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# Labor Relations and Collective Bargaining



# Learning Objectives

1. Define unions and labor relations, and examine the approaches used in several countries.
2. Review the international structure of labor unions.
3. Examine the nature of industrial democracy, and note some of the major differences that exist throughout the world.
4. Describe the philosophical views and strategic approaches that MNCs use to manage international industrial relations and future strategies.



# Unions and Labor Relations

## Unions

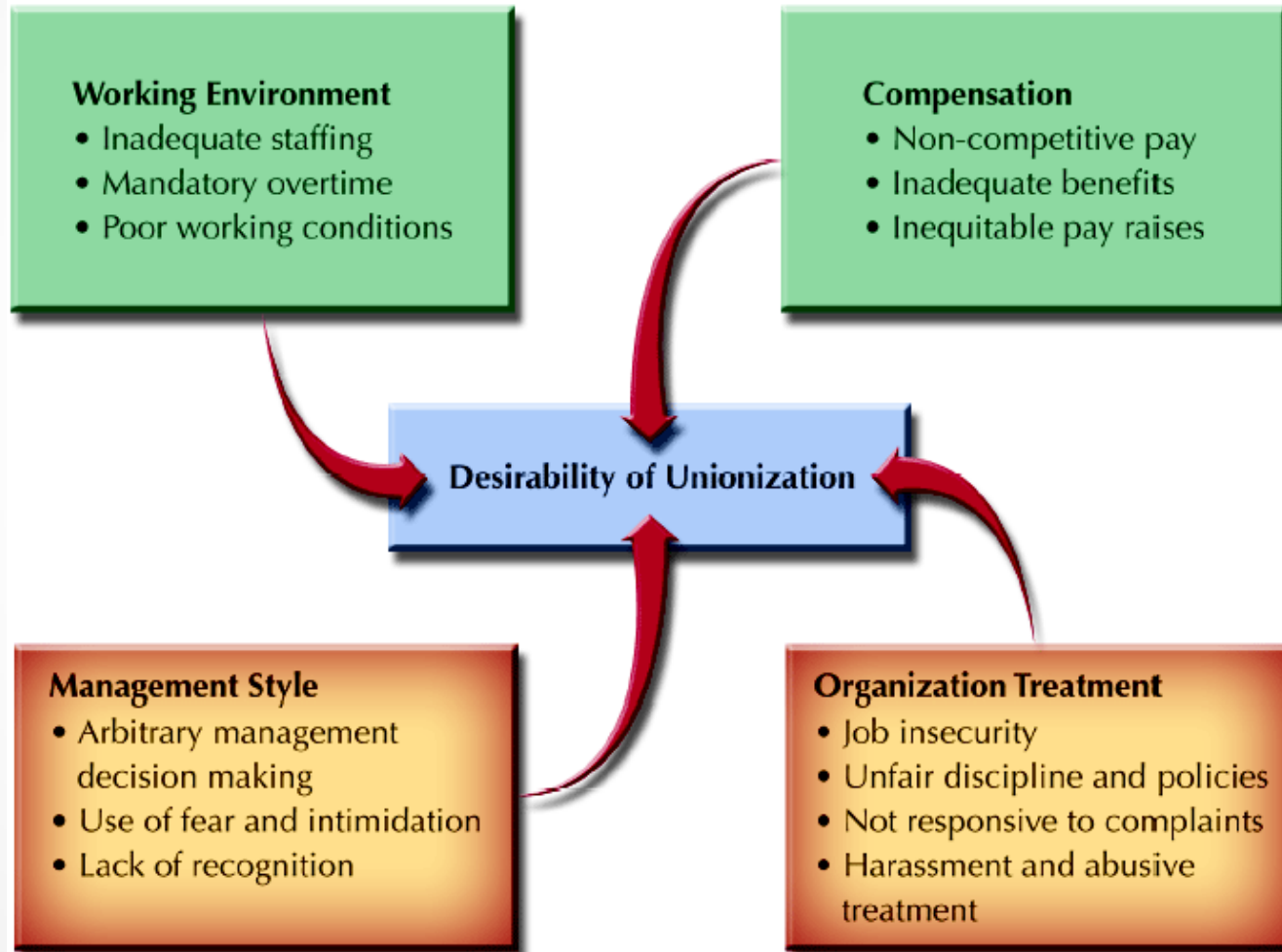
- organizations formed for the purpose of representing their members' interests in dealing with employers.

## Labor relations

- field that emphasizes skills managers and union leaders can use to minimize costly forms of conflict (such as strikes) and seek win-win solutions to disagreements.



# Why Employees Join Unions



# Why Employees Join Unions

- **Higher wages and benefits:** the strength of large numbers and negotiating skills of professional bargainers give unions an advantage over individuals
- **Greater job security:** collective bargaining contracts limit management's ability to arbitrarily hire, promote, or fire
- **Influence over work rules:** unions represent workers and define channels for complaints and concerns



# Collective Bargaining

- The negotiation, administration, and interpretation of a written agreement between two parties, at least one of which represents a group that is acting collectively, that covers a specific period of time.



# Objective and Scope of Collective Bargaining

- contracts must be acceptable to management, union representatives, and union membership
- four issues appear in all labor contracts

wages

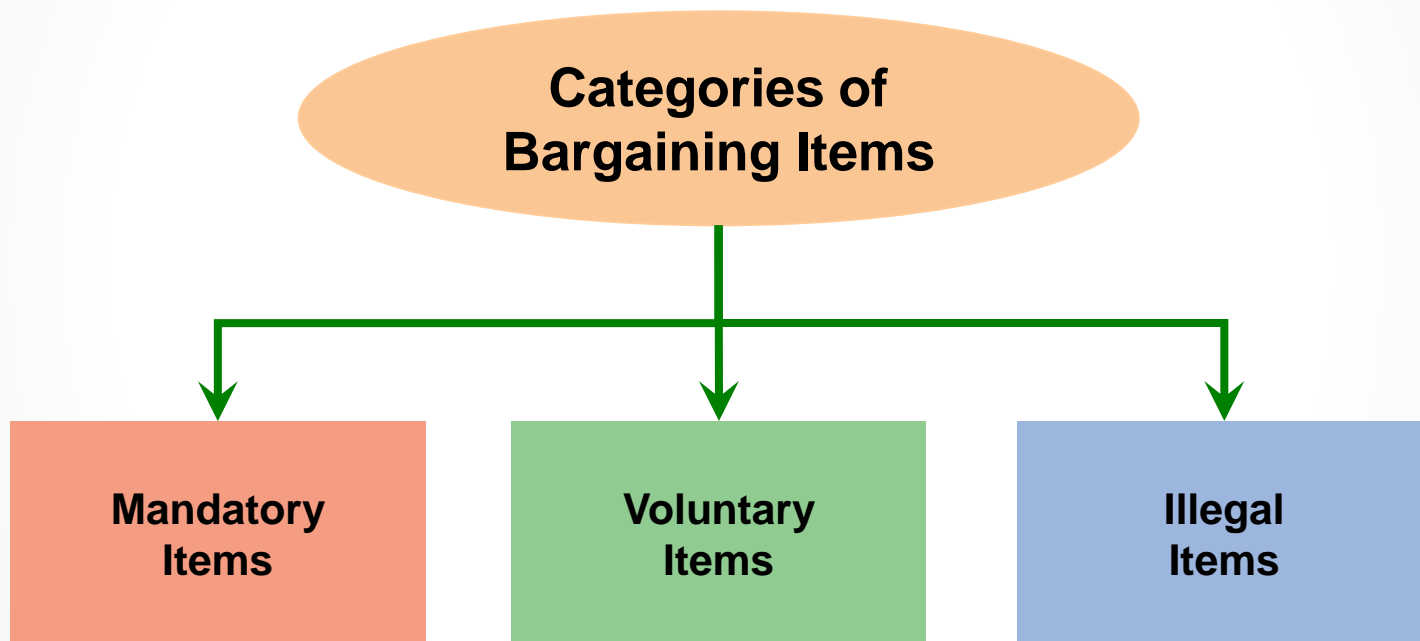
terms and conditions  
of employment

grievance  
procedures

hours



# Classes of Bargaining Items





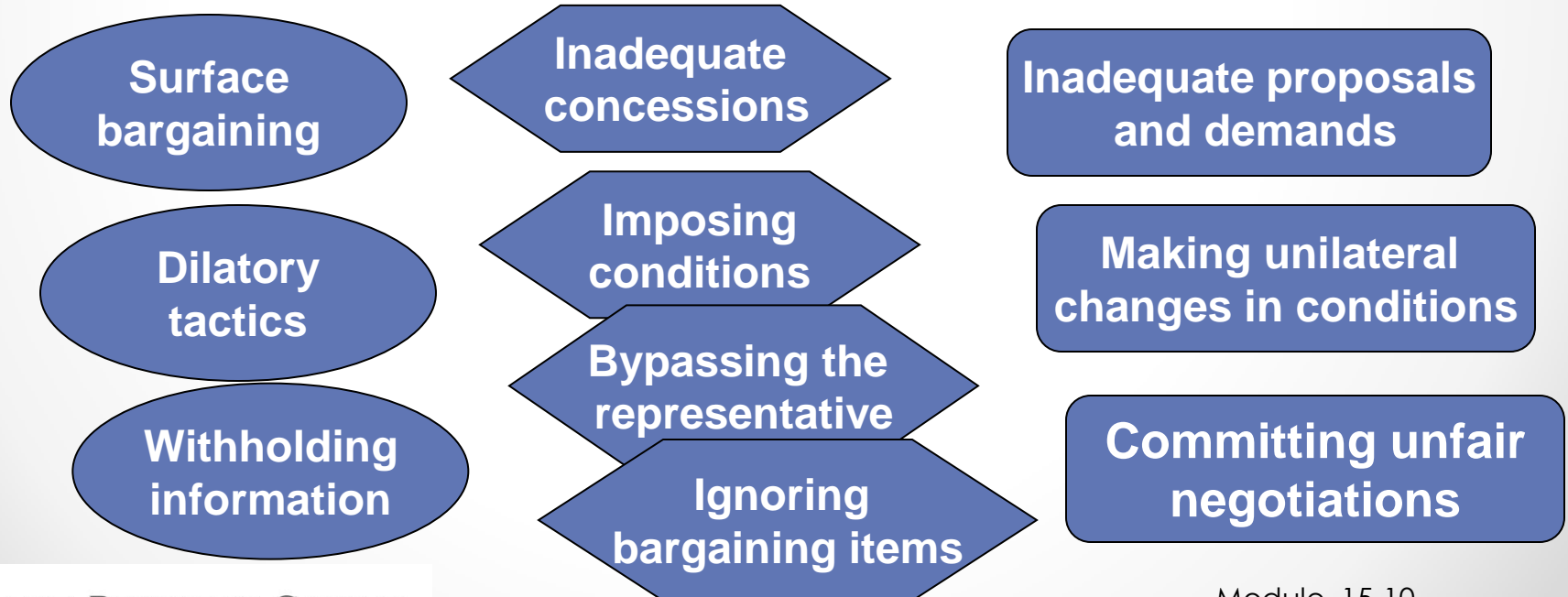
# Bargaining Items

Mandatory	Permissible	Illegal
Rates of pay	Indemnity bonds	Closed shop
Wages	Management rights as to union affairs	Separation of employees based on race
Hours of employment	Pension benefits of retired employees	Discriminatory treatment
Overtime pay	Scope of the bargaining unit	
Shift differentials	Including supervisors in the contract	
Holidays	Additional parties to the contract such as the International union	
Vacations	Use of union label	
Severance pay	Settlement of unfair labor charges	
Pensions	Prices in cafeteria	
Insurance benefits	Continuance of past contract	
Profit-sharing plans	Membership of bargaining team	
Christmas bonuses	Employment of strike breakers	
Company housing, meals, and discounts		
Employee security		
Job performance		
Union security		
Management-union relationship		
Drug testing of employees		



# Good Faith

- **Good faith bargaining** is the cornerstone
- Both parties communicate and negotiate
- The following are not good faith methods:



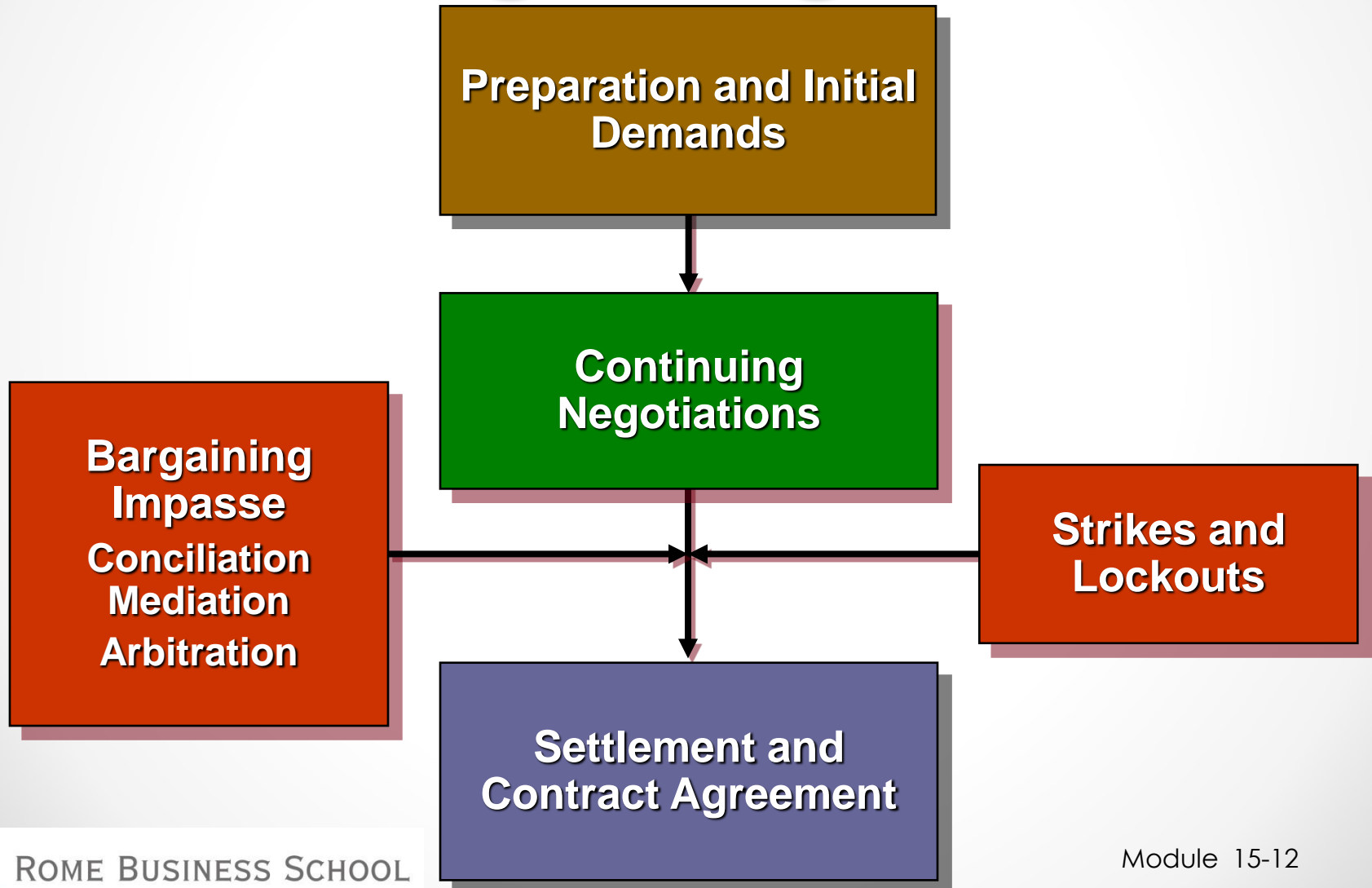
# Collective Bargaining

## Collective Bargaining Participants

1. large corporations have HRM departments with industrial relations experts; corporate executives, and company lawyers also participate
2. in small companies, the president typically represents the company
3. union bargaining teams include an officer of the local union, local shop stewards, and reps from the international/national union
4. government watches to ensure rules are followed
5. financial institutions set limits on the cost of the contract



# The Bargaining Process



# Collective Bargaining

## The Collective Bargaining Process

- Preparing to negotiate
  - *Fact-gathering*: Includes internal information (e.g., employee performance records, overtime) and external (i.e., data on what similar organizations are doing and the economy).
  - *Goal-setting*: Management decides what it can expect from the negotiation.
  - *Strategy development*: This includes assessing the other side's power and tactics.



# Collective Bargaining

## Negotiating at the bargaining table

- Each side usually begins by publicly demanding more than they are willing to accept.
- More realistic assessments and compromises take place behind closed doors.
- After oral agreement, a written contract is submitted to the union for ratification.



# Collective Bargaining

**Contract administration** is the implementation, interpretation, and monitoring of the negotiated contract between labor and management.

- 1. *information dissemination***: helping staff and workers understand the new contract provisions
- 2. *implementation***: making the changes to comply with contract terms
- 3. *interpreting the contract and grievance resolution***
- 4. *monitoring activities during contract period***



# Collective Bargaining

## Interpreting the contract and grievance resolution

- ***Grievance (rights) arbitration*** is typically the final step in the grievance process
- Disputes that cannot be resolved are resolved by an arbitrator, or third party, whose decision is final.





# Grievances

- **Grievance**

- Any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.



- **Sources of Grievances**

- Discipline
- Seniority
- Job evaluations
- Work assignments
- Overtime
- Vacations
- Incentive plans
- Holiday pay
- Problem employees

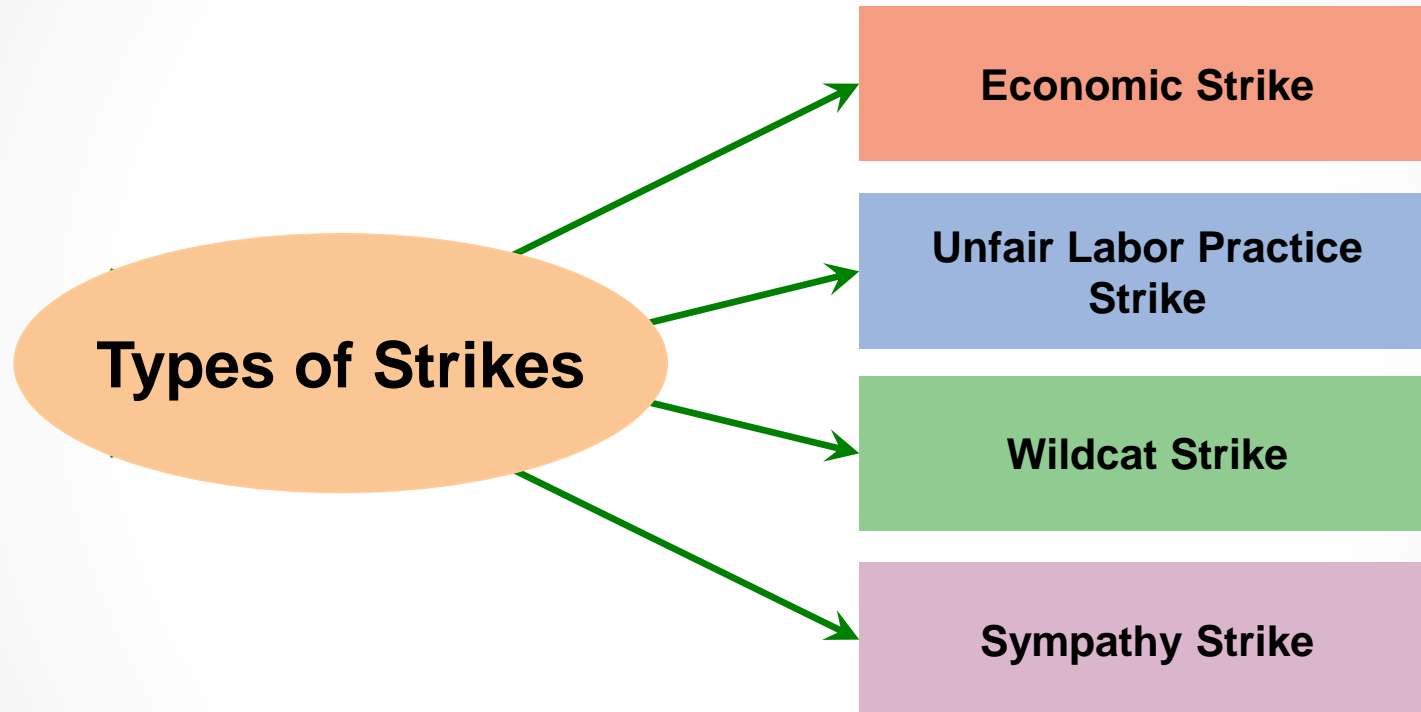
# Collective Bargaining

## Monitoring

- Both union and management keep track of how effective the current contract is and any need for changes.



# Strikes



# Types of Strikes

- **Economic Strikes**
  - Strikes over economic issues (e.g., wages)
- **Unfair labor practice strikes**
  - Strikes over illegal employer actions (e.g., refusal to bargain)
- **Wildcat strikes**
  - Strikes not approved by the union
- **Sympathy strikes**
  - Expressions of support for other unions



# Collective Bargaining

- **Lockouts** - when organizations deny unionized workers access to their jobs during an impasse.



# Collective Bargaining

## Impasse-Resolution Techniques

used when labor and management cannot agree

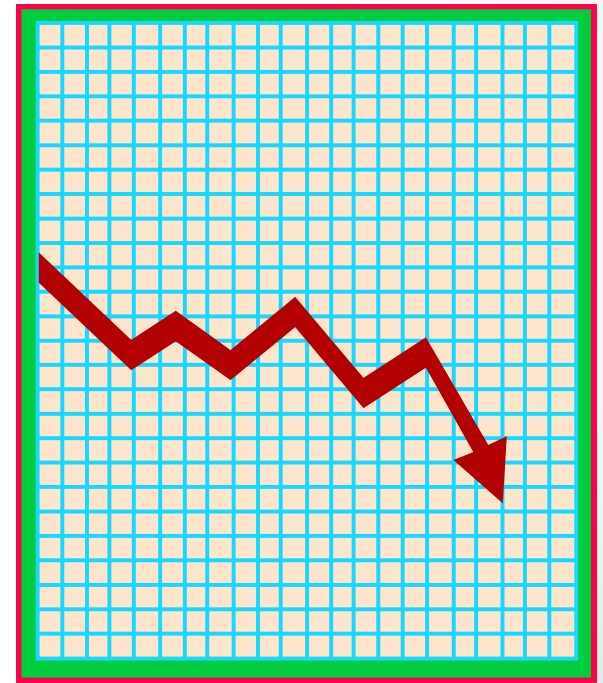
- **conciliation and mediation** involve a third party to either keep negotiations going or make nonbinding settlement recommendations
- **fact-finding** involves a neutral third party who conducts a hearing and recommends a nonbinding settlement
- **interest arbitration** Involves a panel of one neutral, one management, and one union representative who hear testimony and render a decision to settle a contract negotiation dispute
  - primarily in public-sector bargaining
  - binding only if there is unanimous agreement



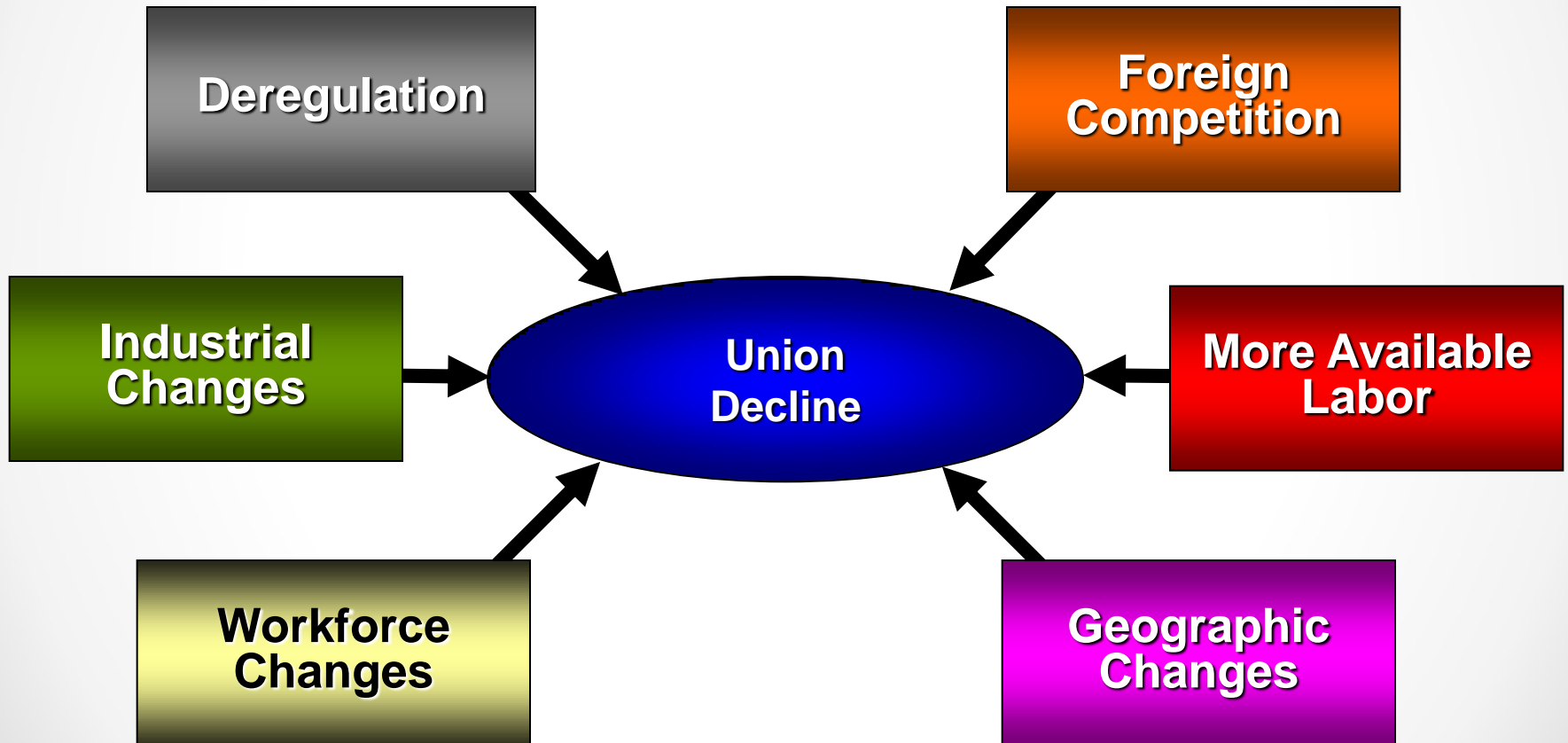
# Critical Issues for Unions Today

## Union membership: Where have the members gone?

- Union membership in the U.S. reached a high of 36% in the early 1940s; there has been a steady decline since then.



# Reasons for Union Decline





# International Labor Relations

## Differing Perspectives Toward Labor Relations

- Countries differ in their labor relations histories, government involvement, and public acceptance of labor unions.
- The labor relations function for international companies is more likely to be centralized with the parent company when domestic sales are larger than those overseas.



# Labor Relations in the International Arena

## The U.S. Approach to Labor Relations

## Steps of a Grievance Procedure

- Efforts are made to solve problems at the lowest level of the hierarchy as quickly as possible
- First step usually involves a meeting between the union representative (shop steward) at the operating level and the employee's supervisor – they attempt to agree on how to solve the grievance
- Unresolved grievances may involve union officials and higher-level management representatives – these conciliatory approaches usually solve the grievance
- Sometimes the matter ends up in the hands of a mediator or an arbitrator



# Labor Relations in the International Arena

## The U.S. Approach to Labor Relations

## Mediation and Arbitration

- Three of the most common arbitration approaches for resolving wage-related issues include:

### 50/50 Split

Splitting the difference between the demands of the two parties

### Either/Or

Using an either-or approach: one position is fully supported and the other is rejected

### What's Fair?

Determining a fair wage based on market conditions



# Labor Relations in the International Arena

## The U.S. Approach to Labor Relations

## Importance of Positive Labor Relations

- They directly determine labor costs, productivity, and eventually, even profits
  - Labor costs in the United States are lower in recent years than in most other major industrial countries.
  - Thanks to union–management cooperation, U.S. companies have been able to introduce high-tech, efficient machinery.
  - Much of this outcome is a result of effective labor relations strategies.



# Labor Relations in the International Arena

## Labor Relations in Other Countries

- Labor relations strategies vary greatly from country to country - the strategy used in one country is sometimes irrelevant or of limited value in another.
- A number of factors can account for this:
  - Economic development of the country
  - Entry strategies must often be modified
  - Changes in the political environment
  - Strike activity
  - Other differences are more regional



# Labor Relations in the International Arena

## Labor Relations in Other Countries

### Regional Differences

- **EUROPE**
  - European firms typically negotiate agreements with unions at the national level
  - Many European unions have more political power than U.S. unions
  - Salaried employees in Europe (including those at managerial levels) often have unions of their own
  - European unions have existed longer than those in the United States and occupy a more accepted position in society



# Labor Relations in the International Arena

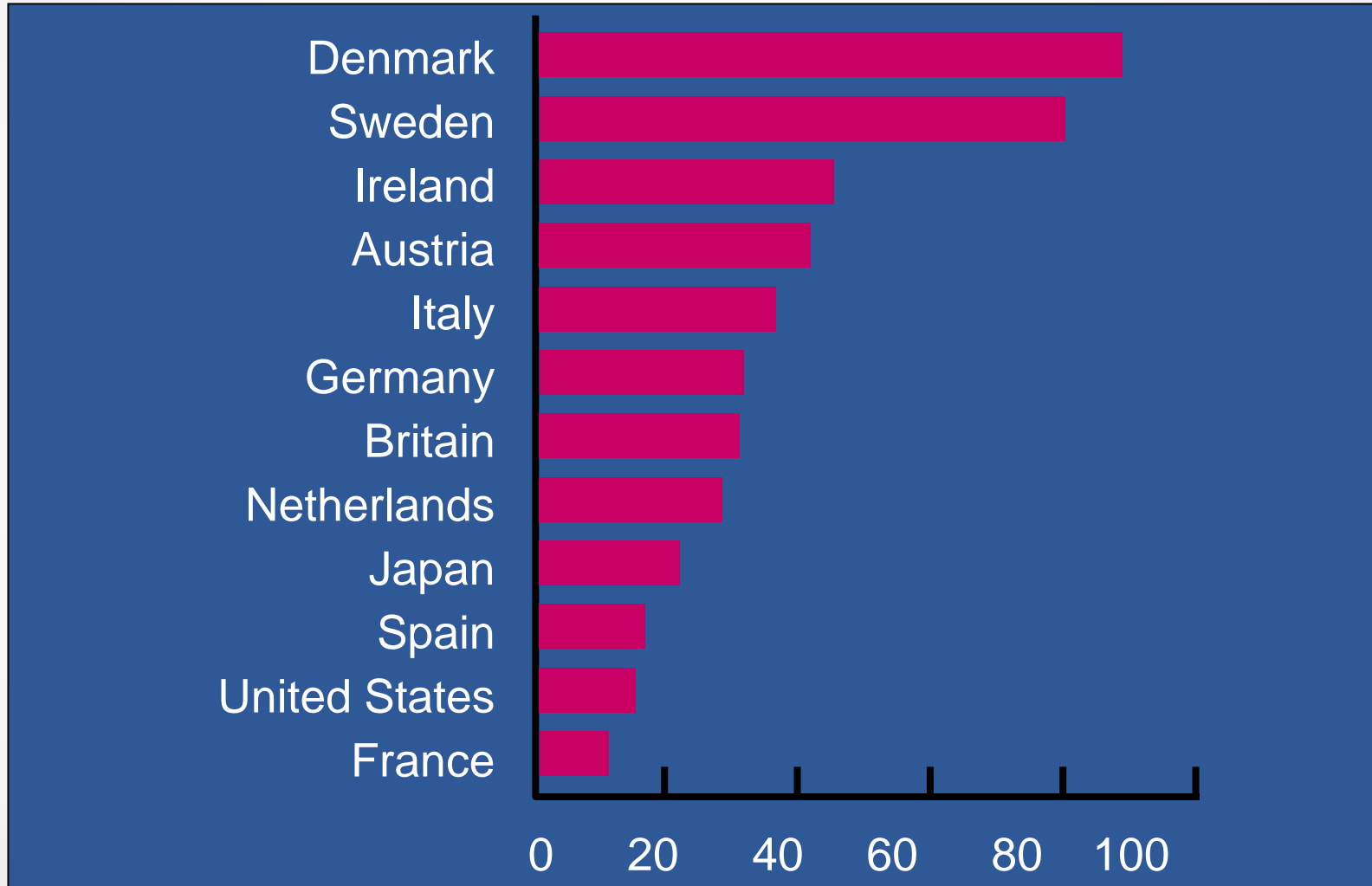
## Labor Relations in Other Countries

### Regional Differences

- In developing and emerging economies such as China, India, and Southeast Asia:
  - Labor is less powerful
  - Unions are less prevalent
  - Workers are often compelled to accept conditions of work set by management



# Percentage of Trade-Union Members, 2001





# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **Great Britain**
  - A labor agreement in Great Britain is not a legally binding contract
  - Violations of the agreement by the union or by management carry no legal penalties
  - British unions are relatively powerful and strikes are more prevalent than in the United States
  - British union membership has declined in recent years
  - British labor agreements do not usually include provisions for arbitration of disagreements or grievances



# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **Germany**
  - Rights of workers are addressed more carefully by management
  - Union power in Germany is still quite strong
  - Union membership is voluntary - generally one union in each major industry
  - A minority of the labor force is organized
  - Individual workers are free to negotiate either individually or collectively with management to secure wages and benefits that are superior to those spelled out in the agreement even when covered by a labor contract



# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **Japan**
  - Social custom dictates nonconfrontational union–management behavior
  - Provisions in Japanese labor agreements are usually general and vague, although they are legally enforceable
  - Agreement disputes are settled in an amicable manner though sometimes resolved by third-party mediators or arbitrators
  - Labor commissions have been established by law
  - Japanese unions remain relatively weak.



# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **China, India, and Southeast Asia**

Labor relations in the developing and emerging economies of the world are quite distinct from those in industrial democracies:

- Economic employment conditions generally favor owners over workers
- Employees have less power and are less likely to initiate actions or organize unions to negotiate for improved working conditions



# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **China**
  - The Chinese economy has shifted from a command economy to a more market-led one
  - An increasing emphasis is being placed on the role of the collective contract system
  - Integration of trade unions into workplace management continues to prevent collective consultation from providing an adequate framework for the full freedom and regulation of labor relations
  - Labor relations in China has become a point of contention in international trade and human rights discussions



# Labor Relations in the International Arena

## Labor Relations in Other Countries

## Differing Approaches to Industrial Relations

- **Southeast Asia including Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand, and Vietnam**
  - Many states are still focused on keeping labor movements in check, whether in the name of economic development, national unity, or social stability
  - Labor movements are fragmented or constrained due to the political environment
  - Labor relations in Southeast Asia have been influenced by market-based policies of international competition



# Labor Relations in the International Arena

## Industrial Conflict Around the World

- **Strike**

A collective refusal to work to pressure management to grant union demands

- **Lockout**

A company's refusal to allow workers to enter the facility during a labor dispute



# Annual Average Days Lost Due to Labor Disputes 1993-2002





# Labor Relations in the International Arena

## Industrial Conflict Around the World

- **United States**
  - Most U.S. labor contracts have a specific provision that outlaws strikes; thus, sudden or unauthorized strikes (commonly called “wildcat strikes”) are uncommon.
  - The grievance procedure is used to resolve the disagreements peacefully
  - Once the contract period is over and if a new one is not successfully negotiated:
    - Workers may strike or continue to work without a contract while threatening to walk out
    - Management also may lock out the workers - very rare



# Labor Relations in the International Arena

## Industrial Conflict Around the World

- **Great Britain**
  - Labor unions are relatively powerful (has decreased in recent years)
  - Strikes are more prevalent than in the United States
  - Labor agreements typically do not prohibit strikes and the general public is more used to and tolerant of them
  - System is not geared toward the efficient resolution of problems
  - British in general still appear willing to accept conflict with resulting strikes and lockouts as the price of protecting the rights of the workers



# Labor Relations in the International Arena

## Industrial Conflict Around the World

- **Germany**
  - Strikes and lockouts are prohibited in Germany during the period when a labor agreement is in effect
  - A strike is legal when the contract has run out and a new one has not yet been ratified by the workers
  - German unions tend to be industrywide - a company quite often has several agreements in force with different termination dates
  - There tends to be a fair amount of cooperation between management and labor because of the way labor relations are legally structured



# Labor Relations in the International Arena

## Industrial Conflict Around the World

- **Japan**
  - Strikes and lockouts in Japan are very rare
  - Japanese workers sometime strike when a union is negotiating with management during industrywide negotiations to show support for their union
  - Cultural value of *Wa* implies that individuals should subordinate their interests and identities to those of the group
    - Accounts for much of the harmony that exists between management and labor in Japan.



# International Structure of Unions

- Most labor unions are locally or nationally based – some are active internationally
- Three basic ways Union internationalization has been achieved

**Intergovernmental Organizations**

**Transnational Union Affiliations**

**Extension of Domestic Contracts**



# International Structure of Unions

## Intergovernmental Organizations

There are two important intergovernmental organizations:

International Labour Organization (ILO)

- A United Nations affiliate
- Consists of government, industry, and union representatives
- Works to promote fair labor standards in health, safety, and working conditions, and freedom of association for workers



# International Structure of Unions

## Intergovernmental Organizations

There are two important intergovernmental organizations:

International Labour Organization (ILO)

Organization for Economic Cooperation & Development (OECD)

- A government, industry, and union group founded in 1976 that has established a voluntary set of guidelines for MNCs
- An international economic organisation of 34 countries, founded in 1961 to stimulate economic progress and world trade.



# Industrial Democracy

## Common Forms of Industrial Democracy

- The European Commission has stated that a primary objective is to obtain a minimum threshold of social rights for workers, to be negotiated between a “European union” and employers
- Several forms of industrial democracy exist in European countries and elsewhere
  - One form may be more prevalent than others in some countries
  - It is common to find a number of these forms existing simultaneously





# Industrial Democracy

## Common Forms of Industrial Democracy

### Codetermination

- Involves the participation of workers on boards of directors
- The EU Council of Ministers issued a directive requiring all companies with 50 or more employees to “inform and consult” workers’ representatives about company strategy

Some researchers report that the workers are not greatly impressed with codetermination – many regard such participation on boards as merely a cosmetic attempt to address the substantive issue of true industrial democracy



# Industrial Democracy

## Common Forms of Industrial Democracy

### Work Councils

- Work councils exist in all European countries
- Basic function is to improve company performance, working conditions, and job security
- Some councils are worker- or union-run – others are chaired by members of management
  - Workers are elected typically to serve on the council
  - Management representatives are appointed by the company



# Industrial Democracy

## Common Forms of Industrial Democracy

### Shop Floor Participation

- Some common forms of shop floor participation include:
  - Worker involvement programs
  - Quality circles
  - Other forms of participative management
  - QWL (quality of work life) programs are currently popular in manufacturing and assembly plants



# Industrial Democracy

## Common Forms of Industrial Democracy

### Financial Participation

- Most common forms of financial participation:
  - Profit sharing between management and workers
  - Productivity or gain-sharing – management and workers share productivity gains in a predetermined ratio
- Has not been widely adopted overseas
- Has gained a foothold in a number of U.S. firms, especially those using gain sharing as a team incentive for performance improvement



# Industrial Democracy

## Common Forms of Industrial Democracy

### Collective Bargaining

- Can become the mechanism to obtain industrial democracy for workers if no specific forms of industrial democracy are in effect
- The ability of unions to bargain collectively is legally restricted in some countries
- Some nations require collective bargaining



# Industrial Democracy

## Industrial Democracy in Selected Countries

### United States

- Collective bargaining is the most common form of industrial democracy – guidelines are spelled out by law
- Certified unions become the exclusive bargaining agent for employees authorized to represent workers in negotiation and administration of labor–management contracts



# Industrial Democracy

## Industrial Democracy in Selected Countries

### United States

Problem-solving  
Teams

Special Purpose  
Teams

Self-managing  
Teams

- Employee groups discuss ways to improve quality, efficiency, and overall work environment
- Employee groups that design and introduce work reforms and new technology
- Employee groups perform supervisory duties and manage themselves
- Consist of individuals who learn all the tasks of all the group members
- Team members rotate jobs



# Industrial Democracy

## Industrial Democracy in Selected Countries

### Great Britain

- Industrial democracy in Great Britain takes the form of collective bargaining and worker representation through the use of teams
- British work groups elect a chief spokesperson or steward to interface with management
- Union councils represent unionized employee to ensure workers are treated fairly by management





# Industrial Democracy

## Industrial Democracy in Selected Countries

### Germany

- Industrial democracy and codetermination strong in Germany
- Unions are charged with handling the collective bargaining
- German law has established internal boards to ensure codeterminism in the workplace
  - Supervisory boards are similar to a board of directors in U.S. firms
  - Management boards are responsible for daily operation
  - Employees in each plant elect a plant work council
  - Members of plant work councils in multiplant companies also serve on a company work council



# Industrial Democracy

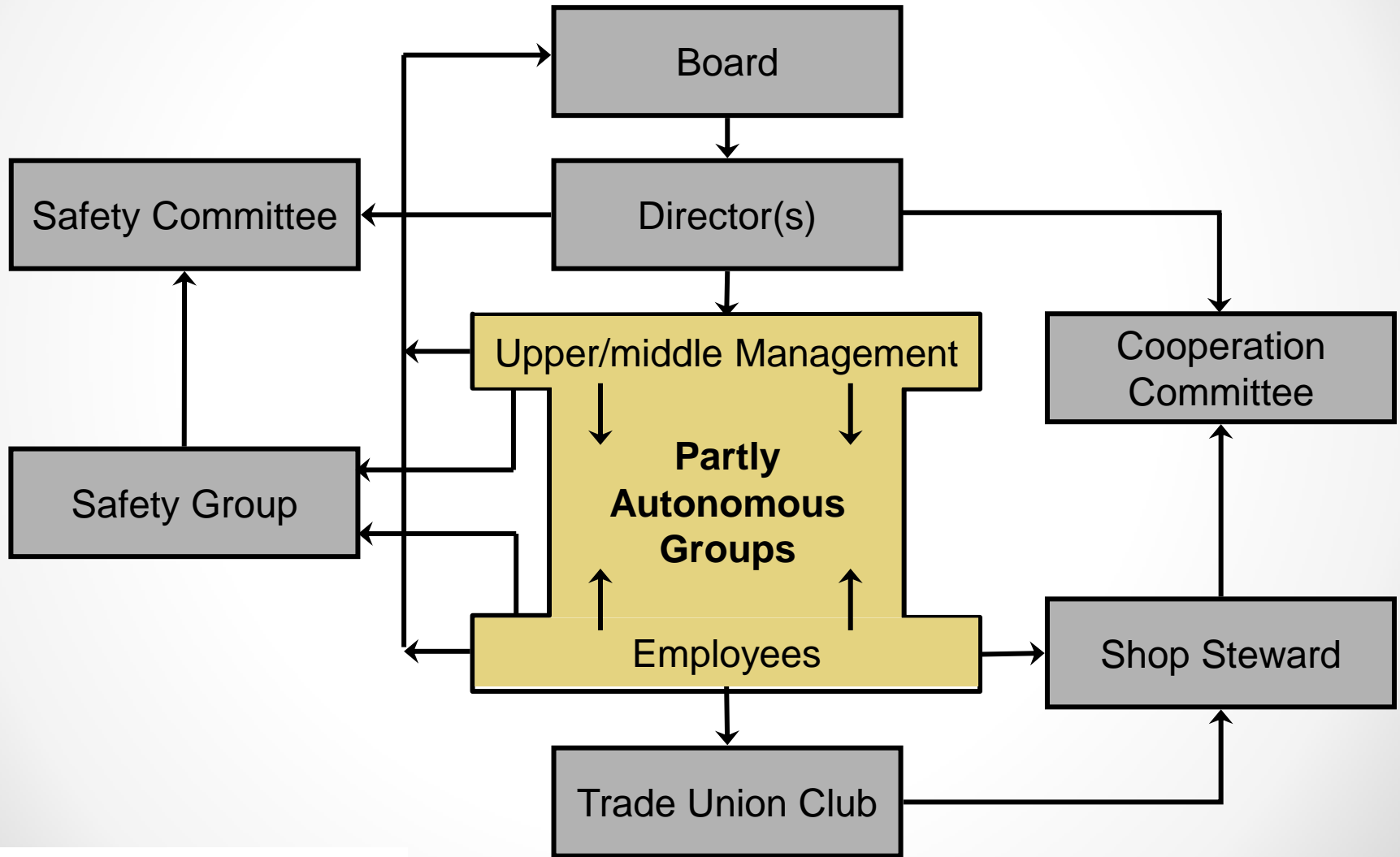
## Industrial Democracy in Selected Countries

### Denmark

- Danish workers participate in the management of their firms both directly and indirectly
  - Direct form includes use of semiautonomous work groups that provide ideas on enhancing productivity and quality and on scheduling the work.
  - Indirect form includes use of shop stewards on the work floor, representation on boards of directors, cooperation committees consisting of worker and manager representatives, safety groups made up of a supervisor and an elected employee representative, and participation on safety committees that are headed by a manager.



# Employee Participation in All Levels of Danish Firms



# Industrial Democracy

## Industrial Democracy in Selected Countries

### Sweden

- Industrial democracy in Sweden is directed very heavily toward ensuring **quality of work life (QWL)** and worker participation in the operation of the enterprise
- Semiautonomous work teams and a cooperative spirit between management and workers are key elements of Swedish industrial democracy
- Swedish firms have workers as members of their board of directors

Worker board participants receive formal training and spend time with other workers on the board to ensure they are competent in their tasks



# Industrial Democracy

## Industrial Democracy in Selected Countries

### China

- Chinese enterprises traditionally had two policy-making committees
  - Communist Party leaders and members
  - Managers and worker representatives
- The political climate determined which committee had more power
- After reforms in the 1980s, the workers (not the party members) represented industrial democracy in communist countries

The Chinese government has agreed to an ambitious program of cooperation with the ILO which will provide advice on such things as job creation, workplace safety, collective bargaining, and the settlement of labor disputes.



# Industrial Democracy

## Industrial Democracy in Selected Countries

### Japan

- Industrial democracy in Japan is not closely tied to political philosophy
- Japanese firms are oriented more to the operating philosophy of enhancing worker performance
- Management is receptive to workers' ideas that will produce bottom-line results
- Due to the basic nature of Japanese union–management relations there is very little industrial democracy in the European sense



# Industrial Democracy

## Industrial Democracy in Selected Countries

### Japan

- Enterprise Unions

Unions that represent both hourly and salaried employees of a particular company.

- Employees join the union because they are members of the firm and union membership is expected
- They do not expect the union to negotiate and win big salary increases for them
- Many Japanese unions are relatively weak because they are company dominated



# Strategic Management of International Labor Relations

## The Philosophical Backdrop

### Ethnocentric Philosophy

- Approaches labor relations in other countries identical to its approach at home
- Cultural, legal, and economic factors of the host country are not considered in industrial relations efforts
- Generally ineffective and can have disastrous results





# International Labor Relations

## The Philosophical Backdrop

Ethnocentric  
Philosophy

Polycentric  
Philosophy

- Evaluates each country or geographic region as a separate entity
- Will use a series of different international industrial relations strategies depending on the country



# Strategic Management of International Labor Relations

## The Philosophical Backdrop

Ethnocentric  
Philosophy

Polycentric  
Philosophy

Geocentric  
Philosophy

- Characterized by an effort to understand interrelationships between various geographic locations and a strategy to link them with a unifying thread and a composite industrial relations approach
- Primary difference between polycentric and geocentric philosophies is that the latter considers interrelationships between the various groups



# Strategic Management of International Labor Relations

## Labor Costs

- Another major area of consideration in formulating an international labor relations strategy is labor costs
- Wages paid in one country often differ considerably from those paid in other countries for the same job
  - Workers are grossly exploited in some countries – toiling for long hours, in unsafe conditions, for minimum pay.
  - Labor costs some countries' are extremely high – as in German In manufacturing where hourly rates in have been substantially greater than those paid elsewhere



# Comparison of Average Weekly Hours Worked in Manufacturing

Country	Average Total Hourly Compensation in U.S. Dollars for Production Workers	Average Weekly Hours Worked
Germany	\$26.18	39.9
France	17.42	38.2
Italy	14.93	39.0
United States	21.33	40.5
Great Britain	17.47	43.5

A close analysis of this information shows, in the main, that there is an inverse relationship between hourly compensation and hours worked.



# Strategic Management of International Labor Relations

## Labor Costs

- By holding down weekly hours, unions have been able to increase the hourly pay of their members
- While real wages have increased, research shows that a growing number of high-paid workers have found themselves priced out of the market
- Businesses are finding it easier to transfer work to other geographic locales than to pay these high prices



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

- Many European and to a lesser degree Asian companies are trying to regain some of the competitiveness they lost through high labor costs
- They face the same challenges their counterparts in the United States began confronting a decade ago:
  - The workforce is being downsized
  - A strong focus is being placed on providing higher-quality output at lower costs



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Part-Time Work and Shiftwork

- **Part-Time Work**

- Most widely used form of flexibility in Europe
- One in seven people in the EU is a part-time worker – during the last few years this form of employment accounted for more new jobs than any other
- There are a large number of part-time workers in the United States
- A growing number of MNCs are using part-time and temporary contract workers



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Part-Time Work and Shiftwork

- Shiftwork
  - Very popular in Europe
  - Widely used in newspaper production, public transportation, utilities, food production, delivery services, hospitals, emergency services, telephone sales, and banking
  - Very popular with employers in Italy, Sweden, Belgium, England, France, and Germany





# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Nonpermanent Employment

- Any form of employment other than permanent open-ended contracts
- Popular in southern European countries such as Greece, Portugal, and Spain, where it accounts for over 15 percent of the workforce
- Less popular in countries such as Luxembourg, Belgium, and Italy



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Nonpermanent Employment

- **Benefits of Using Nonpermanent Employment**
  - Length or amount of work is uncertain
  - Some jobs require a limited period of time
  - Short-term recruitment is a cost-effective
  - Temporary employees do not get benefits
  - Special skills are needed quickly and inexpensively
  - Easy to terminate temporary workers when no longer needed
  - Good way to determine if someone will “fit in” on a permanent basis



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

### Subcontracting

- Involves replacing employment contracts with commercial contracts
- Widely used in construction – workers move from one contract to another or are laid off between jobs
- Popular in European public sector and private organizations that prefer to focus on their core business



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Global Pressures for Improved Labor Practices

- MNCs are under increasing pressure to upgrade working conditions and labor practices of manufacturing and other facilities
- NGOs and other groups are pressuring MNCs to adhere to international standards and adopt new codes of responsibility
- The ILO addresses the conditions of workers through its standards and conventions (international treaties), nonbinding recommendations, codes of conduct, resolutions, and declarations



# Strategic Management of International Labor Relations

## New Labor Force Trends and Pressures

## Global Pressures for Improved Labor Practices

- The Organization for Economic Cooperation and Development (OECD) approved a code of conduct in 1976 called “Guidelines for Multinational Enterprises”
- The North American Free Trade Agreement (NAFTA) and many other trade agreements include side agreements in which governments commit to enforcing labor standards and allowing for free association of workers
- Social Accountability International (SAI) addresses child labor, forced labor, health and safety, compensation and working hours, discrimination, discipline, free association, and collective bargaining



# Strategic Management of International Labor Relations

## Organizing International Industrial Relations

- U.S. firms tend to concentrate authority at corporate headquarters, with greater emphasis on formal management controls and a close reporting system
- European MNCs tend to deal with labor unions at the industry level rather than the company level – the opposite is more typical for U.S. firms
- Many U.S. firms have large domestic sales relative to overseas operations so are more likely to regard overseas operations as an extension of domestic operations – the opposite is true for many European MNCs whose international operations represent the major part of their business

