

## Productivity Measures in Collective Bargaining Les mesures de productivité et la négociation collective

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Résumé de l'article

La productivité physique n'est que l'une des dimensions auxquelles les parties doivent faire face à la table des négociations collectives. L'une et l'autre sont engagées dans ce processus afin de protéger des intérêts d'ordre financier. Les mesures de productivité ne sont donc qu'un des moyens d'obtenir les résultats recherchés.

Les employeurs en ont toujours été conscients qu'il s'agisse pour eux de l'achat des matières premières, de l'aménagement de la production, de l'utilisation des biens, de l'organisation des ventes, de la fixation des prix, de la concurrence ou des transactions purement financières. De leur côté, les salariés sont aussi conscients que le but ultime de leurs efforts consiste à l'accroissement de leurs gains et, depuis quelques années, au maintien de leur pouvoir d'achat. Cette préoccupation explique leurs attitudes. En conséquence, les intérêts des employeurs et des salariés ne coïncident pas.

Par ailleurs, les systèmes de rémunération au rendement, qu'ils soient individuels ou collectifs, ne peuvent pas être considérés comme de véritables indices de productivité physique. Ils ne tendent qu'à stimuler la production. Quand ils ne donnent pas satisfaction, on les remplace par d'autres ou on les supprime tout simplement. Ainsi, la proportion des salariés assujettis aux systèmes de rémunération au rendement a-t-elle diminué et, dans quelques industries, les a-t-on carrément mis au rancart.

La difficulté de mettre au point des mesures de productivité simples et stables dans les entreprises considérées individuellement a conduit à la recherche d'autres moyens visant à permettre aux salariés d'avoir leur part de la hausse de la productivité.

En 1948, intervient l'accord historique entre le syndicat des travailleurs de l'automobile et la société General Motors qui établit le principe selon lequel les salariés bénéficieraient d'une augmentation annuelle de trois pour cent, hausse représentant à la fois l'accroissement de la productivité générale à travers le pays et le coût de l'inflation. Cette formule avait l'avantage d'éviter les difficultés de calcul de tels indices pour les entreprises individuelles. Le principe se généralisa peu à peu et, au cours des décennies 1950 à 1970, on y eut recours pour établir des lignes directrices générales qui s'appliquaient à l'ensemble de l'économie américaine. Durant cette période, il apparaissait important que la main-d'œuvre soit persuadée qu'une productivité plus forte était un phénomène positif dont elle bénéficierait, car c'était là-dessus que se fondait l'amélioration du niveau de vie.

L'application de ce principe s'est heurtée à plusieurs problèmes: rajustement des salaires effectués par entreprise individuelle et sans suivre de normes, nécessité pour certains employeurs d'éliminer des pratiques improductives et trop coûteuses, obligation parfois de fermer les usines, déplacement d'un nombre important de travailleurs.

On peut donc conclure que les mesures de productivité ne sont pas apparues comme un enjeu véritable de la négociation et que la productivité n'est pas ce qui détermine d'abord le niveau des gains. Les négociateurs s'en tiennent à des indicateurs vagues et les régimes d'intéressement souffrent des imperfections des mesures utilisées. On a recours à diverses méthodes pour obtenir la coopération des employés en vue de l'élimination des pratiques trop coûteuses. Lorsque des changements technologiques et économiques sont la cause de déplacement de main-d'œuvre, on met au point des programmes destinés à diminuer le nombre de ceux qui sont touchés et à leur fournir de l'aide pour favoriser leur recyclage ou les inciter à se retirer du marché du travail.

# Productivity Measures in Collective Bargaining

**Solomon Barkin**

*The author examines the questions whether the measurement of productivity is a significant issue in collective bargaining and whether productivity is a primary determinant of the levels of earnings.*

Physical productivity is only one dimension of the economic problems confronting the parties at the bargaining table. In fact in most instances it enters into the discussion only indirectly as they consider the rationalities for settling individual issues. Both parties are engaged in business or employment for the purpose of securing effective pecuniary results. Improvements in physical productivity are only one means for attaining these results. Business has always been aware of these facts and organized their operations and transactions to improve their "bottom line" readings. Ways of achieving these ends may be varied. They may relate to effective purchasing of materials, processing, use of materials, and forms of input, selling, competition as to product, distribution and price and also financial transactions. The latter have become particularly important in recent years as corporate leaders have exploited tax laws for advancing the company's financial positions. Some transactions are consummated primarily for the purpose of financial gain rather than advanced productive effort. An illustration of their importance is offered us by the recent restrictions imposed by the Federal Reserve Bank on loans to interests seeking financial control of new enterprises through mergers or other devices which do not advance our national productive effort.

Employees in our pecuniary world are well aware that the ultimate pay off for their efforts, skills and knowledge are their earnings and in recent years, their real purchasing power. This preoccupation with their own returns of course explains much employee conduct within the productive process. Their aim is to maximize their earnings. They master the rules and ways to do so and pursue them. They become early aware that the so-called wage bargain is composed of three separate dimensions, time, effort and/or leisure and skill or knowledge. The parties bargain either in a formal or in-

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formal manner or through an ability to affect actual practice to determine each of these elements or the total combination. The relationships of the shares are likely to vary from bargain to bargain. Most of the agreements relate to specific jobs while other standards relate to an entire work place or even to wider areas.

Similar bargaining goes on with respect to the executive, managerial and professional employees. The rewards and terms of employment are contained in a multiphased package of benefits, many of which are somewhat remote from actual direct output.

It is therefore not surprising that management and employee interests do not fully coincide. Production profits and physical output are not necessarily the exclusive determinants of the figures on the "bottom line". Employees think of many dimensions of their package of rewards or terms of employment which are not necessarily of uppermost concern to top management. Profits can be achieved by means other than direct physical output and employee rewards can be granted on items not central to the cost bargain.

Another factor which must be observed is the time dimension. Measurements are made and discussions carried on as if the appropriate measure is the immediate effect. Short term gauges dominate in the discussion. Quarterly and annual financial statements are the main determinants in much of management thinking. Measures for controlling middle management performance are formulated most often for such near-term time spans. But in our world of intense rates of product technical, market and competitive change, programs and measures should be evaluated for their medium and long-term consequences. Similarly employee results cannot be judged exclusively by their immediate effects. Medium and long-term impacts are often of even more importance. The recent volume of adverse findings of the long-term health effects of some chemicals have made this consideration most poignant. Similarly in a more positive vein, one dimension of the job is the prospects it offers an employee for the future. It brings to mind the fundamental bias introduced into the American mass production system by the high fractionalization of work and the recruitment of unskilled people for semi-skilled routine jobs. They have largely been dead-end employments. Contrast this arrangement with the procedure introduced in the FIAT plants in Italy requiring semi-skilled workers to acquire a full range of skills, entitling them to the appellation and the benefits of an all-round skilled automobile mechanic. The job benefit package is very different for the American routinized semi-skilled worker and the Italian all-round automobile mechanic.

Both parties evaluate jobs and returns from different approaches. Management does not limit itself in its evaluation of the enterprise to the physical production aspects. Its interests are broad and ultimately pecuniary in character. The "bottom line" figure also can be calculated in terms of different time spans. Productivity measures are very incidental to the employee's appraisal of his employment. His pay package consists of three elements, pay, effort or leisure and knowledge and skill. He too will consider each in terms of different time spans.

## **JOB STANDARDS**

The diversity of approaches is the source of many of the actual difficulties encountered in trying to find a place for productivity measures in bargaining. The first and most common effort was to use production standards for testing employee's performance. Incentive systems either in the form of piece rates or wage incentive systems are a second form. Both have ultimately one element in common. They are not truly indexes of physical productivity. They define levels of human application. Production standards reflect the man's application. Time study techniques are organized to provide such measures reflecting a universal norm of such application for all employees.

The common procedure has been to reassess the level of application whenever changes occur on the job. Management invariably seeks to recapture the output for which no additional application was required. This condition was usually referred to as "loose" rates. Contrariwise, employees seek some relaxation of "tight" rates. Productivity is not central to the employee's rewards; it is the level of application. "Loosenesses" and "tightnesses" in the rates develop regularly through changes in raw materials, operating conditions, job arrangements and product. Efforts by management to recapture higher output not attributable to employee application is a constant source of friction in plants. Similarly employee grievances about tight rates fill the channels of the bargaining mechanisms. Usually these contests have become so disturbing that both management and unions have agreed to moderate the pace at which rates are revised limiting them to cases where the overall reduction of the level of application exceeds five percent of the work time at the job. But the costs of monitoring such systems become so burdensome that the task tends to be neglected particularly during prosperous periods. The result is that the changes when finally proposed constitute major alterations in jobs and may provoke serious contests. Industrial engineering consultants invariably have stressed the necessity of constant monitoring of wage incentive systems and have faulted managements for not diligently discharging this responsibility. But these remonstrances have not significantly affected actual practice.

As the rates of change in operating conditions increase, managements have followed one of two courses. One was to abandon the older wage incentive system through wholesale revision or the substitution of a new one. The second is to introduce a time rate system. As a result the proportion of employees covered by such incentive systems has declined for the country as a whole. In some industries they have been entirely abandoned without noticeable affect on levels of human application. One aspect of such revisions which needs to be mentioned is the common practice to reward employees with buy out bonuses to win their support for the introduction of the newer incentive arrangement or a time rate system. The important fact to stress is that these systems did not measure productivity in the sense of total output. They concentrated on strandardizing levels of human application and depriving employees of the benefits of higher output.

Technical and other changes wrecked many fixed physical production standards as well as wage incentive systems. Despite the fact that few writers speak directly of same, the American industrial scene is strewn with the wreckage of wage incentive plans.

### **GROUP GAIN SHARING SYSTEMS**

A variety of wage schemes have been devised to encourage employee interest in advancing and contributing to higher physical productivity. But they have been much less successful than the preceding efforts. The group gain sharing systems reward employees for their cooperation and ideas to advance productivity to the degree that they lower costs, particularly labor. Suggestion plans are of course the simplest in these categories. They provide individuals and sometimes groups rewards for specific suggestions.

Far more interesting are the group or plant productivity systems. They seek to promote productivity. The more commonly known ones are referred to as the Kaiser Steel, Rucker and Scanlon plans. The last is particularly interesting because it originated with an official of the United Steel Workers Union who sought ways to enlist union member cooperation to rescue companies from financial collapse. To achieve higher efficiency, the plans rest on the close collaboration and participation of union members in the programs. In recent years the plans were introduced in unorganized shops. The plan depends on tapping employee proposals for improving output and saving raw materials, space, time and personnel. They start with an assurance to employees that their jobs will be guaranteed and no employee will be adversely affected by the program.

Lacking an overall method of calculating improvements in productivity, the plans uniformly rely on a ratio of labor costs to value added or sales

value. Being restricted primarily to manufacturing enterprises, the concept superficially possessed the lure of simplicity and facility in calculations. But in practice many problems appeared both of an accounting and technical nature which diminished the possibility of precise measurement. In time historical data became increasingly irrelevant to new conditions. Adjustments disturbed the logic of the relationships. The problems became so disturbing that administrators considered revamping the formula which planted seeds of suspicion and controversy. As a result few such plans have had impressive life spans. They tended to flourish during periods when they netted high bonuses and languished and ultimately disappeared with the sharp reductions of the bonus, particularly in periods of adverse business conditions. Internal plant conflicts between employees and management brought about the early demise of some plans.

Some unfortunate experiences have been recorded in plans which used irrelevant measures to gauge performance or economic experience. One of the earlier ones was that instituted by the unions and the Fall River Cotton Manufacturers Association in 1905. They employed the print cloth mill margin (cloth prices minus cost of raw cotton) as the measure. Unfortunately about two-thirds of the output for the area was on fancy fabrics which had more generous mill margins. Weekly adjustments with occasional reductions proved most unstabilizing and provoked strikes. Later adjustments were made semi-annually which reduced the rate of strikes. The plan was finally abandoned and no such formula was tried again. Among additional difficulties with this calculation was the fact that the price of raw cotton was in those years affected by unpredictable speculative influences developing on the international cotton market and mill margins were actually not a measure of profitability since the latter are considerably affected by the volume of production.

## **NATIONAL PRODUCTIVITY MEASURE**

The difficulties of developing easy and durable measures of productivity for the individual enterprises led inevitably to the search for another approach to defining employee entitlements to shares in higher productivity. In the latter thirties and forties in this country the trade unions had argued strongly that employees should benefit from advances in American efficiency. Public arguments to this effect were repeatedly made. It became the common lore that such participation in the benefits was essential to win employees over to the acceptance of changes for higher productivity. Traditional resistance to innovation was widespread though not effective. One of the advantages of the steps taken to measure such advances was they provided a direct mathematical expression for the rate of gains in productivity.

During the discussion on criteria for wage adjustment at the War Labor Board of World War II, this consideration was actively propounded. After the war the issue was again strongly pressed.

The result was the 1948 historic agreement between the UAW and the General Motors Company which established the principle that employees were entitled to an annual increase of three percent in their wages to reflect the rise in national productivity and cost of living adjustments. Employees were therefore guaranteed that their real earnings would be improved by the above sum. The attraction of this general rule was that it avoided the difficulties of calculating such indexes for the individual enterprises or industries. It had become apparent that the available data, for the latter purpose were really deficient. Statistical information respecting output did not usually coincide with the coverage of manhour data. The industrial output per manhour calculation was therefore questionable if not fictitious. Figures which appeared useful as indicators of direction and rate of change would not stand up as evidence of the actual degrees of improvement or change in manhour output. While the overall national output figures suffered from many deficiencies, at least it was hoped they would cancel themselves or at least not distort the final results.

With the acceptance of the above formula in the General Motors Company, the other automobile companies followed suit. While few other companies or industries adopted the specific formula the logic for its support for comparable improvements in real earnings became part of the accepted premises of the American wage system. The principles were later adopted in the guideposts for wage increases under the system of restraint promulgated by the 1962 Council of Economic Advisors. In 1971 the Pay Board reinforced the use of the principle by sanctioning a total wage package of 5.5 percent which included both the three percent annual improvement factor and the 2.5 percent established rise in consumer prices. The current agreement for the steel industry continues this same provision.

During the above period, it appeared most important that the American workforce be persuaded that higher productivity was a positive phenomenon and would redound to the benefit of the American working population. Resistance to technical and other changes was self-defeating. It would destroy the base from which flowed the distinctive benefits enjoyed by the American employee. His higher standard of living was based, it was argued, on higher productivity. Whatever doubts lingered were subordinated by the positive experience during World War II when the United States became the "arsenal for the world democracies". High efficiency and productivity made it possible to win the war. American industrial leadership accepted the principle of awarding employees generally for these

improvements in the total economy. European industry followed a similar course, awarding employees with increases in real earnings.

### ENDURING POLICY PROBLEMS

But the above developments hardly allow for many of the basic choices arising in the operation of the plans. A common issue is how to treat improvements in productivity in individual industries or operations. How shall the rewards for productivity be distributed? Shall they be awarded on a national basis across the board to all employees in all industries irrespective of the specific record of improvements? This principle is followed in Sweden. The national wage agreement is applied to all industries irrespective of the individual industry's or enterprise's ability to shoulder the cost. Those which are adversely affected it is argued should improve their performance, contract or pass out of existence. Displaced employees would be absorbed by other enterprises in a virile economy and assisted by an effective national manpower adjustment system.

In the United States, on the other hand, wage adjustments are made selectively by individual enterprises and many of them do not follow national patterns. Since the end of World War II, deviations from this pattern have actually increased, with the larger companies following the model set by the automobile and steel industry contracts. In these instances specific job operational sharing systems are therefore either entirely absent or of minor importance. Measures for gauging precise advances in productivity have become generally irrelevant in wage negotiations except as they may be used as part of the general discussions of the rationale for general wage formulae offered by either party.

A second problem arises where management seeks to eliminate what it considers to be costly and unproductive practices. Reference has already been made to methods of handling the loose rates under wage incentive plans. Similar approaches are employed by management when it seeks to cancel out established or negotiated work arrangements which have become unduly costly. Managements particularly where union bargaining strength is well established, offer "buyouts", "buybacks" or "give backs", to win employee and union consent to new assignments. A similar arrangement is provided by the British productivity agreements.

A third one which has become particularly significant in recent years arises where companies threaten to close plants. Managements in such cases may offer to maintain plant operations if concessions are made by employees on wages and work practices which burden production costs. Often



these are granted by employees including those who might have been resisting such changes in former years. In a desperate effort to hold on to their jobs even for short periods they become willing to offer relief from high competitive costs. But in these instances no exact measurements of productivity are usually used. The resolution depends upon the employees' willingness to concede these changes after they have accepted the conclusion that the survival of the plant or operation is truly at stake.

A fourth problem occurs where major changes are likely to cause significant employee displacements. Many agreements provide for employee adjustment programs designed either to prevent or limit the volume of displacement. They may call for the use of attrition or employee transfer, cessation of new hirings while displaced persons are available, retraining, relocation and finally financial compensation such as early retirement or separation pay.

Finally, the recent decline in the overall increase in the rate of advance of productivity raises even more serious questions. Are we facing a secular decline in the rate of increase of productivity from three percent to a lower rate? While the rate for manufacturing industries has been maintained measures suggest a drop in other industries. Here we are truly confronted by the inadequacies of tools for measurement, as is evident in the service and construction industries. The available measures indicate a decline in the rate of increase, whereas calculations for the individual branches of the industry invariably report a rise in productivity. We are only in the initial stages of our effort to reassess the assumptions and techniques for calculation but it is certain that the present methodology is both deficient and is possibly producing misleading results. Nevertheless, with levels of business activity dropping and profits in many industries declining and rates of operation of capacity being lowered, the issue will be raised in collective agreements as to whether the three percent rate fixed for overall increases in rates of productivity is realistic. For the time being agreements continue to use these figures but in time we shall have to consider this issue.

## CONCLUSION

By and large the measurement of productivity has not loomed as a significant issue in bargaining. Productivity is not the primary determinant of the levels of earnings. The negotiators resort to broad gauges of change or finally accept the conclusion that these plans and tools will be shortlived. Wage incentive systems are concerned with levels of human application and not productivity. Formal plant-wide gain sharing systems suffer from the

inadequacies of the measures employed or from their insensitivity to changing business fortunes. When the gains are minimal or non-existent they usually collapse. "Buyouts" have been employed to win employee cooperation in the elimination of specific past practices managements find unduly costly. Where wholesale technical or economic changes cause large scale displacement some programs for the displaced seek to minimize the numbers so affected and provide aids for facilitating their adjustment to new employments or withdrawal from the labor market.

## Les mesures de productivité et la négociation collective

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## **PARTICIPATION ET NÉGOCIATION COLLECTIVE**

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