

International Labour Relations and Industrial Democracy

Dr. Abhishek Gupta

*Administrative-cum-Accounts Officer & Head of Office
Sardar Swaran Singh National Institute of Renewable Energy
(Ministry of New & Renewable Energy, Govt. of India)
Wadala Kalan, Kapurthala-144601 (Punjab)
Ph. No. 01822-255090, Mo. 09592010278*

Abstract

The managing human resources in the international arena are how the MNC handles its labor relations. How domestic firms deal with their labor relations and determine union contracts can differ significantly from country to country. A second challenge, especially for those MNCs operating in Europe and Asia, is industrial democracy, which is much more prevalent there than in other parts of the world. A third challenge is the need to coordinate worldwide efforts through formulation of an effective labor relations strategy. This research addresses these challenges. Initially, it examines labor relations in the international arena using the United States as the point of comparison. Next, the internationalism of labor unions is explored. The research then looks at the various approaches to industrial democracy that are employed in Europe and Asia. Finally, how MNCs attempt to integrate industrial relations into their overall strategy is reviewed.

Key Terms

Collective Bargaining, Enterprise Unions, Global International, Grievance, Industrial Democracy, International Confederation of Free Trade Unions, International Labour Organization, Lockout, Strategic, Strike, Union, Virtual Corporation, Arbitrator.

1. Introduction

The 21st century ushered in a host of opportunities and challenges for international management. Trade barriers in China are falling, opening up a huge market for exporters and investors around the world. In turn, China's export market is flourishing and continues to grow substantially each year. However, charges of worker repression in China are creating political pressure in the United States, as labor unions; seek limits on Chinese imports as a response to alleged labor repression and abuses. If these actions are successful, the impact on

trade between the United States and China could be substantial. According to U.S. unions, the lack of established labor unions and low wages in China give Chinese manufacturers an unfair competitive advantage. Each region of the world has its own distinct approach when dealing with industrial relations generally and unions in particular an approach that is influenced by local culture and the national economy. However, as globalization accelerates, unique cultural norms will come in contact with one another, creating conflicts and pressures among different systems and approaches. In this research, we will be studying the ways in which multinational deal with labor relations and industrial democracy. We will also address the how companies try to integrate their overall operations by using concepts such as strategic fit and strategic stretch.

2. Labor Relations in the International Arena

In the United States, formal labor agreements result from collective bargaining, in which union and management representatives negotiate wages, hours, and conditions of employment and administer the labor contract. A union is an organization that represents the workers and, in collective bargaining, has the legal authority to negotiate with the employer and to administer the labor contract. How collective bargaining is carried out in the United States often differs from how it is done in other countries because of the nature of U.S. labor laws. For a work group to unionize in the United States, 30 percent of the workers must first sign authorization cards requesting that a specific union represent them in bargaining with the employer. If this percentage is met the union can petition the National Labor Relations Board (NLRB) to hold an election. When this is done, the union will be certified as the bargaining agent if it receives more than 50 percent of the workers' votes. The two sides then will meet and hammer out a labor contract. This agreement typically remains in effect for two to three years. When it expires, a new agreement is negotiated, and if the union continues to represent the workers, the cycle continues anew. If the workers are dissatisfied with their representation, they can vote out the union and go back to things the way they were before. Because labor relations strategies vary greatly from country to country, MNCs find that the strategy used in one country sometimes is irrelevant or of limited value in another. A number of factors can account for this. One is the economic development of the country, given that general labor relations strategies often change as a country's economic situation changes. In addition, entry strategies often must be modified as the firm begins to settle in. Changes in the political environment also must be taken into consideration. Other differences are more regional. For example, labor relations throughout Europe are somewhat similar, but they differ sharply from those in the United States.

In contrast to the situation in the United States, a labor agreement in Great Britain is not a legally binding contract. It is merely an "understanding" among the parties that sets forth the terms and conditions of employment that are acceptable at present. Violations of the agreement by the union or by management carry no legal penalties, because the contract cannot be enforced in court. Additionally, while unions are relatively powerful and strikes are

more prevalent than in the United States, British union membership has declined in recent years. Labor agreements in Great Britain typically are less extensive than those in the United States. These understandings usually contain provisions that define the structure of the relationships among the parties and set forth procedures for handling complaints. Typically, however, there is no provision for arbitration of disagreements or grievances, although both mediation and arbitration on occasion are used. Unions and management have a cooperative relationship in Japan. One reason is social custom, which dictates non-confrontational union management behavior. The provisions in Japanese labor agreements usually are general and vague, although they are legally enforceable. Disputes regarding the agreement often are settled in an amicable manner. Sometimes, they are resolved by third-party mediators or arbitrators. Labor commissions have been established by law, and these groups, as well as the courts, can help to resolve negotiations impasses. Japanese unions are most active during the spring and again at the end of the year, because these are the two periods during which bonuses are negotiated. Recently Japanese unions, like the German unions, have been trying to extend wage bargaining to cover all firms in a particular industry. This would provide the union with greater negotiating power over the individual firms within the industry. Their success in this industry wide bargaining strategy would have particular impact on MNCs operating in Japan. Compared with those of most other industrialized countries, however, Japanese union remains relatively weak.

China, India, and Southeast Asia Labor relations in the developing and emerging economics of the world are quite distinct from those in industrial democracies. In general, because economic employment conditions favor owners over workers, employees have less power and therefore are less likely to initiate actions or organize unions to negotiate for improved working conditions. In China, with the shift from a command economy to a more market-led one, the "iron rice bowl" policy of industrial relations dominated by Soviet-inspired command and control models has given way to personnel management influenced by both Japanese and Western approaches to human resource management but with unique characteristics drawn from Chinese culture and practice. This shift has resulted in the replacement of the administrative regulation of labor relations by contractual regulation with an increasing emphasis on the role of the collective contract system. The integration of the trade union into management at the workplace, however, continues to prevent collective consultation from providing an adequate framework for the full freedom and regulation of labor relations. The status of labor relations in China has also become a point of contention in international trade and human rights discussions. Some critics accuse China of exploiting workers in order to fuel its export-led growth policies. The evolution of labor relations in India was primarily shaped by the attempt of the state to manage industrial conflict through the development of regulatory laws. As is the case in many developing countries, the government's interest was primarily in avoiding conflict rather than protection of workers' interests. In general, workers' political activity and trade union actions in India were viewed by the state as disruptive activities. The present Indian management system reflects the emphasis in India on strong family ties and extended family relationships, evident in the

large family-owned companies that still dominate India's economy. Moreover, Indian businesses have made attempts to emulate Western or Eastern (Japanese) patterns of management. This is because Indian managers are often trained in the West and most of the Indian management institutes have adopted the Western education system.

3. International Structure of Unions

So far, this discussion has centered on the international implications of labor relations, but the structure of unions themselves also has important implications. Most labor unions are locally or nationally based, but some are internationally active. Union internationalization has been achieved in three basic ways through use of intergovernmental organizations; through use of transnational union affiliations; and through extension of domestic contracts. There are two important intergovernmental organizations. The International Labor Organization (ILO) is a United Nations affiliate that consists of government, industry, and union representations. The ILO has worked to define and promote fair labor standards in health, safety, and working conditions, and freedom of association for workers throughout the world. A number of years ago, the ILO published a study of social policy implications of MNCs. Some topics in that study included investment concentration by area and industry, capital and technology transfers, international trade, workforce effort, working conditions, and industrial relations effects. The study concluded by noting the different view sand concerns of employers and workers, and it recommended that the social problems and benefits specific to MNCs be identified and studied further. There are four basic types of international trade affiliations: global, regional, specialized, and industrial operations. Global international trade union affiliations cut across regional and industrial groups and are heavily concerned with political activities. The International Confederation Free Trade Unions (ICFTU) is the most important global international union confederation. Most of the regional internationals are subdivisions of the global, and the regional' activities are applications of the global activities. Specialized internationals, such as the ILO, the Trade Union Advisory Committee in the OECD, and the European Trade Union Congress, which represents workers' interests at the European Union level, function as components of intergovernmental agencies and lobby within these agencies. The industrial internationals also are affiliates of the global inter-nationals. In the ICFTU, they are called International Trade Secretaries (ITS), and there is an individual ITS for each major industry group.

Some U.S. unions have sought to deal with MNCs by bargaining with them on a global basis. The International Union of Electrical (IUE) workers, for example, invited union representatives from General Electric's overseas plants to participate in its collective bargaining. These foreign representatives were only observers, however, because U.S. labor law limits collective bargaining to matters that relate to the U.S. labor unit. In another action, the IUE contended that GE was transferring work overseas and charged that this was an unfair labor practice under the provisions of the collective bin-gaining agreements; however, the general counsel for the National Labor Relations Board rejected the charge and held that

the union had not substantiated its claim. Overall, unions have been unsuccessful in attempting to prevent companies from transferring work overseas, although this certainly will continue to be a major focal point in the years ahead.

4. Industrial Democracy

Industrial democracy involves the rights of employees to participate in significant management decisions. This participation by labor includes areas such as wage rates, bonuses, profit sharing, vacations and holiday leaves, work rules, dismissals, and plant expansions and closing. Industrial democracy is not widely used in the United States, where management typically refuses to relinquish or share its authority to make major decisions. In many other countries, however, and especially in Europe, the right of industrial democracy is guaranteed by national law. This right can take a number of different forms. As the EU consolidates its goal of unification, the head of 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. At present, several forms of industrial democracy exist in European countries and elsewhere. In some countries, one form may be more prevalent than others, but it is common to find a number of these forms existing simultaneously. To varying degrees, work councils exist in all European countries. These councils are a result of either national legislation or collective bargaining at the company or union level. Their basic function is to improve company performance, working conditions, and job security. In some firms, these councils are worker or union-run, whereas in others, members of management chair the group. Workers typically are elected to serve on the council, and management representatives are appointed by the company. The amount of council power will vary. In England, France, and Scandinavia, the groups tend not to be as powerful as in Germany, the Netherlands, and Italy. Moreover, in small firms many managers feel that these councils reduce the company's flexibility and make it less competitive. On the other hand, both unions and management acknowledge that companies have found a variety of ways to reduce codetermination by hiring temporary workers and outsourcing work to other firms. So the negative impact of work councils is often minimized in practice.

A wide number of approaches are used to achieve shop floor participation. Some of the most common include worker involvement programs, quality circles, and other forms of participative management discussed in earlier research, QWL (quality of work life) programs such as those used in the Scandinavian countries and currently very popular in manufacturing and assembly plants throughout Europe and the United States are excellent examples. Financial participation takes a number of forms. One of the most common is profit sharing between management and workers. In some cases, productivity or gain-sharing plans are used, whereby management shares productivity gains in a predetermined ratio, such as 50-50, with the workers. This motivates workers to recommend efficiency measures and develop shortcuts to doing their jobs in return for a share of the increased profits. Overall, financial participation has not been widely adopted overseas, although it has gained a

foothold in a number of U.S. firms, especially those using gain sharing as a team incentive for performance improvement. If no specific forms of industrial democracy are in effect, collective bargaining itself can become the mechanism to obtain industrial democracy for workers. As noted previously, the ability of unions to bargain collectively is legally restricted in some countries and is not widely used in others. However, some nations, such as Sweden, require collective bargaining and allow many matters that in the United States are considered to be managerial prerogatives and not susceptible to bargaining, such as work rules and production standards, to be open for negotiation with the workers.

Industrial democracy takes a number of different forms depending on the country. For example, the approach used in the United States differs from approaches used in Europe and Asia. The following discussion briefly highlights some of these differences. In the United States, the most common form of industrial democracy is collective bargaining, whose guidelines are spelled out by law. A union that is certified by the NLRB becomes the exclusive bargaining agent for employees in the unit and is authorized to represent workers in the negotiation and administration of a labor management contract. During the last decade, other forms of industrial democracy have gained ground, most notably employee participation in problem-solving teams, special purpose teams, and self-managing teams. Problem-solving teams meet weekly to discuss ways of improving quality, efficiency, and the overall work environment. They generally are not empowered to implement their ideas, but their suggestions often result in more efficient operations. These teams have begun to gain widespread support as managers turn to employees for help in improving performance. Special purpose teams design and introduce work reforms and new technology. In unionized firms, both management and labor will collaborate on operational decisions at all levels. This involvement often creates the necessary environment for both quality and productivity improvements. These teams are continuing to gain popularity, especially in unionized operations. Self-managing teams consist of individuals who learn all the tasks of all group members, which allow them to rotate from job to job. These teams also take over supervisory duties such as scheduling work, ordering materials, and determining vacation times. These teams have been so effective that in some cases, productivity has increased and quality has risen dramatically. In recent years, these teams have become increasingly popular.

Work groups within a British company or plant will elect a chief spokesperson or steward from their ranks to act as their interface with management. If the employees are unionized, a union council will represent them. These councils help to ensure that workers are treated fairly by management. Unfortunately, this sometimes creates a problem, because spokespersons or stewards in the firm may not agree with the union councils. During the coming years, British firms likely will begin relying more heavily on participative approaches such as those used in the empowerment process in the United States and Northern Europe. The primary reason is that competitive nations have been able to show that shop floor democracy is a key element in reducing production costs and increasing product quality.

However, even with the Labor government now in power, legally mandated industrial democracy measures are unlikely in Great Britain anytime in the near future. Industrial democracy and codetermination are very strong in Germany, especially in the steel and auto industries. Although the union is charged with bundling the collective bargaining, internal boards have been established by law for ensuring co-determinism in the workplace. Work councils perform a number of important functions, including negotiating wage rates above the contractually established minimum, negotiating benefits, setting wage rates for new jobs, and re-evaluating pay when workers are transferred between jobs. In Multiplan operations, these councils sometimes have difficulty finding out what is happening at the shop floor, so they rely heavily on meetings with employees and communication with shop stewards. As a result, German workers have two groups working for them the union, which is bargaining collectively with management, and the work council, which is negotiating employment issues relating to that particular plant. Because of the strong degree of co-determinism, some German managers have argued that the process undermines their ability to operate efficiently. They contend that the legally established industrial democracy hampers their efforts; however, research does not support such a position.

Industrial democracy ensures that Danish workers participate in the management of their firms both directly and indirectly. The direct form includes use of semiautonomous work groups that provide ideas on enhancing productivity and quality and on scheduling the work. The 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. Industrial democracy in Sweden is directed very heavily toward ensuring quality of work life (QWL) and worker participation in the operation of the enterprise. QWL efforts are closely associated with Sweden's Volvo approach. The creation of semi-autonomous work teams and development of a cooperative spirit between management and workers are key elements in Volvo and the Swedish approach to industrial democracy. In addition, councils and committees encourage involvement in identifying and implementing changes, which lead to improved QWL, which helps to sustain high morale and positive attitudes of workers and to improve productivity and quality of products and services. There is some evidence, however, that the early, glowing reports from Volvo may have been overstated, and that instead of returning dignity to the workers, the assembly lines are just more efficient but not really reaching the standards that are required for world-class competition. Swedish firms also have workers who are members of the board of directors. To ensure that these worker board participants are competent in handling their tasks, they typically are given formal training and spend time with other workers on the board in learning how to do things such as analyze and evaluate financial statements, read reports, and focus on both long-range and short-range issues.

China has the largest workforce in the world, but even now, little is known to

outsiders about how industrial democracy really works there. As in Eastern Europe, many changes have occurred in China. Unlike what has happened in Eastern Europe, many of the reforms and Westernized policies and practices in China, including the nature of industrial democracy, are closely related to the current political climate. Chinese enterprises traditionally had two policy-making committees. One contained Communist Party leaders and members, and the other included managers and worker representatives. However, worker participation in management decision making is less open than Westerners may expect. One study of variety of enterprises in Beijing found that the number of employees who participate in management decisions is not very high but that the scope of their decision making was quite broad (sales and business plans, production operations decisions, wages and bonuses, employee benefits, housing allocations, transfer of funds, and termination of problem employees)." Only time will tell what course industrial democracy will take in China. However, the government did agree to an ambitious program of cooperation with the ILO. According to the agreement, the ILO will provide advice on such things as job creation, workplace safety, collective bargaining, and the settlement of labor disputes," Given that illegal strikes and worker protests have become common as China continues to move toward a market-driven system that is leaving millions of people out of work and is leaving others toiling in arduous or unsafe conditions, this ILO agreement may well prove to be helpful to the government, the workers, and the MNCs doing business there.

The situation in Europe and China, industrial democracy in Japan is not closely tied to political philosophy. Like the United States, Japan is oriented more to the operating philosophy of enhancing worker performance. There are over 70,000 unions in Japan, and most of them are enterprise unions, which represent both hourly and salaried employees of a particular company. Including salaried employees is a marked departure from labor unions in other countries. Employees join the union because they are members of the firm and union membership is expected; however, they do not expect the union to negotiate and win big salary increases for them. A major reason that Japanese unions are relatively weak is that many are company dominated, a practice outlawed in the United States. Although there sometimes are labor strikes in Japan, they usually are short-lived and have little effect on company operations. Strikes often are ceremonial and designed to encourage the workers to think of themselves as union employees. In truth, most workers think of themselves as company employees who are simply associated with the union. Moreover, it is not uncommon to find a union strike in a company with two or three work shifts and no loss of work output. This is because when the strikers are done picketing or marching, they go to work and the group coming out of the factory takes up the strike activity, in a factory with three shifts, a line employee will work a full shift, picket for a while, go home to eat and sleep, and then return to the factory for her or his shift. The industrialized nations, Japan faces the greatest challenge from industrial democracy in the years ahead. Japanese MNCs in Europe, and to a growing degree in the United States, will find that they must relinquish inure control over operations to the workers if they hope to achieve the same productivity results they have at home. Conversely, MNCs in Japan report that Japanese white-collar

workers are too used to working in a disciplined, corporate environment and fail to make decisions and take initiative. Therefore, changes are needed at home as well.

5. Strategic Management of International Labor Relations

The strategic management of international labor relations will be a major challenge facing MNCs in the years ahead, because so many different approaches can be taken. The approach used in U.S. firms may not be the same as that employed in other countries, including Anglo nations. In Great Britain, as noted earlier, unions do not have the power they once had. In many other European countries, such as Germany, however, unions continue to be quite strong, and especially as the Eastern European traditions of industrial democracy become infused in the EU, the workers will continue to have a great deal of authority in determining what the firm will do. It also is important to realize that those strategies benefiting unions in one country may have no value in others. This sometimes can be a conflict between international unions. As noted in earlier research, MNCs can use a number of philosophies as a starting point for their approach to management functions, including labor relations. For instance, under an ethnocentric philosophy, the MNC will take an approach to labor relations in other countries that are identical to its approach at home. Cultural, legal, and economic factors of the host country will not be considered in industrial relations efforts. This approach generally is not effective and can even have disastrous results; as companies begin going international, they soon abandon such an approach. A second approach is to use a polycentric philosophy in managing international industrial relations. Under this philosophy, the MNC will evaluate each country or geographic region as a separate entity. The MNC's international industrial relations strategy will be a series of different approaches depending on the country. A third approach is a geocentric philosophy that is characterized by an effort to understand the interrelationships between the various geographic locations and a strategy to link them with a unifying thread and a composite industrial relation approach. The primary difference between a polycentric and a geocentric philosophy is that the latter considers the interrelationships between the various groups.

The Japanese also make an interesting case study of the need for a geocentric philosophy toward industrial relations. Japanese auto firms long have realized that auto capacity is outstripping demand in both North America and Europe. As Japan continues to increase its foothold in North America, it will have to pay greater attention to its industrial relations approaches and modify them to meet the local labor market. Japan also will need to coordinate its worldwide holdings with a carefully formulated geocentric strategy toward labor relations. Another major area of consideration in formulating an international labor relations strategy is labor costs. Wages that are paid in one country often differ considerably from those paid in other countries for the same job. In some countries, workers are grossly exploited. At present, a number of MNCs are refusing to do business with these firms and are beginning to closely monitor their suppliers to ensure that workers are treated well. These developments, of course, will lead to an increase in labor costs, but this is certainly the

socially responsible thing to do. On the other hand, in some countries labor costs are extremely high. In recent years there have been pronounced new labor force trends in the international arena. This is particularly line in Europe, and to a lesser degree in Asia, where companies are trying to regain some of the competitiveness they lost through high labor costs. Many of these firms are facing the same challenges that their counterparts in the United States began confronting a decade ago. The workforce is being downsized, and a strong focus is being placed on providing higher-quality output at lower costs. Unions are lighting some of these recent changes, but a growing number of informed observers seem to agree they will likely have to realize that when national values collide with the realities of global competition, the latter is likely to win.

Nonpermanent employment is any form of employment other than permanent, open ended contracts. Subcontracting involves replacing employment contracts with commercial contracts. This approach is widely used in construction where workers simply move from one contract to another or are laid off until the contractor lands a new client. Subcontracting in Europe is also very popular in public sector organization, as well as in private organizations that prefer to locus on their core business and to subcontract the other activities. Research shows that in recent years there has been an increase in subcontracting in all major Western European countries.

6. Summary

Labor relations are the process through which management and workers identify and determine the job relationships that will be in effect at the workplace. From time to time, industrial conflicts result from disagreements between management and the union. Unions have attempted to become internationally active in three basic ways. Industrial democracy is the rights; that employees have to participate insignificant management decisions. Except for the recent emphasis given to empowerment in total quality and human resource management, traditionally defined industrial democracy is not as widespread in the United States. In formulating a strategy and managing international industrial relations, MNCs can draw on a number of philosophies. The most effective lends to be a geocentric philosophy that is characterized by an effort to understand the interrelationships between the various geographic locations and strategy to link them with a composite unifying theme. In recent years, several notable trends have characterized international labor relations. Trends for the future point to the inevitability of joint partnering and the need for ongoing research and learning. Collaboration will become a way for MNCs to compete effectively in the global economy, and continued international research is needed to learn and to innovate for future success.

REFERENCES

1. Malcolm Warner, "Human Resources Management in China Revisited: Introduction," *International Journal of Human Resources Management* 15 no. 4/5 (August 2004), p. 617.

2. Simon Clarke, Chang-Hell Lee, and Qi Li, "Collective Consultation and Industrial Relations in China," *British Journal of Industrial Relations* 15, no. 2 (June 2004), p. 235.
3. Fakhruddin G. Ebrahim, *Labour Legislation and Trade Unions in India and Pakistan* (Oxford: Oxford University Press, 2001).
4. Pawan S. Budhwar, "Employee Relations in India." *Employee Relations* 25, no. 1/2(2003), pp. 132-138.
5. Vedi R, Hadiz "Globalization Labour, and Economic Crisis: Insights from Southeast Asia," *Asian Business and Management* 1,no. 2 (August 2002), p. 249.
6. "World Watch," *Wall Street Journal*, November 21, 2003, p. A10.
7. Joseph Petrick and Foster Rinefort, "The Challenge of Managing China's Workplace Safety," *Business and Society Review* 109, no. 2(Summer 2004). p. 171.
8. "Leaders: Reform Begins at Home; Germany's Economy," *Economist*, May 8, 2004, p.
9. Robert Gavin, "Economists: Weakness Overblown," *Boston Globe*, January 30, 2004, p. C1.
10. Sarah Spikes, "European Companies Get Better at Announcing 'You're Laid Off!'" *Wall Street Journal*, April 7, 2004, p. A I.
11. Masayoshi Kanabayashi, "Calls Grow for Foreign Workers in Japan," *Wall Street Journal*, May 26, 2000, p. A20.
12. C. Pascal Zachary, "As High-Tech Jobs Go Begging, Germany Is Loath In Import Talent," *Wall Street Journal*, January 17, 2000, p. A10.
13. Edmund Andrews, "German Immigration Bill Wins Disputed Vote," *New York Times*, March 23, 2002. p. A3.
14. Kolk and Rob van Tulder, "Multi nationality and Corporate Ethics: Codes of Conduct in the Sporting Goods Industry." *Journal of International Business Studies* 32, no. 2 (2001), pp. 267-283.
15. Organization for Economic Cooperation and Development, *Declaration on International Investment and Multinational Enterprises* (June 2000).