TRENDS IN LABOR RELATIONS: A VIEW FROM THE BOARDROOM

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Thank you very much Elliot. I met Elliot about 52 years ago. At the time I was a graduate assistant at the Institute of Labor and Industrial Relations at the University of Illinois and one of my heavy academic chores was to pick up speakers who were coming to a conference on campus. In those days, you came down to Champaign by train and I picked up Elliott and George Taylor, the eminent arbitrator and scholar. As I was driving from the station with them the car broke down. I didn't realize then that I reached the high point of my career when George Taylor jumped out of the car and started to push it through downtown. Elliot remained seated because it was out of his job classification to push cars and he probably believed that he'd be taking work away from some tow operator!

To some extent, Elliot's overly fulsome introduction is not wasted; it is germane because I've long since been denuded of my scholarly qualifications. I started my career in an orthodox way, studying labor relations and labor economics. I became a professor and I did research and engaged in field projects and practiced arbitration. Some of you may remember the Armour Automation Fund, which was a major innovation in dealing with labor displacement arising from technological change in the 60's. I went into government in the 70's and as Elliott indicated, my fifteen minutes of celebrity were experienced when I directed the wage price freeze in 1976 and later moved to the Pay Board in Phase II of the controls program where I was humbled by George Meany. We were engaged in a heated discussion over reducing the wage settlement in a labor agreement and Mr. Meany glared at me and barked, "You're just John Connolly's running dog." At the time, I thought that was a high compliment; using a Maoist metaphor on a member of Republican administration.

In any case, when I returned to the academy, I took a different direction, going into university administration. For some reason that I never understood, I was asked to be on various corporate Boards and over the next thirty years served in this capacity for ten different firms. During the period, I was something of a "trophy director" which is the organizational version of a trophy wife. As Elliot indicated, many of these corporations were engaged in heavy-duty labor relations. These included John Deere, Inland Steel, the Tribune Company, and the railroad industry where changes in labor relations moved glacially if at all. I have recently retired from all these Boards as a consequence of my increased maturity.

Given this circuitous career path, I thought that it would be appropriate to provide some perspective of the changing view of labor relations from the point of view of corporate Boards. I will offer you some broad generalizations, which certainly aren't applicable in all cases, but which I'm confident signify a profound shift in what can be characterized as the top management culture of labor relations in large industrial firms. What I say probably would be less applicable to a southern textile company but when you think historically of labor management relations in the United States you think of companies like Deere, Inland and Burlington Northern Santa Fe.

What are these observations and what do they forefend, if you will, for the future of labor relations in the United States? There are several observations that I'd like to share with you from the vantage point of the Board room.

First, there's no doubt that there has been a general downgrading of the importance of labor relations as a strategic issue for top management. As recently as the 70's and the '80's, labor relations often was the focus of intense top management and Board scrutiny. It is significant that one of the preeminent business groups is the Business Roundtable, organized by Roger Blough, the former CEO of U.S., who was later flagellated by President Kennedy. It was initially called Roger's Roundtable," or the Construction Users Anti-Inflation Roundtable, and sought to mobilize other Chief Executives to limit what were then considered excessive wage increases through collective bargaining. This mind set contributed to the experiment, if not misadventure, in wage price controls that was experienced in the early '70's. Preparations for collective bargaining and efforts to organize non-union workers were commonplace items on the Boards' agenda and were the subject of spirited discussions.

In the last decade, even in companies like John Deere and BNSF, where union relations are still very important, it receives little more than passing attention at the Board level, other than when negotiating a new labor agreement. Because most contracts are now multiyear in duration, management will give attention to more urgent issues. At Deere for example, the contract cycle was as long as six years, an extended interlude between critical events. Today Board members are likely to spend more time on reviewing possible acquisitions of fending off hostile mergers than labor relations. Most recently, the report which used to elicit the greatest boredom, that of the Audit Committee, receives the most intense scrutiny and nervous shifting in seats.

For example, I was on the Conrail Board shortly after it became a private corporation and you will remember that Conrail was formed out of the ashes of the bankrupt Penn Central and New York Central Railroads. When I went on that Board in 1974, Conrail had 100,000 employees, a network of around 35,000 miles of track, and labor issues were the critical issues. How did you reduce the labor force and rationalize the rail network within the constraints of a decades-old, encrusted labor agreement? Labor relations strategy and intrigue in dealing with the unions' leadership were preeminent issues. Now fast forward to 2000 and the BNSF Board, which is the result of a merger between Burlington Northern and Santa Fe, two great names in American economic and railroad history. Today, you rarely talk about labor issues at the Board level. There is some concern at each round of negotiations but the paramount issues have been shaping strategy to compete effectively with the Union Pacific and over-the-road trucks, gaining access to Mexico and the NAFTA market, and funding the enormous capital requirements to maintain the railroad. In fact, safety, not bargaining strategy, has been the dominant "labor" issue on the Board's agenda. In the railroad industry, the shift from a regulated to a deregulated market environment had dramatically reordered the Board's priorites.

The Tribune Company offers another interesting case where the importance of labor relations has receded over time. The company owns eight newspapers including the *Chicago Tribune*, the *Los Angeles Time-Mirror*, *Newsday* and the *Baltimore Sun*. All of these newspapers have a long history of labor management relations which for some time had been marked by turbulence and strife. The company experienced two classic labor confrontations: one at the *Chicago Tribune* in the 1970's and the other at the *New York Daily News* in the early 1990's. The latter strike was marked by considerable violence and recrimination and ultimately resulted in the sale of the newspaper to a British publisher at a considerable loss to the company. When the Tribune Company acquired the *Los Angeles Times-Mirror* in 2000 it also acquired an anti-union legacy that reached back to the early decades of the twentieth century.

I was a Director of the Tribune Company during the New York strike and the acquisition of the *Los Angeles Times-Mirror*. Although the New York strike caused considerable angst within the Board, it did not give the rise to ideological posturing or engender rigid hostility regarding the labor issues. When the *Times-Mirror* was acquired, the principle concerns were how to augment the circulation base of the newspaper, how to achieve the smooth integration of the two firms and how to leverage the Tribunes' properties in New York (*Newsday*), Chicago and Los Angeles to create a national platform for content distribution and the sale of advertising. To be sure, there was a consideration of labor issues but they were viewed as one of many managerial issues and not as a test of will or doctrinal purity.

My second observation is that in this new managerial environment, strikes, lockouts and other direct sanctions, which are part of the traditional arsenal of weapons, are rarely used. You don't have to be a Ph.D. in labor economics to figure out that strikes are more likely to occur during periods of prosperity than recession. During periods of economic expansion the labor market is tight and profit margins are likely to be fatter so that the re-distributional goals of collective bargaining are more likely to be achieved. From my Boardroom experience during the extended boom period of the 1990's, the unique phenomenon was the absence of overt conflict. In John Deere a path-breaking six year contract was negotiated which included modest wage increases, the relaxation of work rules and most remarkably, a two-tier wage structure for new hires. The fact that the UAW had been chastened by a long strike against Caterpillar where it finally succumbed to a determined management strategy that involved the hiring of "replacement workers" (e.g., strike breakers) undoubtedly made the union more conciliatory in its negotiations with Deere. Nonetheless, this development was in sharp contrast to the industry-wide conflicts which had characterized the agricultural implement sector in the recent past.

Similarly, there was an absence of overt labor-management conflict at Inland Steel, which long ago learned that it had little autonomous bargaining power in an industry structure that had been long defined by a highly controlling pattern bargaining. Inland's management recognized that it had limited room to maneuver in contract negotiations and instead, endeavored to achieve a measure of flexibility by successfully pressing for a labor-management productivity council that could address company issues on the plant level. A comparable approach was adopted by the Burlington Northern Santa Fe Railroad where the need to harmonize the complex of legacy agreements with the pre-merger companies (the BN and Santa Fe) provided the opening to lift the burden of what management viewed as inefficient restrictive practices.

In each of these situations, the exercise of raw economic power was replaced by the more subtle threat of sanctions. In Deere, the company announced its intention to move a plant to Mexico. Inland initiated a joint venture with Nippon Steel which accelerated the loss of jobs at the main Indiana Harbor Mill. BNSF contracted out engine maintenance work. All of these measures were taken for sound managerial reasons but they signaled to the union the possible consequences of intransigence at the bargaining table.

Third, the diminution of the importance of labor relations as a top management strategic issue and the retreat from the exercise of raw economic power in collective bargaining have largely stripped labor management relations of much of its ideological baggage. Although it has generally eschewed Marxism and similar anti capitalist dogma, the American labor movement has long had a strain of class consciousness and intermittent radicalism manifested in such movements as the Knights of Labor, the Industrial Workers of the World and the Communist domination of several large industrial unions in the 1940's. These ideological battles have resulted in the victory of "job conscious" unionism which generally focuses on improving the economic and working conditions of labor rather than the subversion of market institutions. But a "petite" class consciousness long characterized relations between management and organized labor: Labor projected proletarian virtue while management represented the forces of avarice and injustice. On management's part, unions threatened to undermine property rights and other foundation stones of capitalism. Today, when was the last time you observed an epic battle over management prerogatives or union security? John Sweeny, the current AFL-CIO President, will often invoke the rhetoric of class consciousness when exhorting the solidarity of janitors or health care workers and there are still some employers in the South and other regions who inveigh against the threat of unions and collective bargaining to the economic system. However, these are isolated instances which have a quant anachronistic quality, as if you were watching a revival of Clifford Odets' play, Waiting for Lefty.

In preparing for this event, I searched my memory to recall when some hard shell banker on a Board on which I also served muttered about putting those "damn unions" in their place and evoked visions of apocalypse at the bargaining table. I remember one instance, when I was on the Board of Alcoa in the 1970's when a fellow Board member of impeccable capitalist credentials expressed deep scorn for unions and collective bargaining. Even then, however, the compelling observation is that none of the other Directors took up the chant and instead, listened quietly to a dry exposition of strategy for the forthcoming negotiations. Other than that instance, I cannot recall one other case where ideological missiles were hurled in the Boardroom. By and large, pragmatism has displaced ideology and problem solving superceded florid rhetoric. If top management resists unionization or adopts an aggressive strategy in collective bargaining, it is most likely that these positions reflect a tough minded judgment of the costs, benefits and probability of attaining managerial goals rather than winning some ideological battle.

Fourth, the engagement of the Board of Directors in labor management relations has been altered, often in a subtle manner, by changes in the mix of issues and structure of collective bargaining. Wages are an important element in collective bargaining and they always will be. Both Adam Smith and Karl Marx would agree on this. But the magnitude of wage increases is not always the high visibility, contentious issue that was in the past. The subsidence of inflation, the decline of union membership and power in many key industrial sectors and intense market pressures have generally dampened union wage increases. Except in rare cases, you do not see the out-sized wage increases that collective bargaining won in the 1960's and 1970's and which precipitated the application of "income policy" during much of the 1970's. Indeed, union and non-union wage increases in the private sector have been roughly comparable during the 90's and into to the new century. Although there may be some reflexive headshaking during each round of bargaining, Board members generally accept these moderate wage movements as part of the normal rhythms of managing the enterprise. This passivity of the Board is reinforced by the extended duration of the contract term, in some cases five and six years. This was situation in Deere and then BNSF; in the latter case negotiations generally have continued long after the contract expiration date as any impasse has to work its way through the labyrinthine procedures required by the Railway Labor Act.

It is more likely that the contentious issues in current collective bargaining will involve union demands to sweeten pension plans, management's efforts to reduce the rising costs of health insurance and efforts to modernize work rules. While these issues are important they seldom excite Board interest or intervention; rather, they are left to the management professionals to unravel and hopefully, resolve. In the case of the Tribune Company, a management campaign to change work rules at the New York Daily News did lead to the epic confrontation with the unions which resulted in the sale of the newspaper. The Board was engaged in the issue because of the high stakes involved, but subsequent management efforts to promote efficiencies at its other newspaper properties have been more oblique and incremental, reducing the level of conflict and the profile of these issues from the Board's perspective.

As union-management relations have become routinized and increasingly the province of lawyers and technicians there has been a dearth of bold innovations to stir the interest of Board members. I cut my teeth in labor relations working on projects of the Armour Automation Committee, a venturesome effort initiated by the Armour Company and the United Packinghouse Workers to deal with the labor displacement arising from technological change in the meatpacking industry. In addition to union and company representatives, the Committee was headed by distinguished third parties, including Clark Kerr and George Shultz. The Committee launched several programs, including training the displaced workers for new jobs outside the meatpacking industry, extended severance pay arrangements and interplant transfer arrangements, which changed practices in other industries and served as a model for similar initiatives by the federal government, particularly in the training area.

Other highly visible innovations included extending union representatives on the Board of Directors of Chrysler (and later, United Airlines) and the establishment of union-management productivity committees in the steel and other industries. These innovations have had a mixed record of success at best. (Within the recent turmoil at United Airlines) However, they underscored the importance of labor relations and did engage the interest and affirmation of the Board of Directors.

Whether through timidity or recognition of their limitations, the development of innovative approaches in labor relations has not been higher on the agenda of the corporations where I have served as a Director. Inland Steel did reinstitute a union management productivity committee in the early 1990's but it floundered in the face of foot-dragging by an unsympathetic Vice President of Industrial Relations and larger economic pressures playing on the company and the steel industry. In another case, top management at BNSF persuaded the railroad's unions to participate in a joining safety committee after several years of prodding on the issue. The unions' reluctance on this issue of obvious mutual concern was hard to understand except to note that there is a very active plaintiffs' bar concerned with employee accidents on the railroad and such suits can be pursued under the Federal Liability Act. Once the joint safety committee was established, it did broaden programs to strengthen safety practices of management and the various operating crafts but the committee has not been the incubator for wider initiatives.

Last, the waning of labor relations as a focus of top management and Board attention has, paradoxically, been paralleled by the elevation of "human resources" in the hierarchy of management functions. This shift in emphasis appears to have had many causes. As noted previously, the maturation – and bureaucration – of union-relations have diminished the claim of these issues on management's attention. The crisis mentality which periodically forced the CEO and Board to give priority to collective bargaining has largely been dissipated and/or supplanted by higher priorities as the companies attempt to cope with a less forgiving market environment or the exigencies of a global economy. Also, many union-management issues have been transformed into broader work force issues by layers of new statutes and regulatory agencies. It is now commonplace for management to give at least as much attention to ERISA, OSHA, EEOC, ADA et. at., as to union-management relations. Whereas in the past safety issues at Inland Steel's Harbor Works would be worked out exclusively by supervisors and shop stewards, the OSHA inspector may now be a strong presence in the discussions.

Executive compensation is an additional consideration which has brought the corporate Human Resource Vice Presidents into the CEO's office and the Boardroom. As the most casual reader of the *Wall Street Journal* is aware, executive compensation has been a major preoccupation of Boards of Directors – and the public – in recent years. Elaborate compensation schemes involving stock options, restricted shares, and short and long term bonus plans have been developed as incentives to top executives, purportedly by linking pay to performance in order to satisfy the requirements of the Internal Revenue Service, if not those of the shareholders'. Moreover, the same "pay-for-performance" approach was extended to other elements of the corporate work force, requiring artful design and modes of implementation. This emphasis on compensation also gives impetus to the development of more sophisticated programs for recruitment and training under the aegis of the human resources staff, further broadening the reach of this functional area.

As an academic aside, it is also interesting to note the key role that business schools played in elevating human resource management to the senior executive ranks. Forty years ago, the study of "labor issues" was broadly divided into two domains: labor-management relations and personnel administration. Labor-management relations was the dominant area both within the faculty and the curriculum, reflecting the spread of unionism and the impact of collective bargaining. Personnel administration, on the other hand, was slightly déclassé and was concerned with stodgy issues of recruitment, testing and salary administration. While the study of labor relations was generally rooted in economics, personnel could not claim a home in any single academic discipline. Instead it appeared to be an eclectic mixture of technical skills and management philosophy which generated little excitement and attracted few students.

This configuration was changed profoundly by the force by events and parallel intellectual developments, particularly in graduate schools of business and traditional "labor institutes" that sprouted in many state universities in the immediate post World War II period. Both union membership and the incidence of collective bargaining were diminished as the national labor force became increasingly tilted toward the service industries, more educated employees and the intensive application of advanced technologies. Personnel administration, on the other hand, gained greater visibility and academic caché when it was subsumed in the emerging discipline of organizational behavior. Offerings in unionism and collective bargaining survived as sparsely attended electives while classes in organizational behavior became required course in the MBA curriculum. As a subset of organizational behavior, personnel administration cum human resource management facilitated access to the executive suite and board room by focusing on topics such as leadership, management training and development, organizational design and productivity behavior. With this academic imprimatur, human resource management could move to displace labor relations as the dominant "people" discipline within the firm.

This overview from the vantage point of the Board of Directors supports the observation that labor relations in its traditional form no longer commands the centrality – and drama – that it enjoyed in the past. The maturation if not bureaucratization, of union-management relations, the salience of other issues in the market and public policy environment and undoubtedly, the diminished strength of the labor movement, have all contributed to this changing state of affairs. As indicated previously, labor issues are now comprehensive workforce issues which fall under the umbrella of an expanded human resource function. It is within this framework that labor issues broadly defined, are most likely to be considered by the Boards of large corporations which historically have been the main stage for the shaping of labor-management relations in the United States.

It is easy to rue these developments and characterize them as evidence of the debilitation or retrogression of labor-management relations. There is, however, an alternate, more positive, conclusion that may be drawn. Over thirty years ago, John Dunlap in his seminal work, Industrial Relations Systems, argued that the appropriate function of such systems was not so much to determine the order of battle in the struggle over the distribution of income and control as to fashion a "web of rules" balancing the interests of management, labor and government (the public). The relationship between these major players and the "rules" themselves would evolve over time, influenced by technology, market forces and public attitudes. Certainly, in the last thirty years management and government have come to play a more muscular role in defining these rules, often in response to union economic and political pressures. It is an open question whether the canny union leader plays a more constructive role in developing "the web of rules" than the sophisticated human resource professional with ready access to the CEO and Board, or the dedicated OSHA inspector. Through these professionals and government programs, standards of "due process" and equitable treatment forged the bargaining table have been diffused to other, non-union work places. In a real sense, this has been a singular achievement of the American labor movement and industrial relations system.

This insight is not limited to academic ruminations. When I was a public member of the Pay Board in the early 1970's, George Meany, who was the leading labor representative on that body, once interrupted his frequent attacks on the legitimacy of the program of wage-price controls to philosophize on the decline in union membership. He viewed this trend with alarm but derived measure of comfort from the fact that unions had engendered standards of fairness and industrial jurisprudence in the non-union sector as well, a Trade unions would continue to be a viable alternative for the representation of worker interests in the future in those cases where management and the government induced or permitted an imbalance of interests. I believe that my effort here to provide a perspective on labor relations from the Board level, ironically, lends credence to Mr. Meany's bittersweet forecast of the future. But as this audience is aware, no one ever got rich in this field by betting on the status quo.