

# Trade Unions and Collective Bargaining

## Suggestions for Emerging Democracies in Eastern Europe and the Former Soviet Union

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### Introduction

This paper provides lessons for industrial relations reform efforts in the new nations emerging from the former Soviet Union and Eastern Bloc. Our purpose is to identify the basic industrial-relations practices that enable the advanced industrial countries to compete in world markets. The paper does not provide a detailed descriptive account of the existing industrial-relations institutions in the formerly communist countries, nor does it assess the likely short-run consequences of the economic restructuring under way across the new nations. Rather, our focus is on the experiences in the advanced economies and the lessons those experiences contain regarding successful industrial-relations practice.

### Two Key Assumptions

Two key assumptions guide our approach: one concerns the likely course of economic development in the new democracies, and the other involves the recent changes in industrial relations that are occurring in the advanced industrialized countries.

#### *The Need to Come Up to World Standards in Economic and Industrial-Relations Practice*

The reason we draw lessons from the advanced industrialized economies is that we believe the new democracies in the former Soviet Union and Eastern Bloc will have to come up to world standards rapidly in order to sustain significant economic growth. The experiences of Third World countries in recent years shows that import-substitution development strategies that were associated with the protection of domestic producers have not led to rapid development. Rather, the more rapid developers have been those countries (such as Korea, Taiwan, and Singapore) that have entered export markets quickly and forcibly. In the rapid developers, given the heightened demands of world competition for quality and production flexibility, export success has required adoption of state-of-the-art production techniques. Perhaps most important is the lesson learned from recent rapid developers—that modern and competitive production requires modern industrial-relations practices. Countries that have had the former and lagged in the development of the latter (such as Korea) have confronted substantial social pressures and instability.

The need for rapid modernization of production and industrial-relations capacity is highlighted by recent developments in the auto industries in the new democracies. One illustration is the Eisenbach assembly plant located in what used to be East Germany. The plant is now owned by General Motors (as part of its Opel subsidiary) and is currently being retooled

(Ingrassia and Aeppel 1992). Although the new Eisenbach plant is just in the start-up phase, it is already clear that General Motors is determined to use just-in-time inventories and other practices associated with "lean production." A critical part of these production techniques is team-based work organization and decentralized decision structures. It remains to be seen how well the new plant performs and how the work force reacts. Yet the important point is that this plant is being designed so as to meet modern automobile production and industrial-relations standards. The pressure for this approach comes from the fact that General Motors expects to export a significant share of the plant's output and from the fact that even the Eisenbach cars that will be sold in the former East Germany will confront intense competition from cars produced by other state-of-the-art competitors.

A similar message comes from the Volga Auto Works in Tolgiatti, Russia (Uchitelle 1992). This plant has two sections: the side that produces cars for sale in Russia uses extremely old and inefficient machinery, while the part of the plant that produces cars for export uses modern technologies, including a large number of robots. Again, production oriented toward exports requires leapfrogging up to world standards. It is unclear if the "old" half of the Volga works will be able to survive as the Russian market is opened up to more competition. What is clear is that this plant, like so many other parts of Russian industry, must find a way to compete directly in world markets. Old technologies and old industrial relations will not suffice in the face of market pressures.

### *The Change Under Way in Industrial-Relations Practice in the Advanced Economies*

A second key assumption of this paper is that there is enormous change under way in industrial relations in the advanced economies. While thirty years ago it was commonplace among social scientists to assume that in the long run other countries would converge on variants of the "most advanced" U.S. model of collective bargaining and industrial relations, this assumption has been swept aside by history. The rise and success of very different models in countries such as Japan and Germany has demonstrated both a cross-national diversity of stable industrial-relations patterns and new lessons regarding what does and does not work.

The important starting point is a recognition of the impact of changing world markets and new technologies in driving industrial restructuring and industrial-relations transformation. Above all, perhaps, the rapid growth of Japanese economic strength, rooted in part in a successful system of enterprise unionism and shop-floor teamwork, has put pressure on firms in other countries to reorganize production and work and to seek some kind of "new industrial relations." Within Europe, not only the coming of Japanese competition but closer to home the relative success of German industry and industrial relations, along with the more recent "relaunching" of European economic integration, has pressured British, French, Italian, and Spanish (among other) firms to reorganize. Everywhere, intensified world market competition has called into question established relationships and ways of doing things and called forth managerial imperatives to raise productivity and product quality, achieve new flexibility, and cut costs.

At the same time—and closely related—the past fifteen years have witnessed a rapid spread of new microelectronic technologies in the work place. "New production concepts," often based on the new technology, aim to make more flexible use of labor, both in the

products produced and in the process. As managers demand more responsibility from (and sometimes even give "semi-autonomy" to) individual workers and groups of workers, traditional labor-management relationships are called into question.

In some cases, employers have gone on the offensive against union influence that is perceived to defend rigidities in the work place and stand in the way of necessary work reorganization. In other cases, employers have sought a new collaborative relationship with entrenched unions; and sometimes the second strategy has followed the first. Unions, for their part, have in some cases fought against the changes and defended the traditional ways on which their power is based. But in other cases, unions have demonstrated a willingness to cooperate in new ways, both to save jobs and to promote the human-side benefits of more flexible work organization. And in some cases, unions have played a pro-active reformist role, pushing management toward new forms of organization, such as group work. In addition, the state, through public policy, has often played an important role (through regulation, deregulation, or other policy changes) in promoting industrial-relations reform.

In this period of uncertainty, trial and error, and change, there is also a great deal of cross-national, inter-firm, and inter-union communication and exchange. The opportunity to learn and combine lessons from various versions of successful (if not "best") practices is one of the benefits of intense contemporary processes of economic globalization.

Nowhere is this need greater than among the emerging and unstable democracies of Eastern Europe and the former Soviet Union. We would like to emphasize at the outset, however, that it is not possible to transplant another model, either discrete elements or the model in its entirety. In every case, it is necessary to build on existing practices and institutions, or institutional remnants. How the lessons presented in this paper can be adapted for specific use in specific national settings is a matter for careful case-by-case study and experimentation.

### **Basic Principles of Law and Institutions**

Modern industrial relations requires that workers be afforded the basic right to form unions, and those unions should be granted the right to bargain collectively with employers and to strike if a negotiated settlement is not reached.

#### *Why the Right to Strike and Collective Bargaining Are Necessary*

The social advantages gained from the provision of these rights are revealed in the experiences of the industrialized democratic countries. The advantages include the fact that workers are entitled to a say in the determination of their employment and working conditions. Not only is such input justified on grounds of rights, but in addition, contemporary experience shows that to compete in world markets requires the active participation and commitment of the work force in order to meet quality and product performance standards.

There are also clear virtues derived from industrial-relations systems that give the parties involved in the production process direct involvement in the determination of work conditions and employment terms. Employers and workers and their representatives know their own problems best and can be remarkably adept at devising practical solutions to

problems or conflicts. Interference by outside parties in the resolution of problems often leads to apparent solutions that prove unworkable or impractical in the long run.

Furthermore, third-party interference eliminates the constructive learning the parties receive in problem resolution and identification as they work through their own problems. Even if a third party could impose a solution that solves a problem in the short term, this process prevents the parties from developing the capacity to solve their own problems. Thus, a clear advantage to collective bargaining is that it avoids a cycle of dependence on third-party interference.

Experience in the industrialized democratic countries also shows that unions, the right to strike, and collective bargaining are more likely to produce outcomes that are acceptable to workers and employers as compared to solutions that are imposed by governments or other third parties. Not only are employers and workers more likely to develop solutions that meet their own needs, these parties are also more likely to feel a commitment to making such solutions work. Imposed employment terms, in contrast, are often resented and resisted, in part because the parties that must live with these terms had little say in their development. Thus the process through which employment terms are set is often as important as the actual terms themselves. Collective bargaining has the advantage of being a process that is "owned" by the parties involved.

Since collective bargaining is a healthy process, it should be applied widely. This suggests that the right to strike should be granted in nearly all cases. There may arise some instances where an alternative to the right to strike is necessary, yet experience demonstrates that the use of strike alternatives should be limited.

In the bargaining process, a very constructive role can be played by independent mediation entities in a modern industrial-relations system. The proper role of mediation is to facilitate communication between labor and management and to provide advice. For mediation to serve such a function, there must be a sufficiently large cadre of well-trained mediators who understand practical labor-relations issues. Countries that have recently experienced the spread of democratic political institutions especially need to devote resources toward the training of such mediators.

There is also an extremely healthy role to be played by grievance procedures or labor courts that solve the problems that arise during the terms of contractual agreements. Research shows that grievance procedures can provide employee voice and thereby lower employee turnover as well as assist in the identification of problems and informal resolution of conflicts (Freeman and Medoff 1984). Successful grievance procedures are designed by the parties that directly use them and not by the government or other third parties. At the same time, as is the case with mediation, the successful operation of grievance arbitration requires the existence of arbitrators who are experienced and well versed in specific practical industrial problems. The government can play a role in furthering the development of a cadre of such arbitrators or assist in the creation of third-party bodies, such as the American Arbitration Association, that can facilitate the grievance arbitration process.

In Europe, government-administered labor courts that resolve individual complaints are common. Labor courts, like grievance arbitration, can effectively settle problems, provide practical resolution of them, and avoid larger social conflicts. It is possible for an industrial-relations system to contain both grievance arbitration and labor courts, yet most national

industrial-relations systems emphasize one or the other. An advantage to labor courts is that they cover all employees, unorganized as well as organized. Furthermore, labor courts tend to give employees more direct control over the processing of their complaints. Grievance procedures, on the other hand, give more influence to the unions involved. In a grievance system it is the union and not the employee that owns the grievance, and the union thereby is empowered to decide whether or not to press a complaint to arbitration.

There are some clear strengths of grievance procedures. They tend to be very responsive to the preferences of the parties, as they can be tailored to their desires and to the requirements in particular occupations or industries. Furthermore, the parties have more direct control over the design and operation of a grievance procedure and thereby gain a strong commitment to the outcomes of the grievance system. Yet grievance procedures have at times become cumbersome and fraught with delays. In the end, there are trade-offs involved in the design of complaint-resolution procedures and choices in their design. Our view is that a modern industrial-relations system should have either a grievance or a labor-court system or some combination of the two.

### *Proper Union Roles*

The earlier discussion highlighted the pressing nature of current international competitive conditions. There is clearly much for employers and unions to focus on concerning how the work place can produce employment terms that are socially acceptable and products that are competitively successful. This does not imply that there is no role for unions to play as political actors or participants in political debate. It does suggest, however, that the representation of worker interests often requires unions to focus their attention on employment and workplace issues.

It is also clear that society benefits from the presence of politically independent unions that are free from domination and government control. Such domination eliminates the democratic representation of worker wants and constructive employer-union interchange. The drawbacks of state domination of unions are many, including a violation of workers' rights. Furthermore, state-dominated unions or state-controlled industrial-relations systems tend to generate periodic explosive conflict.

As representation and bargaining entities, unions should not serve functions that are properly the domain of government social-service institutions. For example, there are proper social-service needs in the areas of social pensions (e.g., social security) and vocational education that should be regulated and financed by national governments and/or regional governments. Unions are not only poor providers of such services, they can also become diverted away from the areas where they can make more substantial private and social contributions by pursuing social welfare provision activities. We do not intend to convey that there is no useful role to be played by unions in the provision of any social services. In some countries (e.g., Sweden), unions, for example, play a constructive role in the administration of unemployment benefits. And in many countries unions are effectively involved in vocational-education programs.

Unions should also not become the vehicle for the direct provision of consumer goods, such as housing or food distribution, as they did in the former Soviet Union. Not only are unions

relatively inefficient as a distribution and pricing system, consumer-goods provision through the union or work place also unfairly and inefficiently ties workers to specific firms. Workers are unable to engage in necessary labor-market mobility if their housing, for example, is provided through the union or firm. The harmful effects of this sort of union role have been revealed in the rigidities apparent in the former Soviet states as they have struggled to create a more free-flowing labor market and to move individuals into a private market economy.

These concerns do not mean that unions should be blocked from addressing specific worker health or educational issues. Union-administered health and welfare funds have played constructive roles in many countries. The point is that social programs should be administered by governments and private programs should have narrower bounds and a narrower focus. In addition, as discussed above, consumer goods should be priced and allocated through markets and not through unions or other work-place institutions.

### *Work-Place Representation*

There are great advantages to an industrial-relations framework that includes parallel representation at the work place through institutions such as works councils. In the most successful examples (Germany, the Netherlands, Denmark), basic pay and work standards are set in collective bargaining at an industry level (for an entire industry or group of industries, either regionally or nationally). Plant and firm-level works councils, composed of elected blue- and white-collar representatives, enforce the collective-bargaining agreements and, in addition, engage in ongoing discussion and negotiation of plant-specific issues. Works councils typically have formal rights, backed up by national legislation, to extensive information regarding company plans as well as to consultation and in some cases (usually personnel issues) to veto rights in management decision making.

In Germany, the works councils have integrated employee representatives into management decision making and provided a flexible instrument for restructuring and adaptation. Although works councils have imposed some external rigidity on firms (it is more difficult to hire and especially to fire), this has been more than compensated for by added internal flexibility (Streeck 1984a). Because they are able to negotiate relative employment security for the work force, works councils are more willing to accept internal flexibility of deployment (Katz and Sabel 1985). Works councils also push firms to increase in-house training and the hiring of apprentices; because firms are less able to hire and fire from outside, they have a strong incentive to pursue internal labor-market strategies and to move into high value-added product markets.

Although management decision making can be slowed in the legally established, consensus-building process, managers have important allies in the works councils to smooth implementation once decisions are reached. Works councils at large plants often take on co-management functions, relieving management of important personnel responsibilities.

Works councils bargain for pay upgrades and bonuses, often on the basis of firm performance. They negotiate the terms of rationalization and the introduction of new technology, protecting employee interests as well as providing useful employee input into production and work reorganization (Turner 1991). Works councils provide a voice for white-collar employees, who are traditionally underrepresented in industrial-relations systems; and

the councils provide some representation for employees even where unions are weak or absent.

Where works councils function well, they contribute to a virtuous circle that includes employee voice, especially on issues of immediate interest such as personnel and organization, comprehensive representation, labor-management cooperation (since the works council identifies with the interests of the firm), high trust based on joint efforts, flexibility in labor deployment, and high productivity and high product quality (Streeck 1984a). These plant-level institutions of codetermination make it possible for works councils, unions (often working through the works councils), and managers to build successful "productivity coalitions." It is important to emphasize, however, that the virtuous circle is possible not just in isolated cases (as in the United States and Britain) but throughout the economy only because works councils are established and defined in national legislation.

The parallel representation afforded by works councils is also buttressed, and made more successful, by arrangements at the strategic level. The latter include both collective bargaining between industrial unions and employer associations and union-works council participation (also mandated by law in Germany) on company supervisory boards. Other features of the German system help to make the works councils successful, including the presence of strong unions and employment security.

Although works councils are not a part of Japanese industrial relations, enterprise unions at large firms fulfill some of the same functions. These include co-management, facilitating labor-management cooperation, building productivity coalitions, receiving extensive information regarding company plans, consultation, and giving a voice to white-collar concerns. Enterprise unions are also integrated to some extent into management decision making through firm-level bodies, such as joint labor-management committees. But as in the U.S. case, this form of plant-level representation has no legal backing in formal participation rights and is weak or nonexistent for the majority of work places that are nonunion.

Below we examine in detail some of the basic requirements of any industrial-relations system. We build upon our earlier discussion of the basic principles that should be followed in industrial relations.

## **Wage-Setting and Bargaining Structures**

Two related issues that are of central importance in industrial relations in any country are the structure of wage setting and bargaining (the latter is referred to as bargaining structure). Normally, there is a close connection between these matters, since wages are set as part of the normal bargaining that occurs between employers and unions.

### *Bargaining Structure*

A critical choice in the process of collective bargaining is the degree to which the bargaining structure is centralized. The most decentralized case is where wages and other terms in the labor contract are set in a contract that covers only the workers in a single plant (or a subset of the work force in a plant). The most extreme case of centralized bargaining (and wage setting) occurs during incomes policies when a government imposes pay standards that

apply to all workers in the economy. Where there is no government-sanctioned incomes policy, the most common "centralized" bargaining structure occurs when a large employer association negotiates with a union (or federation of unions) and sets wages and other employment terms for all the unionized employees in all the firms that are members of this employer association.

### *The Disadvantages of Fragmented Bargaining Structures*

The challenge in emerging democracies is to develop wage-setting and bargaining structures that meet the parties' needs and the pressures of international competitive forces. For instance, highly fragmented bargaining units should be avoided. A number of problems have appeared in industrialized countries in situations where bargaining units were too fragmented and numerous. In Britain, for example, craft bargaining is said to be an impediment to integrative problem solving and the effective introduction of technological change (Ulman 1968). A large number of bargaining units also contributes to inflationary pressures through the promotion of wage imitation and leapfrogging across jurisdictions (Flanagan, Soskice, and Ulman 1983).

### *The Virtues of Coordinated Bargaining*

One potential solution to the problem of bargaining-unit fragmentation is to conduct wage bargaining at the level of industrial sectors. In Germany, for example, bargaining occurs within sixteen major industrial sectors. The German structure has the advantage of inducing unions to consider broad worker economic interests. So, for example, because unions in Germany often include workers from a variety of companies and industries, there has been less trade protectionist sentiment within German unions since these unions often include members whose livelihood depends on the export success of their employers. In this way, particular firm or industry interests become muted in the bargaining process (Streeck 1984a). The coordination across work groups provided in the German bargaining structure meshes with other aspects of German industrial relations to produce what has been called a "coordinated market economy" (Soskice 1990).

Another successful alternative bargaining structure is enterprise bargaining of the sort that occurs in Japan. The advantage of enterprise bargaining is that it is very responsive to the economic conditions facing particular firms. The potential problem of inflationary leapfrogging across enterprise unions is dampened in the Japanese system through the Simultaneous occurrence of wage bargaining, which occurs in the "Spring Offensive" each year. In the annual offensive, the various enterprise unions communicate extensively with one another and often discuss their wage demands with their respective union federations. In this process, wage demands are coordinated and take account of macroeconomic circumstances. Japanese enterprise wage bargaining also has the advantage of often including a sizable share of pay increases in the form of annual bonuses that are influenced by the economic performance of the firm. The advantage of linking pay directly to economic performance through this and other alternative techniques is discussed more extensively below.

### *The Virtues of Annual Pay Agreements*

Both German and Japanese wage bargaining have revealed relatively little inflationary tendencies. This appears to follow, in part, from the fact that in both countries most wage bargaining occurs on an annual basis, namely, the wage terms of labor contracts extend for only one year. In addition, in these countries there are various processes that provide coordination across wage bargains. These coordinating mechanisms seem to be especially critical in avoiding inflationary pressures (Soskice 1990).

In contrast, multiyear labor contracts in the United States (and some other countries) reduce the influence of contemporary macroeconomic factors on wage negotiations. In this way, multiyear contracts contribute to wage rigidity, a particularly worrisome problem during economic downturns (Wachter 1976). A countervailing advantage to multiyear contracts comes from the fact that they limit the possibility of the costly strikes that might ensue in more frequent bargaining, in effect, by reducing the costs and risks of bargaining. Yet the inflationary tendencies inherent in multiyear contracts appear to outweigh this virtue.

### *The Occupational Scope of Bargaining Structure*

Another important aspect of bargaining structure concerns which employees are included in unions and other representation structures. In Japanese enterprise bargaining, white-collar employees of the firm below the executive rank are included as members of the union. In Germany, white-collar employees often press their interest through their participation in the codetermination processes, which provide these employees with the right to proportional representation in the works councils and in the election of supervisory board members. The provision of representation rights to white-collar employees is another aspect of bargaining structure worthy of attention. Both the German and the Japanese methods of providing white-collar employees with representation rights are commendable. An important industrial-relations task confronting developing countries is to avoid representation structures that only include "blue-collar" employees.

### *Recent Movement in More Decentralized Bargaining Structures in Advanced Industrialized Countries*

In recent years in very many industrialized countries there has been movement toward more decentralized pay-setting and bargaining structures (Katz 1992). In the United States this involves the breakdown of multi-company bargaining (or the erosion of the extent of such bargaining) in the trucking, steel, and coal industries. In Sweden, in 1992 employers refused to engage in the traditional centralized bargaining. In Australia, the traditional heavy centralization in wage setting (the national "award" system) has been weakening even during a period when the government and the unions have engaged in a social contract. In some countries, such as Germany and Belgium, formal wage-setting structures have not broken down and become more decentralized. Nevertheless, in nearly all countries there has been a shift toward bargaining-structure decentralization through the elevation in the importance of, and an increase in the variation of, the outcomes of plant-level bargaining. Greater variation appears

particularly in the work rules and work practices agreed to by union and company officials at the plant level.

There are many reasons for the recent decentralization of bargaining and wage-setting structures. The pressures of heightened international competition, increased volatility and uncertainty regarding economic trends, and the increased flexibility required in the face of more fragmented product markets have all contributed to bargaining-structure decentralization. Labor and management have turned to more decentralized bargaining as a way to develop contract terms that respond to their needs and economic pressures. More decentralized bargaining also fits well with the shift toward the new industrial-relations practices, such as the team systems discussed later in this paper.

### **Work-Place Issues**

The relative success of Japanese and German industry over the past two decades has brought home the virtues of employee and union participation at various levels of management decision making. As changing world markets and new information technologies have increased the need for functional flexibility in the work place, production requirements can no longer be met only by armies of semiskilled workers following orders.

#### *Recent Restructuring in Industrial Relations*

In some countries, recent changes amount to a fundamental transformation in industrial relations. Aspects of this transformation have appeared in virtually all countries.

There are many dimensions to this transformation, including a shift in the focus of industrial-relations activity away from the "collective-bargaining" to the "strategic" and "work-place" levels (Kochan, Katz, and McKersie 1986). In contrast to the traditional arms-length and formal nature of collective bargaining, the "new industrial-relations system" involves more continuous and informal relations between workers and managers (Windolf 1989). The new system often includes contingent compensation, team systems of work organization, employment security programs, and enhanced worker and union participation in decision making.

#### *Contingent Compensation*

Contingent compensation links pay directly to firm or worker performance. The virtue of more contingent compensation comes from the fact that it provides responsiveness in wages to current economic circumstances. As Weitzman argues, if pay responds quickly to economic conditions, economic systems are able to lessen the need for large quantity adjustments in employment and output and thereby become less prone to stagflation and related macroeconomic problems (Weitzman 1984). As discussed earlier, the presence of annual pay agreements rather than multiyear pay agreements adds a significant degree of responsiveness. Yet it appears that economies benefit further from the presence of direct linkages between pay and measures of firm and/or worker performance.

The use of annual bonuses that provide one-third of total wage earnings in Japan provides a virtuous high degree of pay responsiveness to economic conditions. It should be noted that for these bonuses to provide a macroeconomic stabilization function, they must vary with firm performance, which does occur in Japan (Hashimoto 1979). Other systems would be well served to develop the mechanisms providing pay responsiveness that fit within their own industrial-relations systems.

In many countries there has been recent movement toward the use of pay procedures that provide such a contingent linkage. In some cases this has been introduced through profit sharing or stock ownership (Kochan, Katz, and McKersie 1986,134). On the shop floor, more contingent pay has spread through the introduction of gain-sharing programs that tie worker pay to work area or plant performance and through pay-for-knowledge that provides pay increases as the employee proves competence in a wider variety of jobs. (In the past, a worker's wage was often set strictly on the basis of the job classification or job tasks.)

### *Team Systems*

A second important innovation of many new work systems is the shift to various forms of shop-floor and office teamwork (Windolf 1989). Traditional assembly-line organization based on isolated work stations, it turns out, contains built-in limitations on worker participation and flexibility. Traditional "fragmented" job assignments limit worker contributions to production improvements, commitment to product quality, and capacity for flexible deployment in the work place. Japanese team organization, by contrast, including cross-training, job rotation, integration of tasks, and regular team meetings, has demonstrated a dramatic potential for productivity and product-quality gains.

In response, many employers in manufacturing industries in the United States, Great Britain, and elsewhere have moved to introduce team forms of organization, with varying degrees of success. The exact form of team systems varies across firms, industries, and countries (Kochan, Katz, and McKersie 1986; Turner 1991). Team members often take on some inspection, material-handling, repair, and housekeeping tasks. In the more advanced teams, workers assume responsibility for some production-control and planning tasks, and hourly (in some cases unionized) team leaders perform job responsibilities formerly under the control of supervisors.

At the same time, unions in Germany, especially IG Metal, have been promoting "group work," both for its production improvements and as a more humanistic form of organization (Turner 1991, 111-17). The German version places an emphasis on broad work assignments, broadened responsibility and autonomy for the groups, as well as enhanced skills training and broad upgrading of group members.

Team or group systems are thus most likely to work well in countries such as Japan and Germany that already have strong institutional underpinnings for training and for worker-union participation. In other countries, it is necessary to establish such underpinnings to promote cooperation, participation, and training along with the introduction of more flexible team or group forms of organization. The necessary underpinnings can range from joint labor-management committees at the plant level to national legislation to promote training and to establish some nationally appropriate version of works councils.

## *Participation*

A third essential element of innovative work systems and "new industrial relations" consists of mechanisms for employee and union participation. The elaboration of team systems brings with it wider roles for hourly workers as they become involved in production-control tasks. Team systems and the administration of new employment security are also often associated with a broadening of worker and union involvement in strategic business decisions. In part this strategic involvement arises as a consequence of the major corporate reorganizations that confront the work force. After watching plants close and work outsourced, workers and unions have sought avenues to affect the decisions that weigh so heavily on their future.

Strategic participation by workers and unions also expands by the very nature of the bargain being drafted in the new industrial-relations system. Workers and unions are often initially hesitant to adopt more contingent pay, teams, and other more-flexible work rules. They fear both the potentially lower and more volatile pay associated with contingent compensation and the potential increase in work pace and loss in protections associated with the modification of work practices. In response, labor has asked for greater shop-floor and strategic involvement in decisions along with employment-security provisions as both a form of compensation and a form of insurance for the protection of employee and union rights. In some plants in the United States, union officers serve on "administrative" committees that direct plant operations. GM's Saturn plant represents an extreme case. At Saturn, the president of the UAW local is a member of the executive management committee. This committee decides matters that include picking vendors to supply parts.

Participation can be structured in a number of different ways, including works councils established by law, informally established cooperation through enterprise unions, joint labor-management committees established through collective bargaining, and quality circles and suggestion programs in union and nonunion work places.

It is important to note that where unions are present, they need to be fully aboard and supportive of the introduction of new work organization. Management strategies that divide the local union to force teamwork on a reluctant work force are unlikely to work (Turner 1991). Institutional arrangements that ensure union participation, at least at some level, can facilitate the labor-management cooperation necessary for the high-trust, innovative modern work place.

While successful in Germany and Japan, the patchy track record in the United States, Great Britain, and France suggests that participation requires either legal backing or substantial protections and encouragement throughout the firm. Workers and unions need institutions with clear rules and protections to allow them to participate in firm decision-making processes, and management needs thorough-going reform from the top of the organization to the bottom to instill commitment for employee participation. Both sides need training in participatory processes and trust building to set successful participation in motion.

The role of middle management is especially important in this regard. It is here that employee participation is most often perceived as threatening to established prerogatives, and it is at this level that participation often fails or is sabotaged. Yet middle managers have a crucial role to play in participatory processes and can find their influence within the

organization enhanced rather than diminished. They therefore need extra training in the management of participation, along with special encouragement, protections, and clarity about their own (often quite new) roles.

Participation is most likely to succeed and to be more than temporary if it occurs and is reinforced at all three levels of labor-management interaction in the firm: at the strategic level, in negotiation and agreement between top management and union leadership; at the functional level, in collective-bargaining agreements and contract enforcement; and at the work-place level, in team or group organization and other meaningful participation programs that have the full support of the organization and its management. National labor policy can play an especially important role in encouraging the spread of participation, through efforts ranging from education, to specific incentives, to enabling or even mandating legislation.

### *Employment Security*

The generation of employment commitment to company goals requires that employees face the prospect of continued employment with their firms. This is particularly important in light of the spread of team systems and the development of more firm-specific skills. In the presence of these skills, employees become less attractive to the external labor market (Osterman 1988). If employees do not then receive more security from the firm, they may well be reluctant to acquire more-extensive skills and training or to participate in the sort of shop-floor decision making that is so crucial to the maintenance of competitive and high-quality products.

Employment security can come in a variety of forms. In Germany, there has been a longstanding and successful requirement that if firms seek to reduce the size of their work force, they must first negotiate social plans with their works council. These social plans then outline the compensation received by redundant workers, establish guidelines concerning which workers are to be laid off, and create other adjustment strategies. As a result, the German system has also shown relatively less use of layoffs as an adjustment strategy in the face of output declines. The "internal flexibility" provided in the German system through broad jobs and flexible work rules has created the possibility of more internal adjustments rather than recourse to extensive external adjustments through layoffs (Sengenberger and Kohler 1987).

In Japan, there is heavy use of the "lifetime employment principle." A relatively high percentage of employees spend long careers, often their whole career, with one firm (Cole 1979). The key is that employees are broadly trained and work rules are relatively flexible. This makes it possible for firms to make internal adjustments to respond to reductions in product demand. These internal adjustments include moving workers across parts of the enterprise, or in some cases even "loaning" workers to other firms. (This occurred during the mid- 1970s at Mazda when their rotary car did not sell well. Some workers were sent into repair shops or out as sales staff while others were "loaned" to other firms in growing industries.)

The use of internal movements is, of course, not without its limits. In Japan, lifetime employment is afforded to "permanent" employees but is not provided to "temporary" employees and is more common in large firms. In the German system as well, the use of foreign workers (particularly in the 1960s and 1970s) on limited-term employment contracts also helped facilitate the less-frequent layoff of native German workers (Streeck 1984a).

In a number of countries in recent years, there have been a variety of new employment-security programs ranging from explicit employment guarantees to retraining and income support. The negotiation of such programs typically is linked to the introduction of more flexible work rules and other work practices associated with team systems.

There appears to be a direct link between participation, employment security, and work-force flexibility within the firm. To the extent that workers participate in decision-making processes, they become more flexible in what they are able and willing to do in production processes. And to the extent that they have employment security, employees are often willing to go along with even the most radical shop-floor innovations.

The United States, Great Britain, and France, among other countries, have weak participatory traditions, with industrial-relations systems that do little to encourage either participation or internal flexibility. Historically, managers act ("no one tells me how to run my business"), unions react (and often fight rearguard actions against innovation), and workers are supposed to do what they are told (but often sabotage innovation in more or less subtle ways). In these countries, a major challenge is to reform industrial-relations practices so that new participation and flexibility are possible in line with the demands of contemporary world markets. In the face of entrenched institutions and practices, however, such reform is quite difficult (see the Milkman paper in this volume). Reform is under way in all three countries, but the pace is halting, and the failures are many.

The crucial dilemma facing firms, unions, and policy makers outside Japan and Germany is not how to import foreign models but how to adapt and reform established institutions and practices to achieve the necessary participation and flexibility. Our point is that labor and management should try to find mechanisms that fit within their respective system to make use of internal flexibility as an alternative to external employment adjustments. At the same time, it is unreasonable to believe that all external employment adjustments can or should be avoided. The elimination of the possibility of layoffs can produce enormous inefficiencies and rigidities (and it has done so in some countries).

Firm-level employment-security practices can assist employees in making economic transitions and provide internal mobility. At the same time, governments should play a role in providing inter-firm and career mobility, particularly during periods of slack economic growth and in regions or industries that confront abrupt employment declines. In Sweden, for example, there is a long history of successful "active labor-market policies," which have provided such assistance and mobility to workers (Meidner and Anderson 1973).

### **Training and Work-Force Skill and Career Development**

New work-place systems in the 1990s and beyond, based on such attributes as shop-floor and office teamwork discussed above, employee participation, and career development in internal labor markets, cannot succeed without broadly skilled workers capable of continual learning.

### *The Need for Greater Investment in Training*

While traditional mass production may have required armies of semiskilled workers engaged in repetitive tasks, backed up by the few skilled workers necessary to repair and maintain machinery, modern production requires versatile, flexible employees who can perform various tasks and who can "participate" and contribute to production practices in a pro-active way.

The economic environment has put a premium on industry's ability to use batch rather than traditional mass-production techniques and to shift more rapidly across the types of products produced. This has generated new demands on industry's training procedures. (Evidence that the level and quality of training exerts a sizable independent impact on productivity is provided in MacDuffie and Kochan [1991]). More flexible manufacturing processes often entail the introduction of sophisticated electronically directed machinery (such as programmable machine tools) and automated storage and retrieval systems. These systems can be most effectively operated by a work force well informed about fairly advanced mathematics and statistics. The use of team systems fits into this network of new production techniques as the organizational vehicle through which workers take on the responsibilities of monitoring and often directing quality-control and production processes.

The training needs generated by these production and control systems go beyond traditional requirements. Not only must the work force have quantitative analytic skills, they must be skilled in the use of computers and other electronic technologies. Furthermore, since team systems are often associated with the new work practices, the work force needs communication and group skills to facilitate the operation and coordination of team tasks. Factory studies show increasing percentages of skilled workers, many of them newly cross-trained (in additional skills), accompanied by declining percentages of the traditional semiskilled workers (see, for example, Milkman and Pullman 1991). Even the latter require new training in organizational skills (for teamwork, participation, job rotation) and/or more substantive skills development for the monitoring of expensive microelectronic-run machinery (Kern and Schumann 1984).

The problem for firms and governments is how to build up the necessary pool of skilled workers, how to build up the abilities and flexibility of the less skilled, and how to develop reliable structures and incentives for continual training and retraining. In this section, we consider the need for union involvement and the virtues of "productivity coalitions," the successful German apprenticeship system, successful Japanese internal labor markets, and the need for social and educational policies that are linked to and reinforce modern skill requirements and industrial relations.

### *The Advantages of Union Involvement in Training Design and Implementation*

Union involvement in the promotion and operation of training programs can be a valuable asset in successful up-skilling programs. At the firm level, such involvement can encourage cooperative labor-management relations and form part and parcel of the building of a "productivity coalition" (Streeck 1984b) that includes management, union, and work force. Local unions and/or works councils are often well placed to help run training programs in a way

that appears fair and wins the trust of the work force. In addition, such local representative bodies may be well placed to know about missing skills and training requirements as well as the capacities and potential of individual employees. Works councils at large firms in Germany make an important contribution in this regard; enterprise unions in Japan to some extent play a parallel role.

In contrast to earlier efforts focused on management education, the new training programs often focus on occupational and "blue-collar" employees. As a consequence it now makes more sense for these training programs to be managed jointly by unions and management.

### *The German Training System*

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Because unions are broadly integrated into vocational education, they are committed to promoting a highly skilled work force. This commitment extends from the national and regional levels, where unions help set recruitment targets based on projected skill needs, to the plant and firm levels, where works councils press management to hire more apprentices. The British/American image of craft unions that restrict entry to the skilled trades (to maintain status and pay levels for the already skilled) is contradicted by the German picture of unions that actively promote widespread skills training. This is due in part to the industrial union structure of representation; equally important is the top-to-bottom integration of unions into the running of the vocational education system.

For individual workers, this system appears to work well. Fully two-thirds of the German work force has either completed an apprenticeship or graduated from a vocational school, and a large majority of these latter complete apprenticeships.

Employers have strong incentives to participate in apprenticeship hiring. The in-school training that apprentices receive is government funded; and apprentice wages, paid by employers, are low. The employer thus provides on-the-job training and in return gets inexpensive and often energetic and flexible young labor. In addition, the employer gets a multiyear period in which to work with and observe the young employee as a potential permanent, skilled hire. For employers as a group (and firms participate in the tripartite

governing bodies through employer associations), the national system of apprentice training and vocational education assures a steady flow of skills on the labor market.

In auto plants, for example, there is often a surplus of skills. Semiskilled positions are in many cases occupied by workers who have completed apprenticeships but were unable to (or chose not to) find a position in their trade. These workers have proven ripe for further on-the-job training and added job responsibilities beyond what a traditional semiskilled position would require. Union demands in the German auto industry for shop-floor "group work" are based in part on the desire to offer new training and autonomy to these floating but essentially skilled workers. And the ability of German employers to develop and offer intermediate positions, such as "equipment monitors" for robots and other microelectronic-run machinery, is also based on the high skills base of the work force.

The nationwide tripartite comprehensive system of vocational education has often been cited as a major factor accounting for Germany's industrial success. A highly skilled labor force is clearly a central component of the virtuous circle that has pushed German firms upmarket into "diversified quality production" (Sorge and Streeck 1988).

### *Extensive Japanese On-the-Job Training*

In contrast to the German system, the Japanese rely relatively little on formal apprentices and yet accomplish extensive training inside firms. The Japanese production system includes jobs that are relatively broadly defined, and workers are often rotated across jobs throughout their careers. These production techniques are facilitated by the extensive amounts of on-the-job training received by workers. In addition, skill acquisition and work-place flexibility are assisted by the high levels and quality of education provided in the Japanese primary and secondary schools. The provision of extensive on-the-job training in Japan is linked to other features of the Japanese industrial-relations system. The long tenure of workers in firms provides strong incentives to both workers and firms for investments in training by guaranteeing returns on training investments. In addition, the heavy reliance on seniority-based promotion makes job rotation easy and thereby facilitates training across tasks (Cole 1979).

First-line supervisors in Japan commonly plan workers' training and career progression carefully. Some of this planning and heavy first-line supervisor involvement takes place as part of the merit pay and performance appraisal that covers "blue-collar" workers in Japanese firms (Koike 1988). Thus extensive investments in training do not occur accidentally but rather are linked closely to other practices common to Japanese firms.

### **Conclusions**

History has shown that there are certain key moments of transition in industrial-relations systems, after which they get set and are hard to modify. Often these key moments are a result of legislative changes (e.g., the establishment of the National Labor Relations Act and the emergence of public-sector unions after the burgeoning of public-sector legislation in the United States). Other factors are also important in facilitating industrial-relations system change, such as important historical or economic junctures (e.g., the postwar reconstruction in Germany and Japan were significant moments of industrial-relations transition).

The recent movements toward democracy and markets in Eastern Europe and the former Soviet Union present an opportunity for major transitions in industrial relations. A key question is whether these countries will take advantage of this opportunity.

Another important issue is the need to recognize that various industrial-relations policies and procedures fit together and reinforce one another (i.e., the systematic nature of industrial relations). For example, changes in pay systems have implications for work organization. Work organization, meanwhile, has strong implications for employee participation and skill development. For the newly emerging democracies it is not just a question of choosing elements of industrial-relations policy from the experience of the leading industrial countries and making incremental adjustments but rather of striving for the reconstruction of entire systems so that various new policies will fit together.

It is not suggested here that the emerging democracies adopt an industrial-relations system from any of the industrialized countries in its entirety, since systems must reflect the unique institutional background, politics, and history of each country. Most importantly, we emphasize the necessity of coordinating and integrating industrial-relations policy with other economic, social, educational, and legal policies. The emerging democracies must develop their own unique institutional mechanisms to achieve these goals.

While it is clear that many often far-reaching changes are necessary in industrial-relations practices, the process through which change occurs is also important. The process of change has to be managed so as to provide for the active participation of the parties. Participation can help to achieve the necessary popular acceptance of changes. Experience has consistently shown that the top-down introduction of change in industrial relations (whether it is policy at the national level or systems at the company level) fails without popular acceptance of the need for change and participation in the change effort.

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