatization, e.g., contracting out a specific service in a municipality; Xa = benefit from contracting out in terms of efficiency; Xb = benefit from contracting out in terms of output quality and accountability for it; Xc = benefit from contracting out in terms of distributional effects, including providing uninterrupted service; and Xd = contracting cost.

Let us next explore the concepts of efficiency, accountability, and distributional concerns in relation to privatization in general and contracting out in particular.

Efficiency: We can divide efficiency into two categories—technical and organizational. Technical efficiency relates to the availability of choice concerning the appropriate production function and combination of inputs.

Factors affecting *technical* efficiency include the following.

(1) Scale economies are a factor, where public enterprises can be constrained from reaching an optimum scale when different services have different optima and only few, if any, can operate at optimum scale within the particular size of the political jurisdiction.

The scale of public firms is not determined by economic criteria, but rather by the size of the political jurisdiction. Therefore, government enterprises are unlikely to be optimal in size unless the industry in question is characterized by constant returns to scale. In many instances, municipalities are either too small to reap the advantages of scale economies, or are so large as to be confronted with scale diseconomies. In both cases, private firms may have a competitive advantage over public enterprises since they have the flexibility to adopt a

size that is favorable under existing production technologies. The magnitude of the advantage to private firms will vary depending upon the shape of the cost function and the difference between optimal scale and actual size of the municipality. If the cost function is sharply U-shaped, efficiency losses to the government may be significant, and vice versa.

(2) Economies of scope are a factor, where public enterprises can benefit from circular integration when a variety of complementary services are produced under a single government's control and supervision.

The various departments of a government can benefit from circular integration because of the synergy of economies of scope of being under a single control. Coordination is facilitated if, for example, in case of an emergency, police, firefighters, and ambulances arrive at the scene at about the same time and work well together. Such a result is more likely if all three activities are under a single control, i.e., government, than if one or another activity is contracted out.

(3) Legal constraints on raising, and therefore using, capital are a factor, where public enterprises often need hard-to-get voter approval for a bond issue.

Many states have laws that require major capital expenditures to be approved by referendum, by either a simple or two-thirds majority. These constraints on raising capital force governments to use less capital-intensive production technologies than they otherwise would. Consequently, they produce less efficiently in the long run.

(4) Quality and price of input are factors where, for example, more widespread

public than private unionization and legislative directives, i.e., civil service, can affect wages and labor quality in the public enterprise.

About one-third of state and local government employees are union members, which is a much greater percentage than that in the private sector.² This fact, together with civil service provisions, makes labor relations probably the most important issue for public-sector efficiency. Civil service provisions provide guidelines intended to eliminate political patronage and to compensate and promote workers according to their productive contributions rather than political, racial, or other noneconomic factors. Yet, in securing equal treatment for all workers, these guidelines have in recent years tended to inflate wages and retain workers of relatively low quality. Thus, over the years, the positive aspects of civil service provisions have been overshadowed by abuses and rigidities, often making them counterproductive.

(5) Incentive to innovate is a further issue. Innovation tends to increase as more firms compete to provide a given service. In addition, the more freedom firms enjoy in determining their own production technologies, the more creative they will tend to be. Since public-sector producers tend to have a more rigid hierarchical structure, especially in the absence of competition, the decision not to permit competition will probably reduce the potential for technological improvements over the long term.³

Organizational Efficiency

We next turn to organizational efficiency. Whether the appropriate production technology is actually known and

² Werner Z. Hirsch and Anthony M. Rufolo, *The Economics of Municipal Labor Markets* (Los Angeles: Institute of Industrial Relations, UCLA, 1983).

³ Harvey C. Mansfield, "Independence and Accountability for Federal Contractors and Grantees," in *The New*

Political Economy, Bruce Smith, ed. (London: Macmillan, 1975), pp. 319-35.

utilized by decision-makers in a manner that maximizes output (given the level of inputs and their prices) and/or minimizes cost for given levels of output is a problem of organizational efficiency. Factors affecting *organizational* efficiency (given the technology) include:

(1) Management scope and flexibility are factors where management in public enterprises can be constrained from exercising its decision-making power when (a) public unions and/or legislative directives inhibit the ability of management to utilize efficient production procedures, for example, by determining work schedules and prohibiting subcontracting; (b) prevailing wage laws force on public management artificially high total compensation; (c) residence laws artificially reduce the labor pool from which public management can draw its workers; (d) public management's decisions are circumscribed by civil service provisions.

Many collective bargaining agreements impose guidelines concerning personnel practices, including the utilization of labor in the production process. Some agreements inhibit the ability of management to utilize efficient production processes. One example can be found in grievance procedures which, rather than ensuring just labor-management relations, encourage shirking. A second example of collective bargaining agreements decreas-

ing productivity is through explicit restrictions on the utilization of labor. Mass transit is one service in which management's prerogative in using labor is often limited. For example, agreements may prohibit subcontracting out work except under unusual circumstances.⁴ Another type of constraint is the restriction on the flexibility of management in determining work schedules. Many labor-management agreements of municipal bus drivers mandate that workers must be compensated for a minimum of eight hours a day, and that they must work those hours within a limited range of time.⁵ In addition, many contracts impose restrictions on calling back workers after they have gone off duty, or using workers on call.⁶

A number of labor laws have tended to inflate wages and fringe benefits of public employees. For example, prevailing wage laws, which prescribe identical private and public wages, tend to result in higher public compensation since government provides higher benefits and job security. Residence laws, by reducing the labor pool from which government can draw employees, tend to raise total compensation. Civil service provisions, as discussed above, can not only raise total compensation, but also reduce management's flexibility and thereby impede efficiency.

⁴ An example of such restrictions can be found in *Agreement between the Southern California Rapid Transit District and the Amalgamated Transit Union, Division 1277*, effective February 1, 1985, p. 27.

⁵ For example, the contract with the United Transportation Union states that "regular operators shall be guaranteed eight (8) hours' pay time per day within a spread of ten (10) hours from the initial sign-on time." (*Contract between the Southern California Rapid Transit District and the United Transportation Union*, p. 5).

⁶ For example, in the agreement between the Los Angeles City Supervisors and Superintendents Association, the call-back pay clause states that "whenever an employee is ordered by Management to return to duty following the termination of the employee's work shift and departure from his/her work location, the employee shall receive a minimum payment equivalent to four hours of pay at the

rate of time and one-half his/her regular hourly rate of pay" (*Memorandum of Understanding No. 12. By and Between the Heads of Departments, Offices or Bureaus Represented Herein and the Los Angeles City Supervisors and Superintendents Association*, January 7, 1986, p. 12), and an agreement between the Southern California Rapid Transit District and the Amalgamated Transit Union, Division 1277, states that "an employee who has been called back for work, after having punched out and after having left the District property at the end of a regular shift, shall be paid at the overtime rate as per Article 1, Section A, with a minimum guarantee of eight (8) hours at the straight time rate of pay and the proper shift differential will be applicable" (*Agreement between the Southern California Rapid Transit District and the Amalgamated Transit Union, Division 1277*, cited at note 4, p. 6).

(2) Reduced competition is a factor, where government can make itself to be the sole service provider. Under these conditions, competition is absent and abuses commonly associated with monopolies are likely.

(3) Lower monitoring, punishment, and correction costs by public enterprises are factors as well. Particularly if service quality is deemed important, government can incur less costly monitoring and shirking. At the same time, it can incur less costly punishment and costs of correcting defects, in case the quality objectives called for are not met.

Accountability

While in the past much of the discussion about privatization has centered on cost, we will argue that another dimension, i.e., the quality of the output that is provided, is of major importance. Thus, there is an interest in whether privatization affects the nature of the output produced. Assuring that society receives the output characteristics that it values highly and/or deems crucial, without harmful interruptions, involves high transaction costs. The electorate holds government accountable for providing acceptable output levels, and meeting this accountability requires resources. These resource requirements are especially high when service outputs are mainly intangible, as they are, for instance, in providing court services or assuring the civil rights of minorities by law enforcement agencies.

A number of factors affect government's ability to assure the quality of a service and the cost it incurs in discharging its responsibility for accountability. Characteristics of the good or service are important in this connection. Thus, depending on whether inputs are easy to specify and quantify, the cost of monitoring to make sure that the appropriate

inputs are used to reach the desired output characteristics can be large or small. Another factor relates to the cost of measuring output characteristics. This cost depends on the extent of technical difficulties in specifying and enforcing objective performance criteria and on our ability to determine quality. These costs will depend on whether the good in question is an inspection, experience, or trust good.

Furthermore, the cost of assuring quality relates to the choice between private and public production. When output is priced, as it is in the private sector, we have an output measure that does not exist in the public sector. Moreover, there is importance in the extent to which private or public production assures sufficient supply.

Finally, there is the issue of ensuring continuous and reliable service. Its cost depends on both the type of good or service and the likelihood of a stoppage of supply. When there are few, if any, substitutes for the service, and society is very vulnerable to its absence, then the costs of not having a dependable supply are very high. If private firms are likely to incur high costs in redressing damage that occurs from interrupted service while government offers greater assurance that the service is performed, government will have an advantage. The probability of interrupted supply is lessened when public employees are prohibited by law from striking, when government bankruptcy is significantly less likely than private bankruptcy, and when government production gives government greater insight into the details of the production process. For example, government can take over an enterprise in case of a strike as well as successfully sue strikers, because of both government's knowledge of the production detail and its legal status.

Distributional Concerns

Finally, there are distributional implications of privatization. Privatization in its various modes can impact on the distribution of output as well as the distribution of the rewards for inputs into production. There are at least two concerns. One is how the share of revenue between labor and owners of capital is affected by the choice between in-house production and various modes of privatization, and the second is how the fact that public enterprises that do not pay taxes affect the final distribution of revenue. Privatization also can change the relative bargaining power of labor and management which, in turn, can affect wages. In one case wages might be lowered to a level at which labor is exploited. To the extent that lower service costs are the result mainly of exploitative wages, society might want to deem this to be a desirable outcome. In another case, public labor unions may have forced on governments a total compensation package which is higher than called for under more competitive conditions. Society might not favor "overpaying" public employees when this burdens the rest of the community.

Conclusions

Proponents of contracting out claim that it lowers costs, particularly those for labor. A review of 50 empirical studies in the U.S., West Germany, and Switzerland, for example, revealed that in 40 cases private supply was less costly, and in only three cases was government supply less costly.⁷ Opponents warn that "contracting out often results in . . . poorer quality, less . . . accountability, corruption and social costs . . . [W]omen and minorities are disproportionately

affected . . . because they, more so than white workers, rely on public employment as a means of social and economic advancement."⁸

We can place the positions of the two sides into our framework. The proponents argue in terms of costs and the opponents emphasize output quality and distributional concerns. We would like to suggest that neither argument is sufficient to judge the efficiency of contracting. A simple finding that private production results in lower costs cannot be used to decide in favor of contracting. Lower costs can be the result of a higher production function, but it can also have resulted from exploitative wages which, within our framework, would mean possibly undesirable distributional results. Moreover, there may be differences in the quality of the service output, a very likely fact because of the great difficulty in defining and measuring service output. Note that the cost to consumers can be higher or lower because of the height of the production function (productivity), price of input factors, taxes being paid or not paid by producer, and profit being made or not made by producer.

Nor is the opponents' warning that contracting out results in reduced accountability and lower service quality as well as a variety of inequities sufficient to rule against privatization. Even if such losses were to occur, and they are more likely in relation to some than to other services, they might be more than offset by productivity increases and a lowering of cost. In short, the pros and cons of privatization in general and contracting in particular must be argued within a more comprehensive framework as, for example, was advanced in this article. Merely focusing on lower costs, as proponents do, can lead

⁷ Thomas E. Borchering et al., *Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries* (Zurich: Institute for Empirical Research in Economics, University of Zurich, Switzerland, 1982).

⁸ Gerald W. McEntee, "Privatization Isn't a Panacea," *Wall Street Journal*, October 22, 1987, p. 35.

to inappropriate attitudes toward contracting out, particularly since empirical estimates of service cost functions are so immensely difficult. Similarly, merely arguing in terms of the quality of the service and/or distributional concerns is also insufficient to form an attitude toward contracting out. Perhaps this dilemma explains why, in spite of so much attention presently given to contracting

out, it has not caught on. Thus, for example, the largest U.S. county with a board of supervisors totally committed to privatization for more than nine years in 1987-88 contracted out a mere 1.17 percent of its budget and gained savings of merely 0.4 percent therefrom.⁹

[The End]

⁹C. Goodman, communication to the author from the Los Angeles Chief Administrative Offices, April 4, 1989.

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