TRADE UNIONS & INDUSTRIAL RELATIONS

Dr. Abhishek Gupta

ABSTRACT

Over the last 20 years, there has been considerable debate about the impact of trade unions on productivity, and the implications of different types of labor-market arrangements for economic performance. The most effective way of improving competitiveness is to weaken trade unions and remove the regulatory structures and rules that constrain managerial decision making. On the other hand, the proponents of regulation point to the importance of institutional rigidities in blocking low-wage, labor-intensive routes to profitability. Others believe that there is little substance to the claims that the deregulation of pay and conditions produces higher productivity growth, and that those making such claims are simply relying on rhetoric rather than on substantial evidence. Some feel that the high-road approach to management with its emphasis on high-performance work systems is far more likely to generate greater discretionary effort and higher produc¬tivity levels. This research has reviewed a number of influential studies that have a bearing on these issues. As far as the union-productivity link is concerned, there is considerable evidence from the US, Britain and Australia to indicate that trade unions can have positive collective voice effects on labor turnover, job tenure and the level and growth rate of productivity. A key point to emerge is the importance of the indus¬trial-relations climate in improving organizational performance. A positive and cooperative labor management relationship, with extensive joint decision making, appears to be conducive to greater organizational efficiency.

Keywords: Trade Union, Industrial Relations.

I. INTRODUCTION

Industrial-relations institutions have been at the forefront of recent academic and policy debates concerning economic performance. To a large extent, this has arisen in many countries because of the widely perceived need to lift levels of productivity and to stimulate employment growth. Some commentators have argued that centralized systems of industrial relations and strong trade unions have had a detrimental impact on labor-market performance. Unfavorable comparisons have been drawn between the more coordinated market economies of Germany and Scandinavia and the liberal market economies of the US and Britain. Tight restrictions on trade unions and the erosion of regulatory arrangements in the labor market, it is claimed, have enabled the US and Britain to achieve faster rates of productivity and employment growth. In the Australian context, two labor-market institutions the conciliation and arbitration system and trade unions have been nominated as causing undue rigidities and impairing productivity. It has examined the changes in the structure and operations of unions and industrial tribunals in Australia. The changes were implemented in anticipation of significant positive economic effects, particularly in relation to levels of productivity, efficiency and economic growth. Within this context new and more innovative HRM practices were expected to play their part. More individualized pay systems, a greater emphasis on teambuilding and more extensive systems of communications were foreshadowed as important means of increasing employee motivation and morale and enhancing harmony and productivity. The aim of this research, therefore, is to discuss key findings from the growing literature on industrial relations, HRM and performance. The research begins by exploring the research evidence on trade unions and productivity. The discussion outlines the theoretical backdrop to the debate about unions and productivity before moving on to a review of a number of influential studies from the US, Britain and Australia. The focus of the discussion then shifts to the wider issue of labor-market regulation and the impact of institutional arrangements on economic performance. Finally, the research explores the relationship between HRM and organizational performance.

II. TRADE UNIONS AND PRODUCTIVITY

The perspectives reflect the 'monopoly' face of unions and the 'collective voice/institutional response' face of unions. The focus in the research is on the impact of these faces of unionism on productivity the former stresses the deleterious impact of trade unions on economic efficiency, while the latter highlights the positive effects of trade unionism on organizational productivity. The notion, unions raise labor costs and damage productivity has its roots in 'neoclassical economic'. This is sometimes referred to as the monopoly face of unions. According to this perspective, unions are 'monopoly sellers of labor', and their principal function is to raise wages above the competitive market clearing rate. This leads to efficiency and welfare losses in the economy and society. Generally, unions are considered to reduce economic efficiency in three ways. First, union wage behavior causes a misallocation of resources, which leads to adjustments in employment and output. Employers typically respond to the monopoly wage demands of unions by substituting capital or technology for relatively higher-paid unionized employees. Output also fails as organizations seek to match their higher costs with their revenues. The overall outcome is that unionized organizations hire fewer employees than they would under competitive market conditions. Gradually, however, surplus workers are absorbed by non-unionized organizations, although at lower wage rates and in less-skilled jobs. As a result, trade unions' wage bargaining efforts mean that unionized organizations operate at a high level of capital intensity and employ too few workers, while non-unionized organizations recruit too many workers for lower productivity tasks.

Second, unions reduce output by constraining management's ability to organize production in an optimally efficient manner. Collective bargaining agreements are believed to perpetuate 'restrictive work practices' because they contain rules relating to staffing levels, output 'norms' and work allocation. Third, union wage and bargaining demands invariably involve the use of the strike weapon, or other forms of collective industrial action, which disrupt output and lower productivity. In the monopoly face, then, trade unions are judged to be 'imperfections' or 'deviations' that impede the functioning of the labor market. Such a view rests on at least two assumptions first, unions' function in similar ways to monopoly organizations; and second, harmonious and cooperative labor-management relationships would be the 'norm' in the absence of trade unions. These assumptions have been challenged, however. The notion that trade unions function as 'monopoly sellers of labor' is considered to be inaccurate, because unions do not actually sell the labor of employees. Neither do they set wages in the same way that monopoly organizations establish prices that maximize profits. Rather, trade unions are collective organizations of workers that jointly determine wages with employers. Further, it has been observed that social conflicts in the workplace, including the attempt by work groups to restrict output, are not an exclusive feature of unionized work settings. Tensions and conflicts emerge in workplaces regardless of trade union presence. In fact, in non-unionized workplaces, such conflicts have provided a critical impetus to the growth of trade union membership and bargaining activity. To acknowledge that conflict may be a structural feature of the employment relationship, however, would serve to undermine the key tenets of the neoclassical technique.

III. THE COLLECTIVE VOICE/INSTITUTIONAL RESPONSE FACE OF UNIONS

Not all economists uncritically accept the monopoly model of trade unions and productivity. There have sought to develop an alternative view of the role and impact of trade unions in production by demonstrating that American trade unions have had positive effects on productivity and economic efficiency. According to this second collective voice/institutional response face of unionism,, unions provide workers with a 'collective voice' through which workplace differences can be aired and made subject to proper managerial consideration. Instead of responding to dissatisfaction by exiting, employees can process their grievances through a trade union and seek to have the dissatisfaction addressed. The collective voice is, therefore, a substitute for individual exit behavior, which can reduce turnover and improve morale and cooperation. In short, there will be an improved governance of the workplace. Trade unions can, thereby, be a force for greater efficiency. The Harvard economists suggest that the upward pressure on wages caused by unions may induce management to secure offsetting efficiency gains in the form of superior training or improved production systems or by way of reduced organizational 'slack'. This is known as the union shock effect. The challenge for management is to preserve profitability by increasing the output obtained from a given level of labor input and, by implication, to improve aspects of production that may have been neglected. Unions may, therefore, 'spur innovation and the diffusion of "best" manage; merit practices, by blocking low wage, labor intensive routes to profitability' .

This is not, of course, to suggest that unions enhance productivity in all workplaces. Rather, the central argument is that productivity outcomes depend on 'specific industrial relations settings'. The strategies and behavior of both management and trade unions, as well as the character of their mutual interaction, are considered to be important 'unionism per se is neither a plus nor a minus to productivity. What matters is how unions and management interact at the workplace'. In this context, many writers have highlighted the importance of the industrial-relations climate in influencing the relationship between unions and organization performance. This climate may comprise the structure of bargaining, the history of employer-employee relations, the competitive environment of the organization, the labor-market environment of the organization, and the attitudes of employers and management. All these factors mediate the impact of unions on productivity. By contrast, in high-trust workplaces, where there is a substantial degree of joint decision making by unions and management, productivity may be improved through 'creative' bargaining over a range of non-wage issues (e.g. technology, training and skill upgrading), and the cooperative implementation of best-practice production techniques, as well as associated reductions in worker monitoring and supervision. Nonetheless, such arguments have proven to be controversial. There are some who believe that the collective voice model is not persuasive because the mechanisms by which unions improve or reduce efficiency are not clearly identified. Other writers take a different view, however. Nolan considers that the Harvard research is superior to the dominant neoclassical approach because it highlights the connections between industrial relations, work organization and enterprise performance. Accordingly, 'labor-market institutions are treated not as imperfections but as historically forged social entities whose effects in the economy should be analyzed in their own right'. Further, in contrast to the abstract propositions of 'neoclassical' theory, the collective voice/institutional response face has generated considerable empirical research into the impact of unions and productivity. Much of this work has sought to test the validity of the collective voice model of trade unions. The next section moves on to consider overseas and Australian evidence on this issue.

IV. UNIONS, INDUSTRIAL-RELATIONS CLIMATE AND PERFORMANCE

The studies reviewed so far focus on the impact of unions on labor turnover and job tenure, and on productivity. Recall, however, that it was not so much unionism per se that influenced productivity but how well unions and management interacted at the workplace. There is evidence to indicate that workplace innovations are more successful and their benefits more enduring, if unions are actively involved in their design and implementation. The tenor of the union-management relationship has emerged as an important influence on organizational performance. A cooperative industrial-relations climate has been strongly and consistently associated with improved employee outcomes and better economic performance. Australian research has also found that good employee-management relations have a positive impact on productivity. Further, a harmonious industrial-relations climate has been related to higher levels of organizational commitment and union loyalty. Research has suggested that those organizations with the best union-management climate tend to place a strong emphasis on effective communication channels with their employees and tend to avoid an aggressive, bold and high-risk management style. The employees were most likely to describe the industrial-relations climate as cooperative when they felt their jobs were secure and when they believed that they were treated fairly and justly. There has been a great deal of interest in the ways in which the industrial-relations parties can develop more cooperative relationships and secure improved performance outcomes. Research conducted in the US found that a low-trust industrial-relations climate, high grievance rates and protracted negotiations over contracts were strongly associated with poorer plant-level performance. Cooke’s analysis of two different samples of American manufacturing organizations indicated that those participation programs jointly administered by management and the union were positively associated with product quality improvements. In particular, unionized companies achieved their goal of product quality improvement when union representatives were involved in the administration of participation programs, but not when union leaders were uninvolved. Overall, the study emphasized the importance of joint decision making.

Australian research conducted also found that unions can be influential in improving organizational performance. This study examined the relationship between the industrial-relations climate and organizational performance at a large American car manufacturer in Australia. Due to cuts in tariff protection and intensified international competition, the organization had engaged in a cost-cutting program involving the reduction of the workforce by almost one-third. However, in order to generate sustainable improvements in quality and productivity, the organization had sought to invest heavily in new technology and training, and had initiated a more collaborative relationship with the union. Specifically, the union and management had embarked on a program designed to reduce absenteeism. The authors found that employees were more motivated to help the organization to become more efficient and productive where they viewed the work environment as fair and satisfying, believed there was mutual crust in the relationship between management and the union, and perceived the union to be effective and influential in the workplace. While this study confirms previous findings that the overall quality of the union-management relationship can affect organizational performance, the results also suggest that the relationship that unions have with their members is important. Hence, individuals who viewed their union as effective in representing and advancing their interests in the workplace were not only more likely to regard the industrial-relations climate as positive, but also displayed higher levels of commitment to the organization and loyalty to the union. Furthermore, employees who saw their union as an effective voice in workplace matters had significantly lower levels of absenteeism. The trade unions and management can help build a cooperative and high-trust industrial-relations climate in the workplace, with positive consequences for organizational performance. This is not to say, however, that such cooperation is without its difficulties for unions. They inevitably face pressure to steer the gains of cooperation to their members rather than to the organization and its shareholders. The analysis of union management partnership arrangements in the UK supports the view that such partnerships can yield quite important organizational benefits, but notes that in many cases, management would appear to be gaining more from the practice with the balance of advantage, in terms of principles endorsed and practices in place, leaning clearly towards management.

V. THE CONCILIATION, ARBITRATION SYSTEM AND PERFORMANCE

Some commentators have regarded the Australian conciliation and arbitration system, along with trade unions, as a major impediment to productivity growth.

Although there has been little empirical evidence to support this claim, the arguments have tended to focus on the following points. It has been said that the tribunal system has led to the formation of adversarial attitudes, which induce resistance to change. Furthermore, the practice of comparative wage justice is said to have sheltered potential changes in relativities from market forces, thereby causing wage inflexibilities and leading to a misallocation of resources. In addition, it has been claimed that the multi-award structure has impaired the ability of organizations to move labor to different tasks and different roles within workplaces. Finally, the Australian conciliation and arbitration system has been criticized at least in the past for being too centralized and for preventing management and workers from settling disputes through appropriately designed grievance procedures at the shop or office floor. These arguments have influenced policy makers and been important in reshaping the industrial-relations system in Australia. In fact, the reforms over the last decade have specifically sought to address these issues and we now see a new set of industrial-relations arrangements that are much less centralized and much more focused on the enterprise and the workplace. Despite the criticisms of the old system of conciliation and arbitration, there were surprisingly few empirical studies that explicitly sought to examine its effects on labor flexibility and enterprise performance. The study and Wooden perhaps provides the best evidence on some of these matters. Based on data collected from a survey of large companies, the research sought to establish the effect of both award structures and trade unions on workplace efficiency and performance. Although the findings must be treated with caution, there was some evidence to support the argument that the multi-award structure in Australia did retard the development of more productive working arrangements.

It was also found that single employer awards were generally simpler, contained smaller numbers of classifications that were tied to specific job statements, and were more easily adaptable to changes in the nature of the work. This did not, however, imply that the arbitration or award system per se had a negative effect on workplace performance. On the other hand, the multiple-award structure would seem to add a substantial degree of complexity to the regulation of industrial-relations behavior. Certainly, it would appear that it was this assumption that lay behind award restructuring and simplification, and the support for enterprise bargaining. There was a widespread belief that small business in particular suffered the most serious disabilities of the arbitration system. Industry-based or common rule awards were seen as unresponsive to the special and varying needs of small business imposing unnecessary cost burdens on them and otherwise inhibiting changes in work practices and other employment arrangements that would make those businesses more efficient and productive. Some commentators suggested that the small business sector would function far more efficiently and profitably in an entirely deregulated labor market. However, in a major study by Isaac of the attitudes of small business to arbitration, the writer found surprisingly little dissatisfaction with the system and its procedures and practices. In fact, Isaac concluded that the substantial majority of small businesses were quite content with the prevailing arbitration system and generally were not prevented from making productivity and efficiency changes in the workplace. There are those who have argued that the shift towards enterprise bargaining and a reduced role for the industrial tribunals would not produce substantial productivity gains.

VI. DE-REGULATION, WAGE-INEQUALITIES AND PERFORMANCE

Despite the findings of the studies reviewed above, the decentralized and deregulated labor markets of the US are currently viewed in a positive light by many economists and policy makers in Australia. The ability of employers to offer lower paid jobs in the U.S. than is possible in Australia has contributed to the lower level of unemployment in the U.S. On the other hand, a growing body of research indicates that American-style deregulation has been associated with declining living standards, growing wage inequalities and rising poverty. The US now resembles an apartheid economy. This is an economy in which 'the wealthy and powerful prosper while the less well-off struggle'. He documents a marked decline in the rate of growth of real wages, and a steady widening in the distribution of income in the US. Low-paid workers, in particular, have experienced a marked deterioration in their relative pay position. Currently, American workers in the bottom 10% of income distribution earn less in real-pay terms than their counterparts in other advanced countries. As a consequence, the poverty rate has risen, especially for families of young workers and for children. Freeman argues that the United States has the least-regulated economy among advanced countries its problem is not cresting jobs but making work pay. We need to recognize that the country has an inequality problem based on falling real earnings for low-paid workers that is unparalleled at least since the Great Depression. Labor-market policies that have sought to encourage flexible arrangements based on low-wage, low-skill outcomes have not necessarily been accompanied by substantial improvements in production efficiency in either Britain or the US. Rising wage inequality in Britain has also been associated with low levels of investment in technology and workforce skills, despite growth in corporate profits. Such developments may be due to the absence of sufficiently strong 'shock' effects in the labor market, such as effective workplace unions and other regulatory arrangements, which act as a force for greater efficiency in the economy.

VII. HRM AND PERFORMANCE

Many organizations have been criticized for taking the low road of cost minimization with its emphasis on low pay and disposable labor rather than the high road of skill development, partnership and mutual gains. There is a considerable body of research that suggests that the 'high road' forms of HRM are associated with higher performance outcomes. Practices that provide employees with greater discretion, more information, enhanced skills and extended opportunities for teamwork. These components of motivation, skill and participation have underpinned many of the studies on high-performance work systems and organizational performance. One of the earliest and most path-breaking of these studies was conducted and analyzed the effects of a number of work practices on organization performance in the US and looked in particular at the impact of two bundles of practices the first, which he labeled skills and work structures, was composed of elements such as job analysis, participation programs, skills training, communication and dispute resolution procedures; and the second, which called a motivation index consisted of data on performance appraisals and merit-based pay plans, found that the use of these two sets of practices was reflected in markedly higher organization performance. In particular, investments in these practices were associated with both lower labor turnover and greater labor productivity which, in turn, were related to improved financial performance. The evidence from the study suggested that innovative or high-performance work practices provided a source of sustained competitive advantage where they raised discretionary effort by improving skills (by way of effective recruitment and training); increasing motivation to perform (through performance appraisals, incentive pay and internal promotions); and providing organizational structures that gave employees the opportunity to design new and better ways of performing their roles (through employee participation).

The impact of high-performance work systems on plant-level performance in three manufacturing industries in the US. Their study confirmed the positive effect of these practices on efficiency, productivity and organizational performance. They found that high-performance work systems did elicit higher discretionary effort from workers. Those who were employed in more participatory work settings tended to use their latent knowledge to reduce waste and defects and solve problems more quickly. They also demonstrated a greater ability to improve the production process. The research team concluded: Plants with superior work systems deliver superior performance and higher productivity. Over time, these plants can be expected to enjoy a competitive advantage and to capture market share from competitors in their industries with more traditional work systems. Such plants, whether foreign or domestic, are better able to meet customer requirements in increasingly competitive markets and to increase market share. They should, therefore, displace less effective competitors who fail to adopt high-performance workplace practices. In the UK, relationship between the high uses of HRM practices (emphasizing high-commitment or high-performance practices) and lower labor turnover as well as higher financial performance among organizations. The results however were much stronger for the manufacturing sector than they were for the service sector suggesting that high-performance HR practices had little or no effect on the performance of service organizations. However, in her research on telephone call centers in the US, found that establishments that emphasized high skills, employee participation and HR practices (that emphasized high relative pay and employment security) had lower quit rates and higher sales growth. Furthermore, in another service-sector environment, strong links between high-performance work practices and patient mortality rates in British hospitals. Lower mortality rates were recorded in hospitals that had more intensive and sophisticated training systems and where a larger percentage of employees worked in teams. Critics of high-performance work systems argue that higher discretionary effort may not come from higher job satisfaction and greater organizational commitment, but it may come from intensification or speed up of work. In contrast, observed that certain high-performance work practices can have adverse consequences beyond the workplace and, in particular, can affect employees' work-life balance. They identified appraisal systems, certain group based forms of work organization and incentive pay as having quite pronounce negative spill-over effects on the home lives of men and women. The research claimed that there was clear evidence that employees did 'not always benefit from high performance work practices and they suggested that practices such as appraisal systems, teamwork and performance-related pay need to be reviewed in order to respect the work-life preferences of employees.

VIII. REVIEW

The structure and operation of industrial-relations institutions can have an impact on the economic performance of a country. There are two broad perspectives on trade unions the 'monopoly' face and the 'collective voice/institutional response face. The monopoly face considers unions as raising labor costs to above-marker clearing levels and damaging to levels of productivity. According to the collective voice/institutional response face, unions provide workers with a collective voice in the workplace. This allows for issues to be addressed and resolved, which leads to lower labor turnover and improved morale in the workplace. The arbitral machinery the conciliation and arbitration system in Australia has been considered by some commentators as an impediment to productivity growth. In fact, it has been seen as an obstacle to the effective operation of labor markets. The debate about the role of unions and the arbitral machinery is part of a broader debate about the value of centralized versus decentralized approaches to industrial regulation. A concern with a decentralized approach is the impact on income distribution (earnings inequalities). A decentralized approach can facilitate a low-wage, cost-minimizing industrial-relations strategy by organizations. High-performance work systems are said to improve organizational performance by making work more satisfying and intrinsically rewarding, thereby resulting in greater discretionary effort.

IX. REFERENCES

1. McCallum J. (2003), 'Work in Progress', Australian Financial Review Boss, 13 June.

2. Appelbaum E, Bailey T, Berg P and Kalleberg A L (2000), Manufacturing Advantage: Why High-Performance Work Systems Pay Off, Cornell University Press, Ithaca and London.

3. Campbell I. and Brosnan P. (2009), 'Labour Market Deregulation in Australia: The Slow Combustion Approach to Workplace Change', International Review of Applied Economics, vol. 13. No. 3, September, pp. 353-94.

4. Colling T. and Dickens L. (2008), 'Selling the Case for Gender Equality: Deregulation and Equality Bargaining', British Journal of Industrial Relations, vol. 36, no. 3, pp. 389-411.

5. Drago R, Wooden M. and Sloan J. (2002), Productive Relations? Allen & Unwin, Sydney.

6. Freeman, R. (2006), 'Toward an Apartheid Economy?' Harvard Business Review, September-October, pp. 114-21.

7. Freeman R and Medoff J. (2004), What Do Unions Do? Basic Books, New York. Chapters 1 and 11.

8. Freeman R and Rogers J (2009), What Workers Want, Cornell

University Press, Ithaca and London.

9. Guest D. E., Michie J, Conway N and Sheehan M (2003),'Human Resource Management and Corporate Performance in the UK', British Journal of Industrial Relations, vol. 41, no. 2, pp. 291-314.

10. Miller P. and Mulvey C. (2001), 'Australian Evidence on the Exit / Voice Model of the Labour Market', Industrial and labour Relations Review, vol. 45, no. 1, pp. 44-57.

11. Nolan P and O' Donnell K. (2003), 'Industrial Relations, HRM and Performance', in Edwards, P. K. (ed.), Industrial Relations: Theory and Practice, Second Edition, Blackwell, Oxford.

12. Preston A (2003), 'Gender Earnings and Part-Time Pay in Australia', British Journal of Industrial Relations, vol. 41, no. 3, pp. 417-34.

13. Strachan G. and Burgess J. (2000), 'The Incompatibility of Decentralized Bargaining and Equal opportunity in Australia', British Journal of Industrial Relations, vol. 38, no. 3, pp. 169-91.

14. Wooden M (2000), The Transformation of Australian Industrial Relations, The Federation Press, Sydney.

ABOUT AUTHOR

Dr. Abhishek Gupta (B.Com, MBA, Ph.D) is working in the capacity of Administrative-cum-Accounts Officer & Head of Office at Sardar Swaran Singh National Institute of Renewable Energy (Ministry of New and Renewable Energy, Govt. of India), Kapurthala (Punjab), India and having thirteen years experience in Finance & Administration at management level. He is authors of various books, research/article papers.