

Dynamics of Collective Bargaining: Some Issues from Evidences

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Abstract:

The fundamental approach to collective bargaining is derived from the aspirations of workers in general and industrial worker in particular in order to raise their standard of living, bringing out more equitable horizontal frequencies of income along with generating conducive atmosphere in the industrial relations of corporate. It is more important to recognize bargaining process as an instrument to generate all kinds of positive feedbacks that could shape firms strategic positioning, human resource management, stable industrial growth and unanticipated shocks in the labour markets. When economies are planned and /or closely structured around socialist pattern, the collective bargaining becomes substantially strong and, similarly, if economy is closer to market economy, then bargaining process can become weaker. It has been observed since last two decades that the unionization and bargaining process in terms of labour have become weak essentially due to market orientation of the economies, privatization, and globalization. Estimation and forecasting of profits or any other corporate goals such as sales maximization, expansion of market share, securing a dominant position in the market, wealth maximization of shareholders or utility maximization of managers requires smooth and efficient planning of optimum utilization of labour and technology and precisely because of this the strong link observed from profit and bargaining process helps to settle down wage determination and conducive industrial relations. As noted in the inferences from the review, collective bargaining, to enhance the productivity plays a distinct role in promoting motivation which is directly linked to the performance of labour. Therefore, there is an incentive for firms to evolve motivational strategies by taking into consideration effective measures for arriving at prudent outcomes of bargaining.

Prelude

Collective bargaining as a process of interaction between union and management has enormous bearing on individual, firms and industrial relations of concerned sector and economy and thereby producing a set of decisive impacts on firm and economy level

relationship pertaining to the objectives of business undertakings. The fundamental approach to the collective bargaining is derived from the aspirations of workers in general and industrial worker in particular in order to raise their standard of living, bringing out more equitable horizontal frequencies of income along with generating conducive atmosphere in the industrial relations of corporate. The wisdom of workers' organization in the form of unionization can be well structured in the collective bargaining only when producing units are motivated for profit maximization independent of policies and interventions by regulators for welfare society. To a great extent, atypical bargaining process aims at egalitarian welfare measures that are consistent with efficiency and productivity. It is more important to recognize bargaining process as an instrument to generate all kinds of positive feedbacks that could shape firms strategic positioning, human resource management, stable industrial growth and unanticipated shocks in the labour markets. Labour markets play both central and corner roles in shaping the search - match behaviour of firms, work-leisure behaviour of labour which can be in line with wealth and profit maximization of firms and strong competitiveness of both goods and service markets. It is against this background that the present study tries to investigate various issues connected with the processes and outcome of bargaining from the view point of both labour and entrepreneur.

Background and Method

The issues pertaining to impact of bargaining process are vast, however the exercise here is to predominantly focus on the impact and effects of bargaining process on productivity, profitability, growth and adjustment in the labour market. The approach followed here is to examine these issues from the well-known bargaining models and also from the empirical studies that are considered as a part of pioneering work in the field of industrial relations. For the purpose of pin pointedly focusing on the issues, critical studies are selected based on systematic and judgmental methods of reviewing. The review has been organized in the form of an exploratory analysis which could be somewhat systematic. All the studies are selected and narrated in the context of international evidences to learn about the possible propositions for Indian industrial relations.

Maki & Meredith (1986) investigated the effect of trade unions on profitability in the context of Canadian Manufacturing industries by using the data for 22-digit industries from the framework of pooled cross sectioned time analysis. The study carefully measured the

concerned variables by adjusting for various parameters and making proper adjustments for mergers and takeovers where the estimates on relationships between effects of union and profitability are analyzed. There are industries for which the estimates are positive and for some, signs are negative. Therefore, rather the impact of unionism on profitability seems to be inconclusive and weak in terms of unidirectional causation. However, study throws some very interesting conclusions on the channels through which union effects are translated into productivity apart from the standard link via wages and labour productivity. The detailed studies conducted by the researchers have given critical standpoints through which alternative possibilities of understanding unionism and profit are made possible. David G. Blanchflower et al (1991) tried to synchronize idea on unionism and employment behaviour at the backdrop of controlling for industry, regional and establishment characteristics by dividing the employees into unionized and non-unionized establishments. From the evidences it is clear that there is a stronger causal association between trade union and employment behaviour. As per the estimates, the employment in the union plants grew 2 to 4% slower than the non-union plants. The authors also claimed that there is no significant correlation between unionism and employment growth in the sample of large establishments and estimates also suggest that, in aggregate, there is a strong employment effect of intense unionized activities. This study suffers critically from not including time series dimension of the issues which could dynamically affect the causation between unionism and employment behaviour.

William Brown & Paul Marginson (2001) narrated the bargaining process in the context of management pay when the collective bargaining becomes weaker and weaker. The paper examines the theoretical framework of employer's discretion in the various aspects of employees pay and the role of employers in hiring productive use of labour services in the presence of fragile trade unions. Their study also narrates the proposition of wage inequalities with reference to diminishing trade union activities and recommends that reducing of wage inequalities becomes substantially difficult when bargaining is weak. This was experienced in the Great Britain since 1980. This led to statutory measures to protect labour and introduction to national minimum wage. This study does not go into more elaborative analysis on cases but has been narrated with the help of theoretical background on collective bargaining alongside the labour market experiences in UK.

Masayuki Morikawa (2010) articulated the relationship between labour union and firm performance on productivity and profitability by taking into account 4000 Japanese firms. Their statistical estimates suggests that the mean value of labour productivity, total factor productivity and wage rates for manufacturing firms and non-manufacturing firms observed to be higher for unionized firms. Similarly, profit rates for unionized firms are observed to be lower in the manufacturing industry but not statistically different in the non-manufacturing industry. Labour unions do have positive productivity growth effects than non-unionized firms. When controlled for the firm size, productivity growth for unionized firm is negative indicating that Japanese labour union did not do well both for union members and management. While it is observed to be true that the stable relationship between management and employees is maintained through frequent communications and consultations, simultaneously, this course of action created an atmosphere of building human capital. Therefore, bargaining process appears to be fair. The ratio of part time workers in unionized firm is 4% lower than non-unionized firm independent of firm size, firm age, and industrial concentration. Therefore, authors concluded that the labour unions promote firm level productivity. As far as profits are concerned the study makes inconclusive observations. When it came to employment, decline in the number of employees is estimated to be higher in non-unionized firm than in unionized firms. The author explicitly did not take into account the possible endogeneity of labour union and also advanced human resource management processes while unions complement better human resource management practices.

C. Dreger & H.E. Reimers (2010) in their description discuss an empirical assessment of determination of wages at sectoral level for three major European countries viz., Germany, France and Italy. In most of the industrialist countries wages are negotiated at sectoral level with an increasing role of bargaining at individual firm. The sectoral level bargaining process does have trickledown effect across the firms with smaller variations which can be subjected to types of labour and their efficiency. Mostly in the European countries, competitive structure of the labour markets is very intensive due to economic integration and integrated planning for inflation. Unemployment promotes competition for jobs and adverse probability on wage demands for insiders. Therefore, there is a spillover effect between insider and outsider as bargaining becomes weak. Imperfection in the labour market and spillover effect go hand in hand in shaping bargaining process in either direction. An analysis is carried out by using principal component analysis and thereby

separating wage growth rates into common idiosyncratic components. The common component is dominated by variations in the inflation and productivity growth while labour market tightness plays negligible role. The weight of common component is higher for manufacturing than the service sector with an exception to the financial intermediation. This study also suggests that the bargaining of nominal wages should not reduce the dispersion in the outcome across the sector in order to take care of smooth adjustment in the wages which are required to react for the fast-changing environment.

C.M. Dahl et, al (2011) elaboratively conducted a study on wage dispersion and decentralization of wage bargaining from sectoral to firm level by using panel data analysis. More specifically this paper is focused on the topic of the movement of decentralization in wage bargaining in terms of its effect on wage dispersion by taking into account firm specific characteristics and union preferences by considering direct welfare implications through increased income inequality. Differences in the mean wage rates may be attributed to differences in efficiency, production conditions, labour welfare schemes, insider-outsider effects, internalized externalities and product market conditions. Despite observed heterogeneity, the study found that 4.7% wage premium prevails if negotiated at firm level instead of sectoral level. There are also evidences that wages are set in line with individual productivities at firm level while attaching prominence to experience in a decentralized wage setting. As far as wage dispersion is concerned, the study arrived at the conclusion that the smaller wage premia are found in the lower part of the wage distribution than the upper part where wage premia are high. The wage distribution seems to be more dispersed in case of decentralized firm level bargaining process than the centralized. The study though conducted on panel analysis suffers from not considering national policies concerning to wage determination for Danish labour market. In an innovative attempt, Keith Hancock (2012), examined various intricacies of enterprise bargaining productivity in the context of Australia. This paper begins by narrating the claims of Australian Industrial Relations Commission that enterprise bargaining raises the level and growth of productivity. But, the narrative of the author suggests that there is a little evidence of the same. Keith Hancock summarized by noting that the productivity effects of enterprise bargaining, because of the counterfactual situation, is and will remain unknown, is uncertain. He mentioned the following grounds (taken from the study) for doubting the enterprise bargaining which could have contributed to the productivity.

1. At most, there was a four-year boost in productivity whose timing does conceivably match the introduction and spread of enterprise bargaining. The boost has not endured.
2. If the four-year boost was policy-induced, there were other changes of policy in the late 1980s and early 1990s that may have been more important than the shift to enterprise bargaining.
3. When the productivity data are dissected to the industry level, it is hard to identify any large movements in productivity that could reasonably be ascribed to enterprise bargaining. Wholesale trade is a possible exception. The records of some major industries, notably mining and electricity, gas and water, suggest that much stronger influences have been at work.

Imre Szabo (2013) critically analyzed the collective bargaining processes and their outcomes in the context of economic crisis and political change. The author has elaborated this issue by following structural specifications from Bohle & Greskovits in the context of Hungarian labour market. The bargaining process narrated has been elaborated in the context of economic crisis of 2008 not only for Hungary but for the entire EU. The restructuring due to crisis have of course been followed by political changes. These two issues have been separately discussed to understand the collective bargaining. Economic effects have generated more polarization in the labour market for private sector and austerity for public sector. The fundamental shift in the political environment brought government interventions into radical neoliberal markets in order to change the very basic institutional structure of bargaining process. Interventional mechanisms through consultative forum included flexible employment relation unrestricting the union rights. Economic effect produced neoliberal flexibilities and change in the political environment produced market friendly labour reforms. The net result of two set of opposing policies, it was observed, tilted towards neoliberalism. This was the reason why good amount of political instability prevailed and state interventions became weak. The idea of this article is to narrow down the approach at aggregate level without considering proper approach to investigate deeper issues into the labour market. Keith Townsend et al (2016) brought out a comprehensive analysis on enterprise-based bargaining and analyzed whether the institutional mechanism is a better alternative. The authors have used various case studies to demonstrate their claim. Australian shift from centralized bargaining to the workplace system is propelled by the shift in businesses, government and union approaches to the wage determination. The experiences of enterprise bargaining in Australia, though

sometimes inefficient, have come out with fruitful procedure for expertise time and resources by properly incorporating the consequences of bargaining, such as conflict, reduced trust and disruption. Authors, find in their narrative study, that enterprise-based bargaining do give some effective outcomes that enhances the smooth functioning of labour market while some legislative and unintended consequences have brought negative feedback. This attempt is an exploratory analysis based on the experiences of enterprise bargaining and some of the case studies in this context. Therefore, empiricism-based research can throw more interesting facts.

Antonie Arnoud (2018) demonstrated impact of automation on employment and wages through search matching model which is typically employed to analyse wage bargaining process in the context of different firm industry level variables which connect the labour market. The study takes into account threat to automation, adoption of automation technology, labour reducing capital intensity to demonstrate wage negotiations and employment status in a bargaining process. The model is drawn against the established belief that the effects of automation on wage structure are limited by taking into account the process where more job can be eliminated than what can be created through automation process. The model rests on the premises that higher automation probabilities have lower average wage, and higher probability of automation decreases the return to experience. The paper also analyses impacts of all these outcomes in the context of responses in the labour market. The author also constructed technological index of automatability to analyse the probabilities of automation. The probability of automation will reduce the bargaining power of labour which are clustered around the age parameter. The model is estimated in the context of USA. The findings suggest that automation threat and average wages are negatively related and as per the estimates coefficient varies between -0.35 to -0.37 which are controlled for state, demographics, industry change in employment and unemployment rate. Further predictions suggest that automation threat and experience premium is also negatively related. Clearly negative coefficients are estimated which are significant after controlling for the above stated variables. Lastly the model suggests from the estimates that automation threat and bargaining power are also negatively related. These results have been examined for different conditions of assumptions pertaining to labour market, firms outside options and exogeneity conditions in firms. According to the study even only if a small number of firms automate occupations, new automation technologies may still have a larger on labour market. The study suffers from three important weaknesses. First, more

rigorous complex econometric exercises are not carried out. Second, automation is limited to specific issue on robots and limited to the information from population survey of USA. Lastly, the model has been built predominantly by using search and matching model and have not incorporated modeling labour market elaborately.

Critical Inferences

Themes ranging from the very approaches to bargaining to the dynamic impacts of bargaining can be understood from few but critical studies narrated above and their cross-sectional reflections in terms of conclusions drawn could very well serve as a practical reference mechanism for understanding industrial relations with production, marketing and economic growth. In what follows, the observations can be organized to reflect various issues. The important viewpoint from the various aspects of bargaining process could also give right direction to the corporate world internationally and more particularly India, if adopted successfully.

First, bargaining process requires collective willingness of labour not only to participate but also to resist and negotiate the determination of wages including all other benefits essentially for raising standard of living and welfare. This includes also focusing on social security measures for a person who is aged and out of labour market. The unionization by itself is a complex process which depends on nature of welfare government, the intense of democratic process, objectives of the corporate and government intervention and legal systems in the country. The intensity of the bargaining can also vary from firm to firm and from industry to industry. When economies are planned and /or closely structured around socialist pattern, the collective bargaining becomes substantially strong and, similarly, if economy is closer to market economy, then bargaining process can become weaker. It has been observed since last two decades that the unionization and bargaining process in terms of labour has become weak essentially due to market orientation of the economies, privatization, and globalization.

Secondly, centralized bargaining, as opposed to firm level or enterprise bargaining, brought considerable success in the western world when economies were fairly regulated by the government. Even when economic agents were oriented towards the market by the welfare governments internationally, industrial bargaining or centralized bargaining promoted

labour welfare even when legal mechanisms which were applied on bargaining process were established at random level. Enterprise bargaining did bring some considerable variations in the insider outsider spillover effect. This led to wage premium making corporate centric goals well pronounced in the bargaining process. It is difficult to specifically place a judgment on the sole use of any one of these bargaining processes. However, situational under the contest could very well define the efficacy of these methods.

Thirdly, international evidences suggest that prima facie outcomes of the bargaining process improve profitability. There seems to be a fine consensus across the spirit of organizing labour in terms of unionization and concerns of the management to develop and manage the labour force effectively. This consensus quiet often processed through communications, negotiations, agreements and settlements not only to improve the welfare of the labour but also to take care of corporate goals particularly increasing the profit and making product market advantageous to the firm. In fact, the treatment of profit maximization as responsibility of labour has brought respectable trust and mutual consent for the bargaining process and also willingness of the labour to push profit forward to improve their welfare via benefits other than regular wages. Therefore, despite several variations in the relationship between outcomes of bargaining process and profitability, corporates were atleast satisfied with outcomes of the bargaining, leading to profits.

Fourthly, productivity seems to be numeraire for determining the wage through a complex mechanism of measurement of increasing the real wage. Studies reveal inconclusive evidences on the wage proportionately reflecting the productivity growth. In fact, most of the best industrial practices do follow the trends. The extent, to which the trends in productivity are superimposed on wages, can be a critical question. There are also estimates suggesting that the gap between labour productivity growth while assuming the total factor productivity remaining constant, the growth of wage rates have widened over the period of time. Probably, Japan is an exception to this. Productivity and intensity of union activities have brought Japanese industries closer than dispersed.

Finally, unionization and bargaining process have brought conflicting evidences which are pertaining to the relationship between bargaining process, inflation, economic growth and fiscal policy. There seems to be a negative relationship between outcomes of bargaining process and growth rate for few economies while they are positive for most of the

countries internationally. Inflation not only produced turbulent industrial relations but also affected wage productivity relationship and this complexity is, probably, responsible for wide range of disagreements on wage setting and subsequent regulatory measures including that of minimum wage rates. From the view point of labour markets and fiscal policy, subsidy to the industry and unemployment allowances for the labour welfare induce consumption but did not have a strong bearing effect on corporate growth and production.

Conclusions

The consensus on theoretical considerations and empirical articulations regarding various elements of foundations to the bargaining processes and their implications on human resource management practices, human resource development measures, strategies for synchronizing external forces such as markets with inside functions on production and utilization of resources and overall corporate goals have been intense subject matter for both, analysis and practices of business. The observations made from the evidences can only throw a little or a drop of insight into shaping the relationships between bargaining process, productivity, profitability and resources utilization. Estimation and forecasting of profits or any other corporate goals such as sales maximization, expansion of market share, obtaining the position of dominant firms in the market, wealth maximization of shareholders or utility maximization of managers requires smooth and efficient planning of optimum utilization of labour and technology and precisely because of this the strong link observed from profit and bargaining process help to settle down wage determination and conducive industrial relations. As noted in the inferences from the review, collective bargaining to enhance the productivity plays a distinct role in promoting motivation which is directly linked to the performance of labour. Therefore, there is an incentive for firms to evolve motivational strategies by taking into considerations for arriving at prudential outcomes of bargaining. Firms are also advised to prepare a structure of negotiation process which should and must be consistent with centralized bargaining through government interventions including the fixation of minimum wage rates and welfare policies that are provided through budget to realize equity and equality of opportunities. It is critically important to treat bargaining process as an opportunity to strengthen corporate goals.

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