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**LABOR  
RELATIONS  
IN A  
GLOBALIZING  
WORLD**

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## PART 1

# **The Strategic Level of Labor Relations**

*Chapter 1.* A Framework for Analyzing Labor Relations

*Chapter 2.* Labor, Management, and Government  
Interactions

*Chapter 3.* The Law and Legal Systems

*Chapter 4.* The Role of the Economic, Technological, and  
Demographic Environments

# 1 A Framework for Analyzing Labor Relations

## A PERSPECTIVE DRAWN FROM THE FIELD OF INDUSTRIAL RELATIONS

Whether we are at work or at leisure, we are affected by the conditions under which we work and the rewards we receive for working. Work plays such a central role in our lives and in society that the study of relations between employee and employer cannot be ignored.

This book traces how labor, management, and governments acting as individuals or as groups have shaped and continue to shape the employment relationship. Employment is analyzed through the perspective of **industrial relations**, the interdisciplinary field of study that concentrates on individual workers and groups of workers, unions and other forms of collective representation, employers and their organizations, and the environment in which these parties interact.

The discipline of industrial relations differs from other disciplines that study work because of its focus on labor-management interactions. Thus, this book describes how unions and other forms of collective representation (such as works councils) influence working conditions and workplace outcomes and helps explain, for example, why workplaces have high wages in one situation and low wages in another. It also identifies how effective labor-management relations can contribute to improved economic performance, both in specific workplaces and enterprises and in the national economy.

Although the agricultural sector in emerging countries involves work and the production of food, we do not address the relationship between those who work on farms and those who own or manage those farms. Even though

many of the concepts addressed in this book have some relevance in describing agricultural work, work of that type is sufficiently distinct from other forms of work to warrant separate consideration.

The study of labor relations focuses on the key participants involved in the employment relationship, the role of industrial conflict, and the performance of unions and other forms of collective representation. This chapter defines these key components of labor relations and describes how this book analyzes them.

## THE PARTICIPANTS

The key participants (or parties) involved in labor relations in emerging countries are management, labor, government, international agencies, and non-governmental organizations (NGOs).<sup>1</sup>

### Management

The term **management** refers to individuals or groups who are responsible for promoting the goals of employers and their organizations. Management encompasses at least three groups: (1) owners and shareholders of an organization; (2) top executives and line managers; and (3) labor relations and human resource staff professionals who specialize in managing relations with employees, unions, and other forms of collective representation. Management plays key roles in negotiating and implementing a firm's work practices and employment outcomes.

### Labor

The term **labor** encompasses both employees and the unions and other entities that represent them. Employees are at the center of labor relations. They influence whether the firms that employ them achieve their objectives, and they shape the growth and demands of the entities that represent them.

### Government

The term **government** encompasses (1) national, regional, and local political processes; (2) the administrative agencies responsible for making and enforcing public policies that affect labor relations; and (3) roles and activities through which the interests of the public are represented. Government policy shapes how labor relations proceeds by regulating, for example, how workers form unions, what rights unions may have, and how workplace disputes are resolved.

## **International Agencies and Nongovernmental Organizations**

Labor relations in any country are greatly influenced by the globalization of economic activity. This raises the importance of two sets of institutions: international (quasi-governmental) agencies and NGOs. Key international agencies, such as the World Bank and International Monetary Fund (IMF), influence the economic policies and economic development strategies of emerging countries in part through the loans they provide and the conditions attached to those loans. The World Trade Organization (WTO) also is critical because its policies affect tariffs, import and export quotas and rules, and other issues that influence the flow of goods and services across national boundaries. The International Labour Organization (ILO) establishes standards and principles for employment through negotiations that involve the employers, governments, and union representatives that make up its governing body. These international agencies both constrain and support emerging countries as they design and implement labor relations policies and practices.

History shows that these quasi-government agencies frequently propose and seek different (and sometimes conflicting) objectives related to labor relations. The ILO, for example, influences international labor standards through conventions and recommendations. Once ILO conventions are ratified by a country, they become legally binding international treaties, whereas the organization's recommendations are simply nonbinding guidelines for its members. The ILO also has proclaimed a set of four basic principles for workers that it calls core labor standards. The ILO calls on all its member countries to comply with these core standards, regardless of whether those countries have formally ratified the relevant conventions. The core labor standards are (1) freedom of association and the right to collective bargaining; (2) the elimination of forced and compulsory labor; (3) the abolition of child labor; and (4) the elimination of discrimination in the workplace.

The ILO has mechanisms for monitoring compliance with its labor standards, such as the Committee of Experts on the Application of Conventions and Recommendations and the Committee on Freedom of Association. The latter receives complaints against any state deemed to be in violation of the principle of freedom of association. However, despite the existence of these mechanisms, the ILO faces difficulties in enforcing the core labor standards, since it lacks effective means to sanction countries that do not comply with these standards.

The IMF and the World Bank have more tools to effectively influence the design of national labor policies. Although the IMF's primary goal is to ensure international monetary stability in order to facilitate international trade and

the World Bank seeks to provide sustainable private sector investment in emerging countries, promoting these objectives ends up affecting national labor policies. This occurs because both the IMF and the World Bank can and sometimes do impose conditions on critically needed loans. Whether they like the recommended labor policies or not, governments often adhere to IMF and World Bank recommendations related to labor relations in order to gain access to these loans.

The World Bank and the IMF have favored government policies that promote labor market flexibility, which often comes down to giving employers more authority to hire, fire, and regulate work hours. In recent years, the IMF and the World Bank have also promoted pension system cuts and pay cuts and layoffs in the public sector. These policies generally place the burden of economic adjustment on workers and unions.<sup>2</sup>

In reaction to the World Bank and the IMF's promotion of labor market flexibility, various international labor federations and unions tried unsuccessfully to compel the WTO to incorporate adherence to the ILO's core labor standards in its policy recommendations. The labor movement has argued that violations of labor rights in export sectors constituted unfair trade advantages that should have triggered WTO trade sanctions.<sup>3</sup> Labor supporters reactivated efforts to get the IMF and the World Bank to promote the ILO's core labor standards after high unemployment followed the 2008 financial crisis in many countries. In recent years, as discussed in box 1.1, in response to further criticism for inappropriately promoting labor market flexibility, the World Bank modified the construction of a key indicator used to compare country economic performance to include measures related to workers' rights.

### **BOX 1.1**

#### **How the World Bank's Employing Workers Indicator and *Doing Business* Report Were Modified in Response to Criticisms**

The *Doing Business* report is the most popular World Bank publication. When the first edition was published in September 2003, the World Bank defined it as a report "investigating the scope and manner of regulations that enhance business activity and those that constrain it." One of the goals of the report, which compared data from 130 different countries, was to motivate reforms through country benchmarking.

Among the five indexes the 2003 report measured, countries were evaluated on their rules about the hiring and firing of workers, based on the argument that rigid employment regulation is associated with more poverty in developing countries. Countries were ranked according to the flexibility of their hiring and firing rules, and the report presented reforms that established the employment “at will” rule or that eliminated limits on fixed-term contracts as examples of good reform practices.

During the following years, other measures were added to the Employing Workers Indicator (EWI), but always with the basic idea of ranking countries according to the extent to which they promoted flexibility in the labor market. In the 2007 report, the United States and the Marshall Islands shared the top EWI ranking.

Concerned that the *Doing Business* report was leading to socially and economically harmful labor reforms, the International Confederation of Free Trade Unions (ICFTU) and later the International Trade Union Confederation (ITUC) sent ten statements to the World Bank from 2004 to 2008 that called attention to the fact that the *Doing Business* reports by the World Bank and the IMF were promoting the destructive deregulation of labor markets in many countries. The ILO also attacked the *Doing Business* report’s methodology and the absence of concrete evidence showing that labor market deregulation was associated with employment growth and higher economic performance.

In 2009, responding to these and other critics, the World Bank decided to review the EWI and convened a consultative group to provide advice on appropriate changes to the EWI and suggestions for a new Worker Protection Indicator (WPI). As a result, in 2011, the World Bank removed the EWI as a guidepost from its Country Policy and Institutional Assessment questionnaire and instructed its staff not to use the indicator as a basis for providing policy advice or evaluating country development programs. Moreover, rankings in the EWI were abandoned, and since 2008 tables showing the extent to which each country had ratified ILO core labor standards was also a part of the report.

Currently, the EWI continues to be a part of the World Bank report, but the indicator includes assessment of alignment with the four key ILO labor rights conventions.

Sources: H. Murphy, “The World Bank and Core Labour Standards: Between Flexibility and Regulation,” *Review of International Political Economy* 23, no. 2

(2013): 1–33; P. Bakvis, “World Bank Orders Suspension of Doing Business Labour Market Deregulation Indicator,” *Transfer: European Review of Labour and Research* 15, no. 2 (2009): 319–322; World Bank, *Doing Business 2004: Understanding Regulations* (Washington, D.C.: World Bank Group, 2003); World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington, D.C.: World Bank Group, 2011); World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises* (Washington, D.C.: World Bank Group, 2013).

NGOs are organizations that operate as quasi-political or social organizations that work to improve labor rights and working conditions in emerging and less-developed countries. A key focus of a number of NGOs in recent years has been on improving workers’ safety in the apparel sector in the face of the deadly fires and building collapses that have unfortunately plagued that sector. NGOs exercise their influence through lobbying, mounting pressure campaigns, generating and circulating information, and in some cases, engaging in direct negotiations and/or collaboration with employers, unions, and governments.

NGOs often focus on promoting and improving one particular labor right or work condition or on serving one disadvantaged segment of the work force. GoodWeave, for example, is an NGO that has helped bring about significant reductions in child labor (see box 1.2). The important roles that NGOs play in promoting labor rights and other examples of active NGOs are discussed more fully in chapter 11.

### **BOX 1.2**

#### **GoodWeave International: An Example of an NGO Focused on Reducing Child Labor**

In the 2010 International Labour Organization publication *United States Policies to Address Child Labor Globally*, the authors write, “It would cost \$760 billion to end child labor, but the benefits to the economy would be more than six times that—an estimated \$5.1 trillion in economies where child laborers are found.” Child labor has been a rampant and common practice in various South Asian economies because of a variety of factors that include traditional or historical norms, lack of government oversight, government corruption, and the inability of

international entities such as the United Nations to oversee these practices. Thus, several nongovernmental organizations have been established for the purpose of working to eradicate child labor in select industries in South Asia. One of the most celebrated and influential NGOs that expressly works to eliminate child labor is GoodWeave International.

Founded in 1994, GoodWeave works to end child labor in the South Asian rug industry by establishing a child-labor-free certification program through which the organization works with businesses, retailers, and importers to demand only child-labor-free rugs from manufacturers in India, Nepal, and Afghanistan. The United States, the United Kingdom, and Germany also participate in the program as consumers of rugs from these countries. GoodWeave ensures that fewer rugs produced with child labor are bought and sold in these countries through the following techniques:

1. **Standard-Setting**—GoodWeave has established a standard for ending child labor in the production and consumption of rugs. These standards include absolutely no child labor in production of the rugs, environmental criteria for businesses and importers, minimum wage legislation, and benefits for all workers, including health care coverage.
2. **Monitoring and Certification**—Local inspectors are paid by GoodWeave through subsidies by local governments and private donations to visit licensed manufacturers on a surprise and random basis. Employers that meet GoodWeave's standard of no child labor are given certification labels for all of their rugs.
3. **Rehabilitation and Education for Child Laborers**—GoodWeave inspectors rescue child laborers from employers. They then offer children various programs for rehabilitation, therapy, access to education, and eventual job placement. In order to pay for the expenses of such programs, exporters have a contract with GoodWeave by which they pay 0.25 percent of the export value of each rug, while importers pay 1.75 percent of their shipment value to GoodWeave. These funds are vital for schooling and rehabilitation programs for these young children.
4. **Child Labor Prevention**—GoodWeave provides several programs to prevent child labor in manufacturing companies and to raise awareness among consumers in developed countries about the toll

of child labor on the development of these children. Such programs include providing subsidies for daycare, after-work education programs, early childhood education, and sponsorship for at-risk children to attend school.

5. International Governance and Accountability—In conjunction with GoodWeave, local and national governments form representative councils in both producer and consumer countries that serve to enforce the no-child-labor standards that GoodWeave has maintained. These councils enforce the issuing of certifications from GoodWeave.

As a result of these programs, GoodWeave reports that “since 1995, 11 million child-labor-free carpets bearing the GoodWeave label have been sold worldwide, and the number of ‘carpet kids’ has dropped from 1 million to 250,000.” While GoodWeave has been remarkably successful, the child labor and human trafficking industries still flourish, and corruption in government oversight and regulation continues in many South Asian countries.

*Sources:* “Child-Labor-Free Certification,” GoodWeave, [http://www.goodweave.org/about/child\\_labor\\_free\\_rugs](http://www.goodweave.org/about/child_labor_free_rugs); “One in a Million: GoodWeave’s Campaign to End Child Labor,” GoodWeave, [http://www.goodweave.org/child\\_labor\\_campaign/about](http://www.goodweave.org/child_labor_campaign/about).

## ASSUMPTIONS ABOUT LABOR AND CONFLICT

### More Than Just a Commodity

One of the most important assumptions guiding the study of labor relations is the view that labor is more than a commodity, more than a marketable resource. For instance, because workers often acquire skills that are of special value to one firm and not to another, the possibilities for them to earn as much in the labor market as they can at their existing employer are limited. In addition, changing jobs often costs workers a lot: moving locations can be expensive and can also entail large personal and emotional costs. For these reasons and others, labor is not as freely exchanged in the open competitive market as are nonhuman market goods.

Furthermore, labor is more than a set of human resources to be allocated to serve the goals of the firm. Employees are also members of families and communities. These broader responsibilities influence employees’ behaviors and intersect with their work roles.

## A Multiple-Interest Perspective

Because employees bring their own aspirations to the workplace, labor relations must be concerned both with how the policies that govern employment relations and the work itself affect workers and their interests and the interests of the firm and the larger society. Thus, the study of labor relations takes a **multiple-interest perspective**, which includes a particular perspective on the nature and role of labor conflict.

## The Inherent Nature of Conflict

A critical assumption underlying analysis of labor relations is that there is an inherent conflict of interest between employees and employers. That conflict arises out of the clash of economic interests between workers seeking high pay and job security and employers pursuing profits. *Thus, conflict is not viewed as pathological.* Although conflict is a natural element of employment relations, society does have a legitimate interest in limiting the intensity of conflicts over work.

## Common and Conflicting Interests

There are also a number of common interests between employers and their employees. Both firms and their work forces can benefit, for example, from increases in productivity through higher wages and higher profits.

At the workplace there is no single best objective that satisfies all the parties. The essence of an effective employment relationship is one in which the parties successfully resolve issues that arise from their conflicting interests and successfully pursue joint gains.

Collective negotiations are one among a variety of mechanisms for resolving conflicts and pursuing common interests related to work. In fact, collective negotiations compete with alternative employment systems. Not all employees, for example, perceive deep conflicts with their employers or want to join unions. In dealing with their employers, some workers prefer individual over collective actions. Other workers choose to exercise the option of *exit* (quitting a job) when dissatisfied with employment conditions rather than choosing to *voice* their concerns, either individually or collectively.<sup>4</sup>

One of the roles of public policy is therefore not to require one form or another of collective representation for all workers but to provide a fair opportunity for workers to choose whether one means or another is what they prefer to use to resolve conflicts and to pursue common interests with their employer.

Since many of the goals of the major actors—workers, unions, employers, and the government—may conflict, it is not possible to specify a single

overriding measure of the effectiveness of labor relations. Focusing on any single goal would not accommodate the multiple interests of workers, employers, and society.

### THE THREE LEVELS OF LABOR RELATIONS ACTIVITY

This book uses a three-tiered approach to analyzing the operation of labor relations.<sup>5</sup> Figure 1.1 provides the framework for this approach. This framework argues that various factors—the economic context and the actions of governments, NGOs, and international agencies—shape the context in which labor relations occurs. The framework also argues that there are three tiers (or levels) at which labor relations takes place.

The top tier of labor relations, the **strategic level**, includes the strategies and structures that have long-term influences on employment levels and work conditions. Business strategies are critical factors because they influence investment and product strategies, which in turn shape employment systems and workplace outcomes. Businesses also influence the strategic direction of labor relations through their interactions with unions, governments, international agencies, and NGOs. Unions also take strategic actions related to their

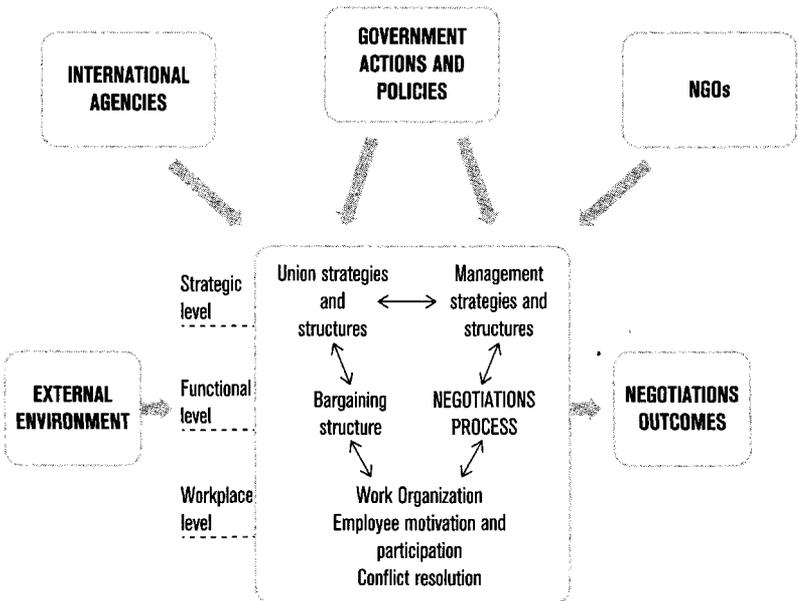


Figure 1.1. The three-tiered approach to the study of labor relations in emerging countries

representation strategies and their interactions with governments, international agencies, and NGOs. Governments are also critical strategic actors in their direct role as employers in the public sector and by shaping the laws and public policies that influence labor relations in both the private and public sectors. In recent years a number of NGOs and international agencies also have come to play critical roles in labor relations in emerging economies.

The middle tier of labor relations activity, the **functional level**, involves the process and outcomes of collective negotiations. Strikes, bargaining power, bargaining structure, and wage determination processes all feature prominently at this level.

The bottom tier of labor relations activity, the **workplace level**, involves activities through which workers, their supervisors, and their representatives relate to one another on a daily basis. At the workplace level, adjustment to changing circumstances and new problems occurs regularly. A typical question at this level, for example, is what form of conflict resolution is used to deal with disputes that arise between workers and managers.

It is through the joint effects of the environment and the actions of the parties in this three-tiered structure that a labor relations system either meets the goals of the parties and society or comes up short.

## THE INSTITUTIONAL PERSPECTIVE

The perspective that guides our analysis of labor relations was first developed by institutional economists at the University of Wisconsin. John R. Commons (1862–1945) identified the essence of institutional economics as “a shift from commodities, individuals, and exchanges to transactions and working rules of collective action.”<sup>6</sup> Commons and his fellow institutionalists placed great value on negotiations and compromise among the representatives of labor, management, and society.

The thinking of institutionalists was heavily influenced by Sidney and Beatrice Webb, two British economists and social reformers who were members of the Fabian socialist society. They viewed unions as a means of representing the interests of workers through the strategies of *mutual insurance, collective bargaining, and legal enactment*.<sup>7</sup>

In following the Webbs, the institutionalists rejected the arguments of Karl Marx, who had argued that the pain of the exploitation and alienation the capitalist system inflicted on workers would eventually lead to the revolutionary overthrow of the system. Marx believed that workers would eventually develop a class consciousness that would pave the way for revolution and the ultimate solution to their problems—a Marxian economic and social system.

Marx supported unions in their struggles for higher wages, but he believed that they should simultaneously pursue the overthrow of the capitalistic system.

There were, however, some interesting similarities in the views of Commons, Marx, and the Webbs. Like Marx and the Webbs, Commons and other institutional economists rejected the view of labor as a commodity, for two fundamental reasons. First, the institutionalists saw work as being too central to the interests and welfare of individual workers, their families, and their communities to be treated simply as just another factor of production.<sup>8</sup>

Second, the institutionalists echoed the Webbs and Marxist theorists by arguing that under conditions of “free competition,” most individual workers deal with the employer from a position of unequal bargaining power. That is, in the vast majority of employment situations, the workings of the market tilt the balance of power in favor of the employer.

The institutionalists concluded that labor required protection from the workings of the competitive market and that unions could materially improve the conditions of the worker. This led them to advocate two basic labor policies: legislation to protect the rights of workers to join unions and legislation on such workplace issues as safety and health, child labor, minimum wages, unemployment and workers’ compensation, and social security.<sup>9</sup> Thus, in addition to making scholarly contributions, the institutionalists served as early advocates of the legislative reforms that sought to bring improvements in working conditions, including fair wages.

## **THE PERFORMANCE OF LABOR RELATIONS**

The performance of a labor relations system can be assessed by looking at how well it serves the goals of the parties including the public interest.

### **Labor’s Goals**

To see if a labor relations system is meeting labor’s goals, we can examine wages, benefits, safety conditions, and employee job satisfaction. Workers are also concerned with the quality of their work and the effects the organizations they work for have on the ecological environment and on other social outcomes.

### **Management’s Goals**

Management is concerned with the effects of labor relations practices on labor costs, productivity, profits, product quality, and the degree of managerial control. Management also has goals for various human resource issues, such as

employee turnover, motivation, and performance. All of these indicate the extent to which labor relations practices aid or hinder employers' quests for competitiveness in the product market.

### **Society's Goals**

Identifying the goals of labor relations for the public and the government is a more difficult task. Government labor policies seek to maintain industrial peace and protect workers' rights. In addition, the government is concerned with how labor relations affect economic growth, inflation, unemployment, and working conditions such as safety and health, equal employment opportunity, and income security.

A free labor movement is important to any political democracy. So it is also necessary to assess whether a government's public policies and private actions are producing a labor relations system that strengthens democracy at the workplace and in the society at large.

## **THE ROLE OF THE INFORMAL SECTOR IN EMERGING COUNTRIES**

In emerging countries, the informal sector constitutes a much larger share of employment than is the case in more advanced and mature economies. In many emerging countries, about half of the employed urban population works in the informal sector. Informal employment is particularly high among migrants who are new entrants to the urban labor force in developing countries. These migrants often create their own employment or work in small-scale family-owned enterprises. Self-employment is also common in the informal sector and involves activities such as street vending or workers such as mechanics, carpenters, small artisans, barbers, and personal servants. Unfortunately, common informal activities often also include prostitution or drug sales.<sup>10</sup>

The informal sector is characterized by a large number of small-scale production and service activities that are individually or family-owned and use simple, labor-intensive technology. Usually the self-employed who work in this sector have low levels of formal education, are generally unskilled, and lack financial resources.

Moreover, workers in the informal sector commonly do not enjoy job security, unemployment insurance, or pensions. Many workers in this sector also are recent migrants from rural areas who are unable to find employment in the formal sector. Their motivation is often to obtain sufficient income for survival, relying on their own resources to create work. Often as many

members of the household as possible are involved in income-generating activities, including women and children, and they often work very long hours. A large fraction of urban informal workers inhabit shacks and small cinder-block houses that they themselves have built in slums and squatter settlements that commonly lack even minimal public services such as electricity, water, sewers, transportation, and education and health care services. Some informal sector workers are even less fortunate; they are homeless and are living on the street. They find sporadic temporary employment in the informal sector as day laborers, but their incomes are insufficient to provide even the most basic shelter.

Since informal employment often entails self-employment or employment in very small organizations, it does not involve the sort of labor-management interactions that are the main focus of labor relations. At the same time, especially given the poor work conditions that are common in the informal sector, labor rights and the impact of government employment regulations are critical issues. Although our analysis recognizes the important economic role of the informal sector and efforts to improve work conditions in that sector, there is not much exercise of various key labor relations factors such as bargaining power or negotiations processes in the informal sector.

## **THE PLAN OF THE BOOK**

The chapters that follow analyze labor relations by simultaneously moving across and downward through figure 1.1. The framework in figure 1.1 is broader and more dynamic than most models of labor relations. In particular, it emphasizes the range of choices management, labor, and government policymakers have in responding to environmental changes (such as increased competition or changes in technology) instead of viewing these changes solely as constraints.

The following discussion provides a more elaborate description of the terms used in figure 1.1. This material also sketches out in more detail the topics included in each chapter and their connections. The reader may wish to return to this material from time to time as a review strategy to put the individual topics and chapters in perspective.

## **THE ENVIRONMENT**

Labor, management, and governments have complex interactions with each other, especially in emerging countries. These interactions are determined by factors such as whether a labor party and/or other political parties aligned

with the labor movement exist in the country. Governments set the stage for labor relations by shaping laws and public policies that regulate work conditions, how workers and managers interact, and how unions and other forms of collective representation function. Governments also sometimes take direct action to intervene in strikes and other labor disputes in emerging countries.

Governments matter as strategic actors in part through their influence on the state of the economy (i.e., macroeconomic policies). Government policies also influence the degree of competition that exists in a particular industry (i.e., whether the industry is a monopoly or an oligopoly or is competitive), which, as we will discuss, influences labor and management's power in that industry.

Governments also are critical actors in guiding working conditions in the public sector and in determining which economic activities will take place in public enterprises and which will take place in private enterprises. Recent increases in privatization and the denationalization of formerly public or state-owned enterprises, such as airlines, telecommunications companies, and public works (oil exploration, water, or energy generation), have heavily influenced workplace outcomes in those sectors.

The World Bank, the IMF, and other international agencies have played significant roles in shaping economic and trade policies in emerging countries in recent years. Their roles have come to the fore in particular as countries have had to adopt one form or another of structural adjustment policies that often involve reductions in government ownership and public employee pay and public pensions; in some cases, these policies restrict union rights. NGOs also been active in the burgeoning labor rights movement, putting pressure on employers and governments to improve work conditions, including workplace safety.

Given the direct and indirect influence that political processes have on labor relations in emerging countries, our analysis of how labor, management, and government interactions affect labor relations comes early on, in chapter 2. The political power management has, for example, might influence public policies toward strikes or whether the government intervenes to limit a strike. Or unions might successfully lobby the government for improvements in pensions or vacation policies and thereby have less reason to address those issues at the firm or workplace level.

The labor movement has been at the forefront of the sweeping political changes that have occurred in a number of countries in recent years, as discussed in chapter 2. In these countries, where the labor movement is as much concerned with political change as it is with determining working conditions on the factory floor, the role labor plays deserves special attention.

The **external environment** sets the context for labor relations and strongly influences workplace outcomes and collective negotiations. It includes several key dimensions: the laws that regulate unions and conflict resolution, the economic environment, demographic factors, and the technological context.

In chapter 3 we analyze the role of laws and public policies that are shaped by national, regional, and local governments. In some countries, public policies regulate many aspects of employment terms, while in other countries public policies regarding pay, vacation, pensions, or other employment conditions are extremely limited. As discussed in chapter 3, the ILO plays an especially important role in helping governments design labor policies in emerging countries through the principles and standards it pronounces and disseminates and through technical assistance activities.

Among the laws that are examined in detail in chapter 3 are those that regulate how unions are formed and the rights those unions have. Some countries also have laws that provide for forms of worker representation at the workplace through elected works councils. Furthermore, various employment rights concerning discrimination and due process affect work conditions, and these rights vary significantly across countries. All of these types of public policies are examined in chapter 3.

As chapter 4 outlines, the other environmental factors (the economic, technological, and demographic environments) influence labor relations through their effects on the **bargaining power labor or management has**. For example, the economic environment will influence the power labor and management have, and the power the parties have will in turn determine the outcomes of collective negotiations. Workers and unions, for example, have more bargaining leverage and are able to win higher wages during contract negotiations when it is easier for striking workers to find temporary or alternative employment. In this way, an aspect of the macroeconomy (the unemployment rate) influences workers' bargaining power and one outcome of bargaining (the wage settlement).

Today, many product and labor markets are global in scope. This makes it easier for firms to locate or to move work across national boundaries and serves as an illustration of how globalization affects labor relations.

As the book traces how the various components of the environment affect the negotiations process and outcomes, the discussion moves across the middle tier of the framework outlined in figure 1.1. At the same time, it is important to be aware of how the strategies and structures of labor, management, and government shape the middle tier of labor relations activity and how they affect the workplace. The framework starts at the top by first considering the role played by the strategies labor, management, and governments use.

## **THE STRATEGIC (TOP) TIER**

At the top tier are the strategies and structures that guide the long-run direction of labor relations.

### **Management Strategies**

The strategies of management are critically important in shaping the evolution of labor relations. For instance, is a company's top management willing to negotiate with employee representatives over the long term or is it fundamentally committed to exercising unilateral authority? Does management see the advantage of the internal flexibility that can be achieved by working with employee representatives to promote flexible work organizations and adaptive training? Is management interested in investing in the skills of its current employees, or is it attracted more by outsourcing strategies and other approaches that rely on low pay?

For multinational companies (MNCs) that purchase goods and services that go into their final products from multiple countries, additional strategic questions come into play. How much discretion and variation should be allowed in their operations in different countries? Should the MNC have a global labor strategy and if so, what should it include? How much responsibility should the MNC take for the labor practices and outcomes in companies and contractors in its global supply chain?

### **Labor Strategies**

Labor's strategies also have a critical influence on the course of labor relations. For example, is there a labor party that tries to promote workers' interests in the political arena or is the labor movement aligned with particular political parties? Is labor focused on forming unions at the workplace level or does labor prefer to emphasize sector-, industry-, or company-level bargaining? Is a given union leadership committed to maintaining a distanced and adversarial posture in negotiations or is it interested in exchanging new forms of flexible work organization for greater control over the design of the production process? Or does the labor movement put primary emphasis on social protests and political leverage and in improving work conditions through government regulation or public legislation? Where the latter strategy prevails, there may be low levels of union representation but extensive coverage of collectively negotiated employment terms through legislative extension of those terms.

### **Government Strategies**

Governments also matter, particularly in the long run, through the economic development strategies they promote. For example, the location of a nation's industries in global supply chains is heavily influenced by the skill and

education levels of a country's work force. These in turn are strongly influenced by public policies, including public investments in education. We postpone analysis of the long-run effects of government policy on economic development until chapter 12 because addressing these matters first requires that we develop a more complete understanding of how labor relations works.

## **THE FUNCTIONAL (MIDDLE) TIER**

Chapter 5 analyzes the various employment systems that exist in emerging countries. Employment and work practices typically cluster into distinct patterns and are not randomly associated. Pay practices tend to link with and reinforce particular employment security, work organization, and complaint procedures. The parties must thus choose between a set of distinct work patterns. The informal employment pattern prevails among self-employed people who sell their wares on street corners or those who are involved in manufacturing garments and other goods through homework. Generally, the informal sector is unregulated or is characterized by weak enforcement of public laws and policies.

The bureaucratic pattern includes more structured forms of determining pay and procedures for processing complaints. As described in chapter 5, there are "low-end" and "high-end" versions of some of the employment patterns. For example, the bureaucratic pattern exists in a low-end form in the supply firms that are used in the apparel sector and in industries where the outsourcing of core production work has spread. In contrast, in the public sector, where bureaucratic practices prevail, the work conditions, including pay and safety conditions, are more advantageous to workers. As described more fully in chapter 5, unionized variants of the bureaucratic employment pattern are often found in firms that make use of the high-end versions of that pattern.

In the human resources management pattern, professional and technical employees commonly gain the benefit of work practices that are shaped to fit individual needs and are tailored to ensure that highly skilled employees will be recruited and retained. Many multinational firms use a human resources management approach, and some use a Japanese variant of this pattern that is oriented more to the needs and goals of an organization, as opposed to those of individuals.

### **Negotiations Processes and Impasse Resolution**

Where there is a union or other forms of collective representation, the middle tier of activity includes a role for negotiation processes, the subject of chapter

6. A critical factor that shapes the form and often the outcomes of any negotiations that occur between labor and management is the particular structure the parties use in their negotiations. For example, are a number of different employers covered by a single collective agreement? Does a given company bargain with one union or with many? Do the workers a given union represents have diverse or with homogeneous skills?

### **The Negotiations Process**

At the heart of union-management relations is the negotiation of a collective agreement. If a union or unions represent a group of workers, a critical phase in their relationship is the bargaining process used to negotiate a collective agreement. The **negotiations process** is a complicated affair that involves the use of tactics, strategies, and counterstrategies by both labor and management. Given the mixed-motive nature of collective bargaining, the parties are often torn during negotiations between their “distributive” and “integrative” impulses, as described in chapter 6.

Analysis of the process of negotiation in chapter 6 considers the following issues:

1. How can the dynamics of the negotiations process be described and explained?
2. What causes strikes to occur in some negotiations and not in others and to vary in frequency and intensity over time and across industries?
3. What roles do union and business strategies play in shaping the negotiation process?
4. How can the parties increase the joint gains that could benefit both labor and management?

Chapter 6 examines the complete cycle of negotiations, starting with the presentation of opening offers and demands and proceeding through the signing of the final agreement. Although management strategies are important, so are the various structures management uses to organize itself for negotiations. Chapter 6 also includes consideration of how management organizes its labor relations staffs.

### **Impasse Resolution**

When labor and management reach an impasse in contract negotiations, a variety of techniques can be (and have been) used to settle the dispute. Chapter 7 describes various **impasse resolution** techniques and some of the strengths and weaknesses of each.

## **THE WORKPLACE (BOTTOM) TIER**

The management of conflict and the delivery of due process are two of the key activities that occur on a continuous basis at the workplace level of labor relations activity. In chapter 8 we examine the various ways labor relations conflicts are resolved in emerging countries.

Wage, employment security, and health and safety outcomes are also shaped by interactions between labor and management that occur at the workplace level. For example, how large is the impact of unions on wages? Does this vary by industry or type of employee or over time? In chapter 9 we discuss the measurement issues that arise when one sets out to clarify these impacts and summarize the existing evidence on how unions impact workplace outcomes. We also review how government policies affect workplace outcomes more directly through, for example, minimum wage laws and health and safety regulations.

## **SPECIAL TOPICS**

Chapters 10, 11, and 12 address selected topics that complete our understanding of labor relations in emerging countries.

### **Public Sector Labor Relations**

The rules and procedures governing public sector labor relations, examined in chapter 10, differ from those used in the private sector in virtually all countries. The public sector employs employees at a variety of national, regional, and local levels. Public employees include public school teachers, police, firefighters, and the office staffs of various governments. In the past, in the public sector in many emerging countries also included a number of state-owned enterprises that existed as monopoly providers in sectors such as telecommunications, mail, oil, and water.

Public employees are often covered by separate laws and are often subject to different conflict resolution procedures, and in a number of countries they have more limited negotiation and union representation rights. Chapter 10 includes a review of trends in the size and form of the public sector, a review made necessary by the recent downsizing that has been driven by privatization and other structural adjustment policies.

### **International Unions, NGOs, and Multinational Corporations**

International trade and competitiveness have moved to the forefront of public attention. At the center of these developments is the increasing influence of

MNCs through their greater investments in emerging countries and the expanded role global supply chains play. How MNCs shape their labor relations policies and practices and whether decision-making authority regarding labor relations is left in the hands of local or country managers or is put under the control of regional or global managers are some of the issues chapter 11 addresses.

Concern about the effects of globalization and the increasing influence of MNCs has spurred unions to act regionally and globally in a more coordinated manner. This has led to various cross-national union- and worker-led campaigns and, in a few industries, international collective negotiations. Chapter 11 examines the consequences of the increased cross-national activities of corporations, unions, and NGOs.

### **Economic Development Strategies and Policies**

Chapter 12, the concluding chapter, assesses economic development strategies and policies and their long-term effects on the evolution of labor relations. The key question addressed here is whether particular approaches to economic development can provide superior economic performance while also promoting workers' rights and well-being.

### **Summary**

The framework presented in figure 1.1 provides a way to understand how various factors typically influence labor relations in emerging countries. It also gives appropriate recognition to the particular historical events at play in each country. With the benefit of this framework we can see the role of the common processes that affect employment systems and the interactions between labor, management, and governments within countries. A full understanding of labor relations requires recognition of the influence of both common factors and country-specific events and actors.

One cannot gain an understanding of recent labor relations developments without recognizing the interactions that occur between labor, management, and governments. Chapter 2 reviews those interactions, highlighting common trends while also providing illustrations of how events have played out in practice.

In the next chapter, as in subsequent chapters, we make heavy use of examples from four countries—China, India, Brazil, and South Africa. We frequently refer to examples from these countries because each has a large economy and provides illustrations of the diversity that exists across countries in terms of how labor relations occur. To provide context for these

country-specific examples, the next chapter includes an overview of the core features and the key recent trends in the labor relations systems in each of these four countries.

### Discussion Questions

1. Name the actors, generally and specifically, who are involved in labor relations.
2. Figure 1.1 is essential in understanding how this book is arranged and proceeds in its analysis of labor relations. Describe the three tiers of this framework.
3. One of the fundamental aims of labor relations is reducing conflict between employees and employers. What are some basic assumptions about labor and conflict in the field of labor relations and in this book?
4. What are some of the ways we judge the effectiveness of collective negotiations in terms of the goals of the different actors involved in the process?
5. How do international agencies affect labor relations in emerging countries?

### Related Web Sites

LabourStart (global labor news source): <http://www.labourstart.org/2013/>

LaborNet 2000 Directory of Labor Unions on the Internet: <http://www.labornet.org/links/directory.html>

Cornell University's School of Industrial and Labor Relations: <http://www.ilr.cornell.edu/>

### Suggested Supplemental Readings

Dunlop, John T. *Industrial Relations Systems*. New York: Holt, 1958.

Kaufman, Bruce. *The Origins and Evolution of the Field of Industrial Relations*. Ithaca, N.Y.: Cornell University Press, 1993.

Kochan, Thomas A., Harry C. Katz, and Robert B. McKersie. *The Transformation of American Industrial Relations*. 2nd ed. Ithaca, N.Y.: Cornell University Press, 1994.

Todaro, Michael P., and Stephen C. Smith. *Economic Development*. 11th ed. Boston: Addison-Wesley, 2012.

Webb, Sidney, and Beatrice Webb. *Industrial Democracy*. London: Longmans, Green and Co., 1920.

## Notes

1. See John T. Dunlop, *Industrial Relations Systems* (New York: Holt, 1958).
2. M. Anner and T. Caraway, "International Institutions and Workers' Rights: Between Labor Standards and Market Flexibility," *Studies in Comparative International Development* 45, no. 2 (2010): 151–169.
3. Mark Anner, "The International Trade Union Campaign for Core Labor Standards in the WTO," *WorkingUSA* 5, no. 1 (2001): 43–63.
4. See Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Declines in Firms, Organizations, and States* (Cambridge: Harvard University Press, 1970).
5. For a summary of the theoretical and empirical research on which this model is based, see Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie, *The Transformation of American Industrial Relations*, 2nd ed. (Ithaca, N.Y.: Cornell University Press, 1994).
6. John R. Commons, *Institutional Economics: Its Place in the Political Economy* (New York: Macmillan, 1934), 162.
7. Sidney Webb and Beatrice Webb, *Industrial Democracy* (London: Longmans, Green and Co., 1920).
8. Commons, *Institutional Economics*, 559.
9. For a discussion of the policies advocated by the early institutionalists and ultimately passed in the wave of New Deal legislation, see Joseph P. Goldberg, Eileen Ahern, William Haber, and Rudolph A. Oswald, *Federal Policies and Worker Status since the Thirties* (Madison, Wisc.: Industrial Relations Research Association, 1977).
10. The description of the informal sector in this section draws heavily from Michael P. Todaro and Stephen C. Smith, *Economic Development*, 11th ed. (Boston: Addison-Wesley, 2012).