

# How the 1980's have changed industrial relations

*More cost-conscious management—forced to respond to increased foreign competition and deregulation—has shaped fundamental changes in the labor-management relationship*

AUDREY FREEDMAN

Union-management relations have undergone profound changes in the 1980's. The changes have been wrought largely by a force external to union-management relations: competition—from abroad, from deregulation, and from nonunion companies. The result is that compensation and employment are both more flexible and adaptive than in the 1960's and 1970's.

In my view, this shift has caused a fundamental change in human resource management practices. This is not a cyclical pattern of alternating ascendancy between labor unions and management.

This article examines the cyclical analysis of union-management relations in the light of evidence that the recent changes are broader and deeper than the traditional union-management dichotomy can encompass.

## The cyclical analysis

Those who envision union-management relations as a pendulum, see the present period of industrial relations—a period characterized by lessening union power in bargaining and in organizing—as similar to previous eras. They see current bargaining outcomes as not new—and imply that they will be reversed. Some also assert that there is nothing new about specific techniques or

policies such as gainsharing, “lump sum” wage bonuses, security bargaining, and worker participation. This theory suggests that within the world of union-management relations, the only change is the continual repetition of cycles as one party gains ascendancy over another for a time, and then gradually loses it as the other side regroups and acquires strength. Many union leaders, some third-party professionals such as mediators, and some longstanding management representatives hold this view.

The cyclical point of view treats union-management relations as operating in a world within itself by classic power principles, played out by experienced practitioners of the labor relations arts. If some of these old-line labor relations experts think about human resources management at all, it is as a union-avoidance strategy. Some even interpret every move toward worker participation as motivated by management desires to weaken and supplant unions—everything is part of the closed-system power struggle between the two institutional adversaries.

## The change analysis

The other point of view is a great deal more diffuse. It focuses on the pressures external to labor relations. It perceives the management of human resources as driven by incentives arising in the economic choices for the firm, within a larger economic, demographic, and social framework of events and pressures. So management of human

---

Audrey Freedman is executive director of the Human Resources Program Group at The Conference Board.

resources is always being propelled toward adaptation to new business conditions. This approach views the decade of the 1980's as a period of major change, in which the parties have had to adapt to a far more competitive business environment. As external competitive attack forced business to shift rapidly, to cut costs, to innovate, to enter other markets, to cede some product lines to others, to devise a flexible labor force strategy, the need to adapt broke open the formalized world of labor relations. Managers sought to get the most cost-effective use of their human resources, not to play the conventional union relations game.

In my view, these changes are still occurring and will not be reversed by some sort of cyclical return to the 1950's. This is because the external economic and business world will not return to that era when U.S. enterprise dominated the world, when our technology was the most advanced, our capital was the major source for other countries' economic growth, and our businesses had a very firm grip on all of the domestic and most of the world market. Just as the American automobile market will not again be totally dominated by a few domestic producers, so auto wages and working terms will not be set exclusively and "nationwide" by the UAW and one auto company, according to a fixed pattern. By now, domestic nonunion producers are creating a competitive check on labor costs per unit of output. Non-union domestic parts suppliers, foreign auto assemblers, foreign parts and subassembly makers, and a multiplicity of other competitive pressures are disciplining costs and quality in an industry that was once part of the "closed" labor relations system of the 1950's and 1960's.

The power of unions to set industrywide wage levels and to relate these in "patterns" was based on the market power of strong domestic producers, or industries sheltered by regulation. As employers lost their market power in the late 1970's and early 1980's, union wage dominance shrank and fragmented, narrowed down into the newly detailed segments into which competition was slicing markets. One union segment had to compete with another, and with nonunion segments here and abroad. Under these circumstances, it is difficult to imagine a pendulum-like return to the past. Perhaps the only factor that might accomplish this would be a political move toward "industrial policy," or an economic planning system that might once again diminish competition. This may be the reason for union support of industrial policy proposals.

### **Pressures on management**

What are the greatest influences or pressures on management in labor relations and bargaining? It has not been easy to discover, because any analysis of influences on union contracts is looking at outcomes—outcomes

that are themselves an effect of the union's power in bargaining. So, The Conference Board asked managers directly in a late 1983/early 1984 survey. Most of the 499 respondents were labor relations managers. Pressure from competitors was identified as the most powerful influence on employee relations (from domestic competitors, 164 companies; from foreign competitors, 29 companies). An additional 82 identified "changing industry structure," which parallels competition in effect. The only other choice of significance was recessionary conditions, identified as most influential by 109 companies that were still feeling the aftereffects of 1982. From these responses we can conclude that labor-management relations is not a world unto itself, but that it has been deeply influenced by loss of market control, by competition that impinges on the resulting wage arrangements and on the managers' drive for productivity gains.<sup>1</sup>

Because long-established conventions like the labor relations "system" are not easily disturbed, it seems reasonable to conclude that the double recessions of 1981 and 1982 sensitized both management and unions to the effect that competition was going to have upon their stable and institutionalized arrangements. At the time, many labor analysts described the situation as temporary, due to recession or individual company survival issues.<sup>2</sup> Among these were most union spokesmen and academic analysts of collective bargaining, such as John T. Dunlop. But in 1988, with 5 full years of recovery behind us, the changes described as "temporary concessions" in 1983 are still present.

In terms of wage-setting practices, management has shifted from following industry patterns, or imitative wage-setting behavior, toward internal cost concerns. Pressure from lower cost producers of goods and services has forced management bargainers to consider the wage rates, benefit costs, and productivity of specific business units and operations—in comparison to their competitors' costs and productivity. The objective is to get labor costs per unit of output to a point below that of the competition at the product-line level. Out of this approach has come wage-level differentiation, the breakdown of pattern bargaining.<sup>3</sup>

### **Economic conditions**

What has happened is that wages, even under union bargaining pressures, are now far more responsive to economic conditions at the industry and firm level, and even the product-line level, than they were in the 1970's.

The most direct way to test this is to ask of company labor relations managers: what information or factor most affects the company's wage target in bargaining? The Conference Board asked this question in 1978, and again in 1983, of 197 identical bargaining units with the same line of business and the same union representation.

There was a major shift in their answers. In 1978, the consideration of primary importance was "industry patterns." Just 5 years later, it was "productivity or labor-cost trends in this company." There was also a big drop in concern with (external) industry patterns. Other external factors also declined in importance: inflation rates, the effect of this settlement on other wage settlements or nonunion wages or both, and union settlements in other industries.<sup>4</sup>

When the parties to an arrangement are being shaken by factors outside their control—in this case, by competitors' lower costs of operation—they are experiencing some major upheavals. The American collective bargaining system, fortunately, is practical and flexible enough to allow the parties to adjust. I think it is appropriate to recognize the change that is occurring and analyze its positive results, rather than to insist that "nothing is changing"—that the closed system is calcified and undisturbed by signals from without. Nor do I see parallels in the post World-War I period to the current "state of American unions." The factors causing change today are not at all internal to the "union-management institution." They are, to be quite specific, Toyota, Nissan, Hyundai; Sanyo, NEC, Toshiba; Nucor, Pohang, and third-world steelmakers. They are dozens of new telecommunications industries and companies springing up in a deregulated petri dish; new airlines, new routes, new services that seem constantly to be realigning old and stable business arrangements. One of these stable business arrangements was union-management mutuality of interest (at a certain level of market protection or control). Withdraw that control or protection, and new arrangements must be made. Claim "nothing new is happening" and you miss the drama of adaptation as it is taking place.

So, the first major change has been to force companies to consider their operating costs in terms of competitive pressure from other firms outside the closed circle of the unionized. This causes them to consider those costs at the product-line level, because that is where the competition focuses. Thus, there cannot be a single "industrywide rubber" wage when the tire market can allow one level, but the plants producing hose and belting, or consumer retail products like rubber shoes, are competing with Far Eastern producers paying much lower wages to their laborers. This competitive, product-line pressure ultimately forces diverse new wage practices and other working conditions variations on union bargaining. It also tends to break down the use of automatic wage formulas such as cost-of-living escalators, as well as traditional fixed annual increases (such as the "annual improvement factor" of 3 percent in auto contracts, and its counterparts in steel and trucking). Without automatic increases, the bargaining parties have more freedom to adopt new terms and tailor specific packages to

current conditions. The decline in these traditional/automatic wage formulas has been documented in the Bureau of Labor Statistics periodical *Current Wage Developments*, and in many studies of bargaining outcomes by Daniel J.B. Mitchell of University of California at Los Angeles<sup>5</sup>.

### Flexibility tools

In removing automatic formulas and making wages more flexibly responsive, the parties have contrived many new wage techniques. Among them are "two-tier" systems in which incoming new workers are paid a lower wage, presumably closer to the market wage—the level that would be paid in the absence of a union contract. Another device is the "lump sum," which provides a single payment, usually once a year, instead of raising the hourly wage rate. Lump sums are obviously less expensive for management, but their most important quality is the fact that they do not become embedded in the wage rate and are thus infinitely more adjustable than previous formula wage increases. A third class of wage technique, "gainsharing," has received much advocacy attention, but is less frequently found in actual contracts. It too is a flexibility tool, directly linking wages to output or production costs or profit.

These techniques are not necessarily novel; parallels can be found in previous nonunion wage systems. The phenomenon that is new is that bargaining has been forced to seek out all kinds of variations in order to make wages more responsive to competitive pressure at the product-line level.

The fact that wages are being made more flexible and adjustable is clear by now. Another development seems also to be discernible behind the details of events: it appears that management is trying to make employment itself more flexible. That is, management is trying to reduce the fixed aspect of labor costs represented by a core work force that has either implicit employment guarantees or costly downsizing penalties to protect it. Management is trying to contract out work more freely, use subcontracts for business services, use more part-time and free-lance and temporary workers. These techniques of contingent work arrangements are not new; what is new is management's drive to make employment flexible. Management is trying to make employment far more fluid and adjustable, to make labor costs even more variable and work force redeployment even less expensive. It is what has been called "Kanban employment," using the Japanese term for just-in-time delivery and no stockpiling or inventorying of resources.

The use of contingent workers and contracting out has always been an available management tool. In fact, it is essential to have various techniques for buffering a "core" work force in order to provide even a small

amount of security to that core as business conditions fluctuate. Whether the parties cared to admit it or not, the existence of buffers is the tradeoff for granting more employment security to the "primary" work force. So contingent worker techniques are not new. However, using contingent worker and subcontracting techniques to gain more adaptability and flexibility—to gain power for rapid downsizing and cost-cutting—is what is new in the environment of the late 1980's.

### Competitive pressure

As long as competitive pressure forces business to adapt quickly, these techniques are going to continue growing. Furthermore, their more extensive use is affecting all employment, making all employment arrangements less secure and more changeable than they have formerly been in "stable," protected industries. Anecdotally, it is said that no longer can a young man count on following his father into a lifetime in the local mill. It is also said that a young man can no longer enter the lower ranks of management and "stay with the firm" for his entire career. It does not require an elaborate longitudinal study to prove that these inferences from real world observation are true. Employment, as well as wages, is being made more flexible.

In the course of all these changes, the driving force has been business conditions in the firm. The labor relations system that evolved during the 1940's through the 1970's was institutionalized around the market power of the firms and those unions that had come to represent large

proportions, if not nearly all, of the industry's domestic work force. Under these closed and controlled circumstances, it is easy to see why the system was so internally directed and expert-dominated. And in time, the experts operated a system relatively isolated from "the business"—and business was willing to delegate the handling of labor relations to such experts.

But now that competition arises from abroad, from domestic nonunion operators, from nonregulated new entities, the management of human resource cost and productivity moves back toward the center of business concerns. It is no longer "left to the experts." It becomes the direct and vital concern of line managers all the way up to the chief executive. The collective bargaining system, with its heavy flavor of formal, legalistic, adversarial maneuvering, is giving way to a more fluid, adaptive, business-dominated behavior. Those old-line labor experts who adjust to the new environment are invaluable in responding wisely to the new forces at work. Those old hands who cannot perceive business needs are having to give way before line managers who may not know all the historical background of union relations, but they do know what has to be done to keep the business prospering.

There are a lot of electrical sparks coming from these "inexperienced" line managers, and the course of bargaining is not as predictable or smooth and familiar as it once was. But changes are being forced. They are not temporary. We are not looking at a segment of a cycle that will reverse itself and return to the 1950's. This change is for good. □

### FOOTNOTES

<sup>1</sup>Audrey Freedman, *The New Look in Wage Policy and Employee Relations* (New York, The Conference Board, 1985), pp. 3-4.

<sup>2</sup>Audrey Freedman, "A Fundamental Change in Wage Bargaining," *Challenge*, July-August 1982, pp. 14-17. This article discusses some of the reasons why collective bargaining's academic analysts of longstanding reputation had difficulty in seeing the changes that were developing. It may also be that those with a lifetime of work invested in careful analysis of an elaborate system were unwilling to perceive that system fragmenting, and also losing its centrality in U.S. wage-setting models.

<sup>3</sup>For a full discussion of these anticipated changes, see A. Freedman

and W.E. Fulmer, "Last Rites for Pattern Bargaining," *Harvard Business Review*, March-April, 1982, pp. 30-48.

<sup>4</sup>For more detail, see Freedman, *The New Look*, pp. 7-11.

<sup>5</sup>See, for example, Daniel J.B. Mitchell, "Wage Trends and Wage Concessions: Implications for Medium-Term Economic Expansion," Department of Economics, University of Michigan; and *The Economic Outlook for 1987*, *Proceedings* of Nov. 20-21 1986 meeting of RSQE, pp. 266-335. Also, Daniel J.B. Mitchell, "Alternative Explanations of Union Wage Concessions," *California Management Review*, Fall 1986, pp. 95-108.