International Labor Relations

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Chapter Outline

In this chapter we address major problems the expansion of international business creates for both the multinational companies (MNCs) and national labor unions. The chapter opens with a discussion on how MNCs divide international industrial decisions between the headquarters and subsidiaries. One of the major issues of international industrial relations is the power and flexibility of the MNCs. Because of the power and flexibility of MNCs, workers are handicapped when dealing with them. Often, national labor unions face a dilemma in negotiating with MNCs because the unions cannot cross national borders, but the MNCs are not restricted to a particular location. This puts labor unions at a disadvantage against the MNCs.

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Labor unions complain that while they are forced to negotiate with the local subsidiary, the real decision-maker is the headquarters. There is some truth in this contention. While the subsidiary is assigned most operational decision-making for local industrial relations, strategic decisions such as locating a plant and increasing employment levels at various sites are made from headquarters.

National laws do not permit labor unions to establish formal alliances beyond national borders. Labor unions deal with this limitation by increasing their informal alliances to counter the negotiating power of the MNCs. These informal bounds involve activities such as coordination of contract negotiations, cooperation, sharing of information, and exerting pressure on the MNCs on behalf of each other. Informal arrangements among national labor unions are organized through international labor institutions. These institutions are regularly employed to advance the cause of labor unions worldwide.

To learn about the diversity of industrial relations globally, the chapter describes a sample of practices in different countries. The discussion of diversity of industrial relations begins with a presentation about US labor unions and examines the industrial relations of England, France, and Germany. Japanese enterprise unions stand in contrast with labor relation practices of other industrialized countries. The chapter ends with an explanation of the cultural and historical roots of Japanese labor relations.

Overview

Chapter Vignette: A Dilemma

On Valentine's Day, the 500 employees of Hyster Company's forklift truck factory in Irvine, Scotland, were introduced to the labors' predicament. Hyster employees faced a dilemma: Accept a cut in their wages or lose their jobs. Hyster Corporation, headquartered in Portland, Oregon, had a message for them. With a grant from the British government, it was ready to invest $60 million into the plant, which would create another 1000 jobs. This would create an overcapacity in Hyster's European facilities, however. To reduce overcapacity, Hyster was willing to close two production lines at its Dutch factory and move them to Scotland. In return, Hyster workers and managers would have to take a 14% and 18% pay cut, respectively. They had only 48 h to decide.

Next day, each employee received a letter from the company. It indicated that Hyster was not yet convinced that Irvine was the best of the many available alternatives for a leading plant in Europe. At the bottom of the page, there was a ballot asking them to vote on the proposed pay cut. Only 11 people voted "no." In the words of some employees, "it was an industrial rape. It was do-or-else." Hyster's workers in Irvine were not unionized. A union would not have made a difference.

The following day, Hyster broke the news to the manager of its plant in Nijmegen, Holland. It was the first official word of Hyster's decision to reduce the workforce in the Nijmegen plant [1].

Introduction

The dilemma that Scottish workers at the Hyster plant were facing is one of the many complexities of international labor relations. International trade makes it possible to move capital and equipment across national borders. Therefore, capital is considered mobile. For three reasons, however, labor does not enjoy such mobility. First, the movement of labor across national borders is restricted by immigration laws. Trade agreements such as NAFTA and EEC, however, will influence cross-border labor movement. Second, even without those restrictions, labor is not as mobile as capital. Searching for new jobs in a foreign land is difficult for most workers. Also, relocation is very difficult for people. Uprooting and leaving behind family and friends is not easy and often impractical. Third, the global demand for unskilled and semiskilled workers is very low. Starting up in a new place is much more economically feasible for well-educated workers who have special skills.

There are exceptions, however. Recent trends in some developing countries point to an increasing movement of labor across national borders. In particular, prosperous countries of East Asia mirror demographic characteristics that first were observed in Europe and North America. The economic gains of these nations are followed by lower birth rates and urbanization that, combined with better living conditions, create an aging population. To cope with a shrinking labor force, these countries draw immigrants from less-developed countries by offering good wages. Rapid industrialization of these countries is resulting in demographic changes that will challenge their labor relation practices and immigration laws. Already, examples of these changes can be seen in Singapore, Taiwan, and Malaysia. Singapore, which limits immigration of foreigners, is forced to relocate many industries to its neighbors. Taiwan is recruiting thousands of foreign workers from other Asian countries. In Malaysia, foreigners already hold more than 50% of construction and plantation jobs [2].

Compared to unskilled labor, immobility is not a serious problem for skilled labor. As the skill level improves, labor mobility increases. Indeed, there is a global demand for workers with higher levels of skills, and most nations welcome highly educated and skilled workers. Some labor relations experts argue that with the increasing level of education among people of the world, and the rising need on the part of the industry for more skilled workers, the globalization of labor is inevitable [3]. An early sign of globalization of skilled workers is the case of immigration of nurses from the Philippines to other countries, including the United States. By one account, nearly one-quarter of all nurses in the Philippines left the country for the better wages and more attractive working environment of the United States and other developed countries [4]. With the globalization of labor comes the standardization of labor relations practices.

Two forces will drive workplace standardization: companies responding to global labor markets and governments negotiating trade agreements. For a global corporation, the notion of a single set of workplace standards will eventually become as irresistible as the idea of a single language for conducting business. Vacation policies

that are established in Germany to attract scientists will be hard to rescind when the employees are relocated to New Jersey; flexible work hours that make sense in California will sooner or later become the norm in Madrid; and health-care deductibles and pension contributions designed for one nation will be modified so that workers in all nations enjoy the same treatment. Typical of most innovations in corporate personnel practices, the first benefits to be standardized will be those of high wage of highly valued employees who will be the most often recruited internationally [4].

Workplace standardization may be inevitable in some distant future. Today, however, diversity in workplace practices is a norm of international business. While there are some industrial relation practices common to most Western nations, no two countries are alike. Cultural, political, legal, and economic diversity among nations has resulted in dissimilarities in workplace practices. It is crucial to understand these practices if the foreign operations are to succeed. MNCs, particularly at the early days of entry into a market, are vulnerable to mistakes. Several Japanese firms entering the United States, for example, quickly learned that ignorance of discrimination laws and labor practices could lead to disputes and be costly. During the 1970s and early 1980s, several Japanese companies operating in the United States, including Sumitomo Shoji and C. Itoh, were sued by their American employees for race and sex discrimination. The Itoh and Sumitomo cases reached the US Supreme Court that rendered judgments against both of them [5]. In these cases, the Japanese subsidiaries had engaged in employment practices in the United States without serious considerations of their legal implications. In other words, they were the victims of the "innocent abroad syndrome." Their problems were caused by their unfamiliarity with the host country (United States) laws and practices.

Locus of Control in International Workplace Practices

A critical issue for any firm, domestic or multinational, is its relationship with labor. No organization can survive without a healthy relationship with its employees. Labor relation practices are particularly vital to MNCs because of the cultural, political, and legal differences among host countries. Historical precedents, traditions, and cultural norms establish employment practices and superior-subordinate relationships unique to each country. This diversity makes international labor relations more difficult and complex than domestic practices. On one hand, due to the uniqueness of each country's environment, host country managers need to have the authority to handle their own labor relations. On the other hand, to function as a corporation, some form of centralized control is necessary. There are many arguments in support of each position.

Headquarters-Subsidiary Relationships

Because of the diversity of the workforce and labor-management relationships, MNCs treat each subsidiary as a separate entity. Each domestic operation sets its

own labor relations policies and negotiates its own labor contracts. The home office, however, maintains overall control and keeps various labor relations programs in line with corporate policies. Since MNC subsidiaries are interdependent, work disruption in one subsidiary affects others. This interdependency means that labor practices among the subsidiaries must be uniform and the home office must integrate and control those practices. Also, the implementation of MNC corporate strategies requires various labor relations programs be integrated throughout the firm. The need for uniformity, integration, and control, therefore, compels MNCs to coordinate various labor relations programs and labor union contracts. This creates a circle of power. To counter the power and flexibility of MNCs, labor unions have begun cooperation across national borders. In turn, the movement by labor unions to cooperate internationally enforces the need for MNC control from the home office.

The Quandary of National Unions

The nature of MNCs and their vast resources offer them flexibility and power in negotiation with national unions. They can shift production across national borders and play one national union against the other. Production and manufacturing facilities are opened or closed at the headquarters discretion with little or no involvement by the labor force. In pursuit of corporate goals, MNCs allocate resources to each subsidiary according to corporate strategies. These strategies are established and directed from the home country corporate headquarters. These actions are carried out while very little or no information is shared with national labor unions. Therefore, the labor unions argue the welfare and interests of national labor unions are of secondary importance to MNCs. National labor unions feel handicapped in dealing with MNCs. They cannot match the resources of MNCs and do not have their flexibility. Realizing their handicap, US labor unions have long been in search of ways to counter the MNCs' apparent advantages. At first, US labor unions, through legislative initiatives, attempted to curb any MNC operations that were considered detrimental to the unions. In 1970, Charles Levinson, secretary general of the International Chemical Foundation, asserted that "trade unions have no choice but to provide the countervailing force which is badly lacking to keep MNCs within permissible bounds." [6] Years of effort, however, have not brought about many gains.

Besides leading the legislative offensive aimed at limiting the operations of the MNCs, labor unions have indicated an interest in worldwide collective bargaining with the MNCs. Many years ago, Victor G. Reuther, the United Automobile Workers (UAW) international affairs director, made the following prediction:

"[In the future] we will see a very significant change in the whole character of collective bargaining. To deal with MNCs, the trade unions are going to have to look beyond their narrow national views and embrace an international approach. This doesn't mean we will sit down in one room with General Motors and sign one agreement for the world but it means we need the machinery to coordinate negotiations internationally." [7]

Although Reuther's prediction has not fully materialized, it has not been totally false either. Global labor negotiation covering the operations of one company located in different countries is a dream of the labor unions and a prospective nightmare of the MNCs [8]. Knowing that negotiating global contracts with the MNCs has not been feasible, labor unions instead, realistically, aimed at increasing cross-border cooperation among national unions. The aim was the coordination of national labor negotiations with MNCs. Over the years, labor unions have had some success promoting international labor causes [9].

Cross-Border Labor Tactics

In supporting the labor agenda, international labor unions employ several tactics including:

1. Sharing information with and providing financial assistance to each other
2. Coordinating and synchronizing activities
3. Persuading and pressuring MNCs into cooperation (Table 12.1)

In employing these tactics, national unions utilize the services of international labor organizations such as the Organization for Economic Cooperation and Development (OECD) and the International Labour Office (ILO).

Coordinating and Synchronizing Labor unions have tried to use the timing of contract negotiations for various national subsidiaries of integrated MNCs, such as Ford Motor Company, to their advantage. To the extent they can succeed in standardizing contract expiration dates regionally, such as Western Europe or North America, they could chip away at the MNCs flexibility. Such coordination brings the prospect of a regional strike into a labor negotiation contract. Standardization of contract expiration dates weakens the MNCs' temptation to play one national union against the other. But there are many obstacles in the way of common expiration dates for international labor contracts. Among them are differences in the national union structures, collective bargaining approaches, and national labor laws.

Sharing Information and Financial Assistance While the goal of contract negotiation timing has not been realized, labor unions have succeeded in other areas.

Table 12.1 Cross-Border Cooperation Among National Unions

Coordinating and synchronizing contract negotiations
Sharing information
Providing financial assistance
Persuading and pressuring MNCs into cooperation

As early as 1970, labor unions began collecting and sharing data on employment practices of the MNCs. US labor unions and their counterparts have many opportunities to cooperate with each other. For example, United Steelworkers could inform union members in Jamaica of the financial structure of aluminum companies, assist Liberian workers in their negotiation with the local affiliate of an American steel company, or lend a jeep and a boat to a little union in South Africa.

Such informal cooperation may increase in the future, and MNCs may find the global labor market to be a much smaller arena. In Mexico, General Motors and Volkswagen already have tasted a sample of the future to come. Mexican government officials have claimed that the UAW was partly responsible for the labor strikes of the early 1990s in GM and Volkswagen subsidiaries because of the help that UAW gave Mexican workers. While denying any involvement in those strikes, the UAW has acknowledged providing financial assistance to the Mexican labor unions [10]. Of course, the UAW had a self-interest in those strikes. The successful negotiation of higher wages by Mexican labor could benefit the UAW members, too. Higher wages could make Mexican workers less competitive with the US counterparts.

Pressuring MNCs to Cooperate Besides the sharing of information or financial assistance, American labor unions have explored other avenues to help their foreign counterparts. In the 1990s, the US labor unions attempted to put the financial squeeze on the Costa Rican government by targeting its $300 million in annual exports to the United States. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) filed a complaint with the US trade representative, requesting the suspension of Costa Rica's benefits under the Generalized System of Preferences and the Caribbean Basin Initiative [11]. It claimed that Costa Rica does not provide sufficient legal protection for labor unions. Labor unions realize their inherent limitations as national organizations facing powerful MNCs. They understand that, at the present time, they cannot expand beyond their national borders. In some distant future, regional trade agreements, such as NAFTA, may provide labor unions with such opportunities. They have, however, been successful in pressuring intergovernmental organizations, such as the Organization for Economic Cooperation and Development (OECD) and the International Labor Organization (ILO), to adopt a voluntary code of conduct for MNCs. Labor unions sometimes succeed in promoting their cause through informal cooperation across national borders. For example, when in 1990, Ravenswood Aluminum Corporation permanently replaced its 1700 workers; United Steelworkers enlisted the help of foreign labor unions. The union discovered that billionaire Marc Rich controlled Ravenswood Aluminum. With help from labor unions in Europe, Rich's business deals came under scrutiny, and some ran into trouble. For instance, Czech unions pressured their government to reject his offer for Slovak State Aluminum. UAW also persuaded Anheuser-Busch, Miller Brewing, and Stroh Brewery not to buy Ravenswood's aluminum sheet for use in their cans [12].

European labor unions have also employed cross-border cooperation and assistance to their advantage too. In the early 1990s, workers at British Aerospace (BA) went on strike demanding working hours in parity with their French counterparts at Aerospatiale, BA's French partner. The British strikers of the Amalgamated Engineering Union received financial and other tangible supports from IG Metal, the German engineering union. Their strike was coordinated by the Federation of European Metalworkers (FEM). After the strike had gone on for 4 months, BA granted its employees a reduction in work hours per week with productivity agreements. This proved that national unions can cooperate and pursue a common goal. Now, FEM's aim is to standardize the workweek for its 6 million members in 16 European countries [13].

Immigrant Workers

Globalization of business creates opportunities as well as problems for both MNCs and labor unions. Recent economic expansion in Southeast Asia, for example, has resulted in the opposition to immigrant workers by labor unions. From Malaysia to Hong Kong to Japan, labor unions have expressed strong opposition to the importation of workers. They fear that with the availability of cheap migrant workers, employers who are interested in short-term quick solutions will not upgrade the salaries and working conditions of local employees. Expressing the labor unions' disapproval of imported labor, G. Rajasekaran, a leader of the Malayan Trade Union Congress, asks, "How can you develop a country by flooding it with foreign labor?" [2].

National unions need to cooperate with one another but are unable to do so formally. In almost all countries, labor strikes in support of other national unions are illegal. While national unions are restricted in their actions, multiple sourcing of labor could effectively be used by MNCs to undermine the power of national labor. In 1993, for example, several MNCs decided to relocate their operations primarily from France to England. This caused an uproar by European labor and governments alike and demonstrated that the ability of MNCs to pit one national union against another is a powerful tool. During this period, Hoover, a subsidiary of the American Maytag Corporation, announced a plan to close a vacuum cleaner plant in Dijon, France, and move the work to a plant near Glasgow, Scotland. Scottish workers had accepted changes in working conditions in exchange for job guarantees and the prospect of gaining 400 new jobs. As a consequence of this move, the French would lose 600 jobs. There was other bad news too. A unit of Rockwell International Corporation, in the United States, indicated that it was going to move 110 jobs from Nantes, France, to Britain. These announcements caused outrage in France. French labor unions and government officials contended that Britain was offering unfair incentives and taking advantage of looser labor laws and lower wages to lure away French jobs [14].

Host Government Involvement

International industrial relation practices are made more complex by host government involvement. Regulations and legislation covering workplace practices are the basis for government involvement. The failure of J. C. Penney's expansion into Europe has been partly attributed to labor problems. J. C. Penney had acquired outdated and inefficient retail chains in Italy and Belgium in the hope of turning them around. Slashing bloated payrolls proved to be almost impossible. In both countries, government regulations and labor laws made layoffs prohibitively expensive and time-consuming. J. C. Penney was forced to get out of both countries by selling these stores at a loss. The divestiture of the Belgian chain of 52 stores alone cost J. C. Penney $16 million [15].

The Badger Company, Inc., owned by Raytheon Company, had a similar experience. When the Belgian subsidiary of Badger, due to financial difficulties, closed its operation and dismissed its workers, the Belgian government demanded compensation for those dismissed workers but was told that funds for compensation were unavailable. The lack of compensation money in the Belgian subsidiary, the government claimed, was because the parent company had deliberately bled the finances of the Belgian operation. Therefore, it was the responsibility of the parent company to make up the shortfall in compensation funds. When several OECD governments threatened to not grant any future business to Badger, the company was forced to comply with the Belgian government's demand [16].

Host government involvement in MNC workplace relations can be direct and formal or indirect and informal. In direct and formal cases, MNCs are obligated to comply with specific laws and follow certain procedures, as was the case with J. C. Penney. Indirect and informal cases involve demands and pressures by the host government where there is no legal basis or precedence for them. Often, for example, MNCs are forced to include more host country nationals in managerial positions. In some cases, MNCs are obligated to hire personnel from a pool designated by the host government. When China opened up to foreign investment, the first international hospitality groups that entered its market experienced the difficulty of running their hotel operations under those circumstances. They were not allowed directly to tap the local labor market for their personnel needs. The government would supply them a list of applicants from which they had to make their selections. Often, the only qualification of these workers was their membership in the Communist Party.

International Labor Organizations

International labor organizations, in their varied structures, have faced problems in their attempts to create a semblance of uniformity in their practices in dealing with MNCs. Because of cultural, political, and economic differences among nations, they have failed to create uniformity in wages and working conditions in various subsidiaries of MNCs in different countries. International union delegates, in their

many meetings, have not been able to agree on the priority of many work-related issues. Agreements on these issues have been made more difficult due to the different attitudes toward work methods between the Japanese and other international labor unions. Except for wages, which are considered universally important, there is disagreement on all other issues. Besides legal obstacles, the differences in priorities among national trade unions form a major impediment to the global standardization of employee relation practices. Surveys of labor union members in different countries have revealed varying priorities. For example, among Latin American delegates, trade union rights have ranked just as high as wages. A share in determining or controlling the speed of the assembly or production line has been their number 2 demand. The 40-h week was the third. In contrast, in Western Europe, the main demands of English and French production workers after wages have been job security and shorter working hours. This is also the case in the United States today, where until very recently health care and pensions were of very high priority and may again become important. Germans place the most emphasis on the job environment, stressing a desire for more relief periods: The work hours/week for Germany is the lowest among OECD member countries during 2013–2016 [56]. In the 1990s, German metalworkers gloated over their significant breakthrough in winning 5 min of relief time in each working hour and another 3 min for personal needs, thus beating the American autoworkers' 46 min per 8-h shift at that time. But the problem is that the German labor law has not evolved; Germany's labor laws are a century old (even today, late 2010, their laws are unchanged) [8]. The existing rules are ill-suited to meet the needs of the modern era; the needs may vary depending upon industries/sectors (e.g., service, manufacturing and R&D).

Migration of Jobs

The new wave of globalization started with the migration of jobs such as the production of shoes, cheap electronics, and toys to developing countries. This was followed by the movement of simple office work such as processing credit card receipts and mind-numbing digital toil to low-cost locations. Nowadays, all kinds of jobs are being done anywhere around the world. They include computer chip design, engineering, basic research, and even financial analysis. A good example of this trend is Bank of America, which has cut thousands of jobs in back-office information technology applications by sending them to India because of lower costs.

Because of technological improvements overseas, most companies from industrial countries are moving their R&D to low-cost locations around the world and outsourcing their office work. For example, Hewlett-Packard Co. has a large number of software engineers in India. American Express, Dell Computer, Eastman Kodak, and other companies are providing round-the-clock customer care services performed by staff in developing countries. Cities in the Philippines, China, Hungary, Bulgaria, Romania, and South Africa, among other places, are tapping the global market for services and are becoming "back offices" for companies in America, Japan, and Europe.

Immigrant Asian engineers in the US labs of IBM and Intel have played a big, hidden role in American tech breakthroughs for decades. Now, the difference is that Indian and Chinese engineers are managing R&D teams in their home countries. The question is whether the United States can lose these jobs and still prosper (based on Ref. [17]).

At the present time, standardization of workplace practices seems an unattainable goal. Progress in other areas, however, keeps labor's hopes alive. By disseminating information and publicizing the gains made by the unions in one country, others are encouraged to emulate them. One clear benefit arising from informal agreements among national unions of different countries has been the successful negotiation of some labor contracts with MNCs. The BA strike, mentioned earlier, is an example of successful cooperation that international labor unions would like to repeat.

While host governments do not allow foreign labor unions to form legal entities within their borders, some new developments herald the birth of new practices. At the present time, the final form of these practices cannot be determined. For example, in January 2000, a new labor organization, Union Network International (UNI), which is the closest entity to a true global union, was born. According to UNI literature, it was established as a global union for skills and services, with 15 million members from 900 affiliated unions in 140 countries. UNI's head office is in Nyon, near Geneva, Switzerland. UNI is the "trade union response to increasing economic regionalization and globalization and to the convergence of what were, in the past, separate industries" (www.union-network.org/home475.html p. 2) [18]. One of the early goals of UNI is to unionize Walmart operations globally [18]. With the growing impact of globalization and new technologies, many industries are fast converging. Therefore, more labor union members are working for the same global employers. UNI claims that these employers are organized too much around market values and too little around human values. UNI wants to change this and aims to ensure better behavior from MNCs, halt a race to the bottom, and increase socially responsible investment and greater accountability [19].

International organizations concerned with labor issues can be divided into two groups: the international affiliates of labor unions and intergovernmental organizations. International affiliates of labor unions consist of organizations that are formed and run by the labor unions. They are managed and directed by personnel drawn from the members of national labor unions. Among this group are the International Confederation of Free Trade Unions (ICFTU), the World Federation of Trade Unions (WFTU), the World Confederation of Labor (WCL), the European Trade Union Confederation (ETUC), and the International Trade Secretariat organizations.

Intergovernmental organizations are established by national governments for political and economic purposes. This group includes the ILO, the OECD, and the Centre on Transnational Corporations (CTC). (Readers interested in a comprehensive discussion of international labor organizations should consult Refs. [8, 20]). We should note that these organizations do not have any legal authority over national labor unions. As national labor unions cannot cross national borders, they attempt to cooperate informally with one another through these organizations.

International Affiliates of Labor Unions

These labor organizations are concerned with improving the wages and working conditions of their members, who are members of national labor unions worldwide. They are independent of national governments and other non-labor institutions. They join forces in pursuit of labor objectives through regular communication and cooperation with one another. They employ the various tactics explained in the preceding discussion, including appealing to national governments.

International Confederation of Free Trade Unions In 1949, the issue of communist domination through the representatives of Eastern bloc countries caused a split among WFTU members. National trade unions that withdrew from the WFTU formed the ICFTU. While the recent history of the ICFTU begins with the split in the WFTU, its roots go back to the 1913 Secretariat of Trade Union Federation. Surviving the two world wars, it emerged in 1945 as the WFTU and included the labor unions of communist countries too. After the split, it called itself the ICFTU. The inclusion of the word free in the name is an intentional reference to the members' autonomy and the lack of control by governments. The ICFTU is headquartered in Brussels, Belgium, and has 140 affiliated national centers in 99 countries with approximately 82 million members [21, 22].

The World Federation of Trade Unions A counterpart to the ICFTU and covering the national unions of communist countries, the WFTU is headquartered in Moscow. It, however, has affiliated members in some Western bloc countries, such as France and Italy, and maintains offices in Asia, Africa, and Latin America. With the fall of communism, the future status and direction of the WFTU is doubtful.

The World Confederation of Labor Membership in the WCL consists of Christian trade unions. Similar in political philosophy to the ICFTU, the WCL is the smallest of the international confederations of trade unions. It was established in 1920 and was called the International Federation of Christian Trade Unions. It recently changed its name to broaden its membership and avoid confusion with the ICFTU. With support from the Catholic Church, the WCL was formed to counter the liberal and socialist unions' gains among urban workers. The headquarters of the WCL is in Brussels, and it has regional centers in Asia, Africa, and Latin America.

The European Trade Union Confederation As a regional international labor organization, the ETUC primarily deals with the European Economic Community (EEC). It is the outgrowth of the European Regional Organization (ERO), which was formed to deal with labor problems arising from the implementation of the Marshall Plan. The Marshall Plan was an economic assistance program offered by the United States to rebuild the European economies devastated by World War II.

International Trade Secretariat The International Trade Secretariat organizations are set up along major industry lines to assist the affiliated national unions. They provide help within the same industry and within specific MNCs across national borders. They supply members with data, coordinate communication, and provide financial assistance for collective bargaining purposes. There are 16 major secretariats independent of, but associated with, the ICFTU. Three of them have been in the forefront of confrontations between labor and MNCs. These secretariats are the International Metalworkers' Federation; the International Federation of Chemical, Energy, Mine and General Workers' Unions; and the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco, and Allied Workers' Associations.

Intergovernmental Organizations

These institutions are established by national governments to deal with international labor problems. The most active and well-known of these organizations are the ILO, the OECD, and the CTC.

International Labor Organization The ILO was established by the League of Nations in 1919 and was charged with the responsibility of developing international minimum standards for industrial relations and drafting international labor conventions on human rights, freedom of association, wages, work hours, minimum age for employment, working conditions, health and safety, vacation with pay, and other work-related concerns (pp. 33–36) [23]. At the present time, it is one of the agencies of the UN whose primary objective is to protect the fundamental rights of workers. It also strives to promote cooperation between workers and their employers. It encourages and supports members' programs that benefit workers. The highest priority is given to achieving full employment, improving standards of living, enhancing health care and safety in the workplace, and improving working conditions.

Each member nation appoints four delegates to the ILO, two from the government, one from labor, and one from the business. The 56 members of the Executive Council, which governs the ILO, are elected every 3 years. Membership in the council consists of 14 members each from labor and management and 28 government representatives. Of the 28 government representatives, 10 are from the United States, Canada, Russia, China, Japan, England, Germany, France, Italy, and India (p. 57) [8].

The ILO periodically compiles and reviews the International Labor Code, which it sends to members for their ratification. Ratification of these standards by governments is voluntary, but they have been very useful, especially in developing countries. Another noteworthy accomplishment of the ILO is the Tripartite Declaration on Multinational Enterprise and Social Policy. It covers recommendations on working conditions, training, health and safety, and other labor relation concerns. Although adherence to these recommendations is voluntary, labor unions have relied on them for curbing labor abuses (pp. 93–96) [24].

The Organization for Economic Cooperation and Development (OECD) An agency of the UN, the OECD has its headquarters in Paris, France. It was established in 1961 to promote economic growth and employment and achieve a rising standard of living in member countries [25]. In 1976, the OECD issued its Guidelines for Multinational Enterprises. Many issues pertinent to MNCs, such as investment, technology, taxes, and industrial relations, are covered in the guidelines. Among the stipulations of the guidelines are four relating to major issues of interest to labor.

First, labor has the right to unionize, and workers should be free to form or join a union without fear of reprisals. Second, MNCs should negotiate labor contracts with the unions representing the workers. Third, in contract negotiations, MNCs should not intimidate workers with the threat of transferring their operations to other countries. Fourth, in addition to matters that are covered in the collective bargaining document, MNCs should regularly consult with labor unions and provide them with information on issues of mutual concern (pp. 68–69) [8].

National labor unions have used the guidelines in their contract negotiations with MNCs. Often, labor unions try to include a clause in their collective bargaining contracts that stipulates compliance with the OECD guidelines.

The Centre on Transnational Corporations The CTC is an autonomous agency of the UN. Based in New York, the CTC was established to assist host countries, and particularly developing nations, in dealing with MNCs. It also examines the impact of MNCs on host countries' social, political, and legal environments. Of major interest to the CTC is the role of MNCs in the economic development of developing countries. The CTC assists developing countries in negotiating with MNCs for the purpose of improving their economies. It has been involved in the development of a code of conduct for MNCs that establishes standards for working conditions, provides procedures for settling disputes, and protects MNC workers. This code of conduct comprises guidelines set by different organizations, such as the OECD and the ILO, among others, defining the rights and responsibilities of MNCs. The code also contains guidelines for the treatment of corporations by host countries. It covers all aspects of international business activities, including political, economic, financial, and social affairs. It stipulates that MNCs should do the following (Table 12.2) (http://isforum.org/tobi/accountability/role-intro.aspx) [26]:

- They should fully take into account the established policies of the countries in which they operate and consider the views of all stakeholders.
- They should contribute to economic, social, and environmental progress, respect human rights, and encourage human capital formation.
- They must ensure that timely, regular, reliable, and relevant information is disclosed regarding their activities, structure, financial situation, and performance.
- They should contribute to the effective abolition of child labor, employ local personnel, and provide training with a view to improving skill levels.

Table 12.2 A Summary of Conduct for MNCs Suggested by the Center for Transnational Corporations

Fully take into account policies of host country
Contribute to economic, social, and environmental progress of host country
Respect human rights and encourage human capital formation
Disclose timely, regular, reliable, and relevant information regarding all aspects of the operations in host country
Contribute to effective abolition of child labor
Employ local personnel
Provide training with a view to improving skills of local labor force
Respect and protect local environment
Respect copyright and intellectual property rights laws
Do not give or receive bribes
Practice fair consumer protection measures regarding safety and quality
Do not practice anticompetitive business behavior
Pay fair share of taxes

- They must establish and maintain a system of environmental management appropriate to the enterprise, taking into account concerns about cost, business confidentiality, and the protection of intellectual property rights.
- They should maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage from their operations.
- They should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage nor should enterprises be solicited or expected to render a bribe or other undue advantage.
- When dealing with consumers, they should act in accordance with fair business, marketing, and advertising practices and take all reasonable steps to ensure the safety and quality of the goods or services they provide.
- They must refrain from entering into or carrying out anticompetitive agreements among competitors and act consistently with all applicable competition laws.
- They should contribute to the public finances of host countries by making timely payment of their tax liabilities, comply with the tax laws and regulations in all the countries in which they operate, and exert every effort to act in accordance with both the letter and the spirit of those laws and regulations.

Diversity in International Labor Relations

International labor relations practices are diverse. Labor unions, organizations, and collective bargaining practices are as varied as nations. Not only are there differences in worldwide industrial relation practices, but the degree of unionization varies as well. The size of national unions, however, is not a reflection of their impact on the labor market. In Germany, for example, while union members constitute a minority of the labor force, collective bargaining agreements cover almost the entire economy. While union membership has been declining in the United States, in other countries,

unionization is either stabilizing or rising. We don't know a lot about developing countries because there is limited information on their union membership, and statistics for unionization in these countries are either unavailable or unreliable. Given the historical patterns of unionization in industrialized countries, it is generally expected that union membership will rise in these countries.

In what follows, we present a sample of the diversity in international labor relations by discussing labor unions in Europe, Japan, and the United States (referred to as the triad nations). Our selection is based on the fact that the bulk of foreign direct investment (FDI) around the globe is made by the triad nations. Also, the labor relations practices of the triad are often used as models for other countries. Therefore, international managers must understand these practices. We will begin with the United States and move next to Europe, specifically Germany, Britain, and France. The German model of organized labor, more than that of any other nation, has influenced European labor unions and collective bargaining practices. The labor unions of both the United States and Japan are unique. Whereas an adversarial position characterizes the American labor-management relationship, the Japanese very closely cooperate with management in their firms.

Industrial Relations in the United States

Two pieces of legislation form the legal foundation for the organization of labor unions in the United States: the National Labor Relations Act (1935), commonly referred to as the Wagner Act, and the Labor-Management Relations Act (1947), usually called the Taft-Hartley Act. These and other labor statutes gave workers the right to form, join, or assist labor organizations and to bargain collectively through their representatives with the employers. While organized labor is an integral part of American business, it does not enjoy the legal status offered to German and some other European unions. The legal status of representing workers is bestowed on a union only if it gains the majority support of the workers. Therefore, employers are not legally obligated to negotiate with a minority union. Without a majority union, there is no collective bargaining. This is a reflection of American culture, which emphasizes individualism and advocates free enterprise. In contrast, in Germany, collective bargaining covers almost the entire industry, even though the majority of German workers are not unionized.

The objectives of US labor unions are very similar to those of other national unions: to improve the welfare of workers and serve as their economic agents. To accomplish these objectives, US unions have mainly relied on business- and industry-level activities. At this level, organizing labor unions and using collective bargaining have been the major means of accomplishing their goals. The political route, a favorite of European labor, has not been abandoned, however. Although US unions have been politically active and have sought the protection of law, they have never aspired to political prominence. There is, for example, no American equivalent of the British Labor Party. While, traditionally, the European unions have been a mainstay of politics, their American counterparts have played only a supporting role.

One of the major differences between the American labor movement and those of other nations is the US approach to industrial relations. Industrial relation practices are more adversarial in the United States than in any other nation. While the United States has been a fertile ground for some of the most enlightened and progressive management theories, such as participative management, job enrichment, and management by objectives, there is no legal-formal instrument in the United States for joint decision-making by management and labor. The work councils of Europe (discussed later), for example, are totally absent from the American scene. American businesses go to extremes to prevent unionization of their operations. Even when a business is unionized, the union can be removed through the decertification process. Also, unlike the European unions, the American unions insist on their independence in collective bargaining and lack a centralized decision-making authority.

Typically, in a collective bargaining situation, unions negotiate with a company at the local or national level. Some industry-wide bargaining occurs at the national level, as is the case in the steel industry, and at the regional level, as in the trucking industry. Usually, these labor contracts cover union recognition, management rights, job classifications, and wages. Other items included in these negotiations are seniority rights, standard work periods, the length and number of work breaks in an 8-h work period, holidays, vacations, medical insurance and retirement benefits, grievance procedures, and the commitment to no-strike and no-lockout provisions during the contract period.

European Industrial Democracy

In the United States, since the Hawthorne studies, most of the management literature has focused on participative management. In Europe, the emphasis is on industrial democracy. Although both participative management and industrial democracy deal with the sharing of decision-making and power between management and labor, their approaches are quite different. Within each approach, there are different variations in power equalization and the sharing of decision-making between management and labor. The European approach, however, is a more formal-legal approach to workers' representation on the boards of directors of firms as compared with the United States' informal style.

Differences Between Participative Management and Industrial Democracy

The following is a summary of the basic differences between American participative management and European industrial democracy [27]:

1. The two methods have been adopted with different degrees of fervor and have yielded varying results in different countries. Thus, industrial democracy has appeared most often in Europe, and participative management is practiced in the United States.

2. Industrial democracy is a formal, usually legally sanctioned, arrangement of workers' representation at various levels of management decision-making. Participative management, on the other hand, is an informal style of face-to-face leadership.
3. Industrial democracy is a structural approach aimed at equalizing power by joint decision-making through workers' representation on ad hoc committees, permanent committees, councils, and boards at various levels of management decision-making. Participative management is a voluntary behavioral approach advocated by management for informal sharing of decision-making with subordinates at the workplace. Organizations try to achieve this goal through indoctrination, training, organizational policies, social pressure, and other means.

Industrial democracy has taken several forms in different European countries. The German model of worker participation, however, has exerted a powerful influence on labor movements elsewhere in Europe [28]. In particular, the German model has influenced industrial relations in the northern European countries of Denmark, Sweden, and Norway. The former Soviet Eastern European countries are likely to be increasingly influenced by this model as well. The content of today's European industrial democracy movement, if not its context, is slowly but steadily becoming similar to the German one [28]. Actually, a unique feature of European Union (EU) labor relations has been adopted from the German model. The European Company Statute allows European firms, especially those operating in several countries, to unify their organizational structure and adopt a governing board that represents workers [29]. In what follows, we examine the German model in detail.

Industrial Democracy in Germany

Decision-making in any organization can be considered as a hierarchy consisting of four major levels. At the top of this hierarchy is the institutional level dealing with policy-making, which is concerned mainly with the direction and the future of the organization. The middle management level deals with the implementation of decisions made at the institutional level. At the technical level, decisions are related to the actual production of the organization's output and day-to-day operations. The workers' level, which is at the bottom of the hierarchy, implements all the decisions made at the technical level (Fig. 12.1).

In actual practice, the four levels of organizational hierarchy overlap. Usually, participation in decision-making takes place between two adjacent levels. The extent and nature of participation, however, are always determined by the higher level. In the United States, examples of this kind of participation are committees, job enrichment programs, management by objectives, and so on, all of which involve adjacent levels (i.e., job enrichment usually involves the technical level and the workers, while management by objectives involves middle management and the technical level). However, there is a spillover effect, and the decisions made at the institutional level will have a long-lasting effect on other levels, particularly the workers' level.

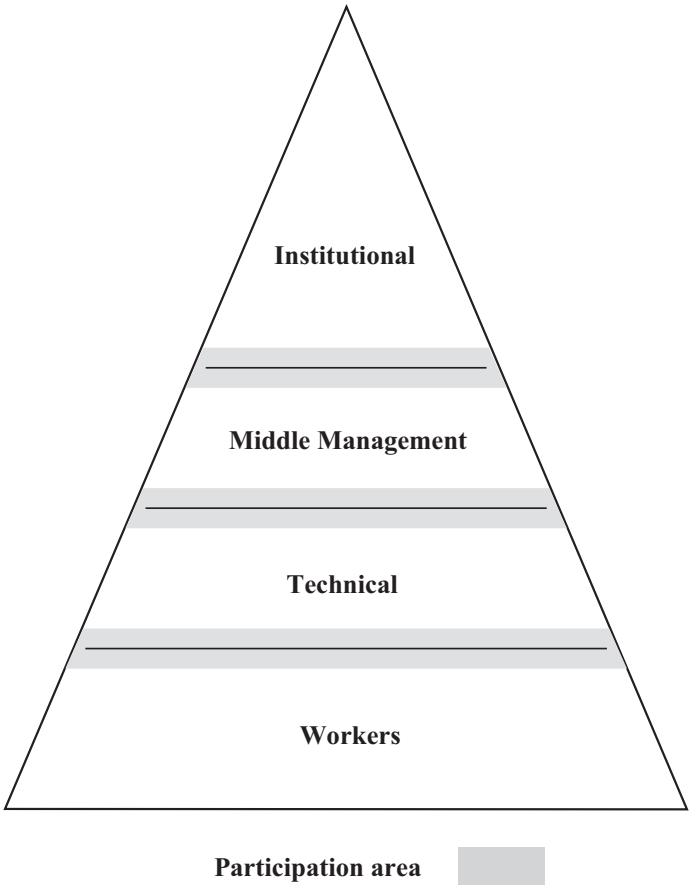

Fig. 12.1 Decision-making participation and organizational hierarchy

Institutional decisions require more information than do decisions made at other levels of the hierarchy. Furthermore, the information received from the lower levels of the organization is very crucial for the quality, accuracy, and, if needed, modifications of these decisions. These ideas argue for a change in the more typical adjacent-level influence-sharing processes and suggest, at least for the German model, that top management needs to find ways to share decision-making with those at the worker level. Therefore, the inclusion of lower-level employees in the decision-making process of the institutional level not only is a democratic action but can also be considered an appropriate act for the sake of organizational efficiency and effectiveness.

This type of involvement in decision-making has been called participation at the board level or codetermination in Europe. More specifically, the term codetermination refers to the German model of industrial democracy (Mitbestimmung). This model basically involves the participation of representatives of all employees, blue collar as well as white collar, including managers, in the two-board system of German industries. The two-board system is discussed later in this chapter.

Layoffs: The Dutch Style

In the 1980s, Dutch management and labor entered into an agreement that required companies to stay in constant communication with labor unions. Other issues included the requirement that the labor unions refrain from undue wage demands and government assurance that taxes would remain low. In return, companies agreed to hire more labor union employees and consult with the unions in major staffing decisions, including, but not limited to, layoffs. The agreement ruling, however, was to be waived in the event of a layoff of fewer than 20 employees.

The corporate culture created by this agreement was very successful in most areas. But when it came to downsizing, this culture was a major handicap because it required months, perhaps years, of negotiation between companies and unions. Thus, when a major Dutch information technology services corporation, Pinkroccade, found itself in the midst of an economic decline and needed to lay off 700 employees, it decided to take advantage of the agreement waiver, laying off 19 workers at a time. To avoid the "over 19" rule, it started laying off workers based on the location of their residence rather than their corporate location and even reclassified some. It also reassigned some young, very talented workers to secure jobs and locations to avoid laying them off. The corporate director of human resources for Pinkroccade stated that this massive layoff, while avoiding consultations with the union, was like putting together puzzle pieces that just didn't want to fit (based on Ref. [30]).

Labor Unions in Germany

Industrial relations in Germany are governed by two closely related, yet separate, institutions of codetermination and collective bargaining. While codetermination allows labor to participate at the highest level of the organizational decision-making process, the German constitution provides a very general and broad framework for collective bargaining. It guarantees collective bargaining rights for labor to negotiate with the employers over wages and working conditions. German labor laws impose restrictions and limitations on labor strikes and plant lockouts. Wildcat strikes are mostly related to economic issues and not labor rights. The law has established minimum requirements for many workplace practices, such as working hours, vacations, and safety regulations. These minimums can be augmented through collective bargaining.

Industry-wide labor contract negotiations take place regionally. Some of the problems that in other countries are subject to collective bargaining are handled by works councils in Germany. Works councils, however, are not allowed to bargain for remuneration and other work-related issues that are the domain of collective bargaining. While the majority of German workers are not union members, almost all employers are members of employers' associations [31].

Although union members are in a minority, collective bargaining contracts encompass more than 90% of workers. This is due to the widespread membership in employers' associations and the industry-wide contract negotiations. Collective agreements are negotiated on a national or area-wide industry basis and establish wage patterns for the entire specific industry. These contracts cover both unionized and nonunionized workers if the company is a member of the relevant employers' association [31]. Moreover, both unions and employers are strongly centralized, and because collective bargaining covers almost the entire German labor market, labor is included in national economic planning through collective bargaining [32].

Background and Structure of Codetermination

Germany's experience with codetermination can be thought of as the product of two separate and independent forces. The first force was the Germans' desire for the democratization of the workplace. The second force was the policy of the Allied forces, particularly the British, after World War II of strengthening the German labor movement. Allied forces wanted to prevent the resurgence of fascism, which they believed was aided by the powerful coal and iron industrialists of Germany.

German sentiment for codetermination can be traced to the social unrest and workers' demands for a greater voice in the design of work situations that arose in the first part of the nineteenth century. By 1905, for example, "workers' committees" had gained recognition in all mining enterprises employing more than 100 workers. The mines were legally obligated to establish workers' committees and consult with them before the introduction of any work rules or guidelines (p. 56) [33]. Democratization of the workplace gained additional momentum when the Workers' Council Act of 1920 gave managerial and bargaining power to workers' councils. The workers were given the right to have two representatives on the supervisory board. The handling of grievances and the establishment of work rules, as well as wage agreements within contracts negotiated by the unions, became the domain of workers' councils (pp. 53–54) [34].

Workers' councils were suppressed during World War II. They came to life again after the war and were given legal recognition and expanded authority by Western occupation authorities. At the Potsdam Conference, the Allied powers agreed to break up the steel and coal industries, which had exemplified Germany's military and industrial might and aided Hitler in his quest for domination. To curb the power of the managers in these industries, the Allied forces agreed to give more voice to labor.

It is ironic that the total collapse of the German political and economic systems aided the fulfillment of an old demand of the German workers. The attempts to prevent the emergence of a military-industrial system, on the one hand, and the desire for a new start and consensus by all parties in Germany, on the other, provided the setting for the development of codetermination. It was the convergence of these two fundamentally different forces that resulted in the Codetermination Act of 1951, which was amended in 1956. The Workers Constitution Act of 1952 extended workers' participation to all business organizations but gave workers only one-third of all the seats on the supervisory boards [35].

Many changes have taken place since the policies of the occupation authorities reinstated workers' representation on the supervisory boards. Germany is no longer an occupied country, and its economic and political system has emerged as one of the strongest in Europe. The unions and workers have been a potent political force, constantly renewing their demands for parity with management. Finally, the Codetermination Law of 1976 granted workers full parity representation on supervisory boards and, through these boards, in the operational systems of enterprises.

Today, the 1976 legislation is in force, side by side with earlier laws, for companies with more than 500 employees. Workers and shareholders have parity representation on the supervisory boards of these companies, but the numbers vary with the size of the firm. The big companies, for instance, are divided into three categories of 2000–10,000, 10,000–20,000, and more than 20,000 employees. The supervisory boards of these companies consist of 11, 17, and 21 members, respectively (p. 50) [35].

Although the law has given workers more power than ever before over the management of larger companies, it has fallen short of giving them full parity in decision-making. If a disagreement arises between the representatives of the workers and the shareholders, the law stipulates that the shareholders' position should prevail (pp. 50–52) [35]. The structural arrangements of codetermination as it stands now in Germany are depicted in Fig. 12.2. The main features of codetermination are as follows (pp. 58–60): [33].

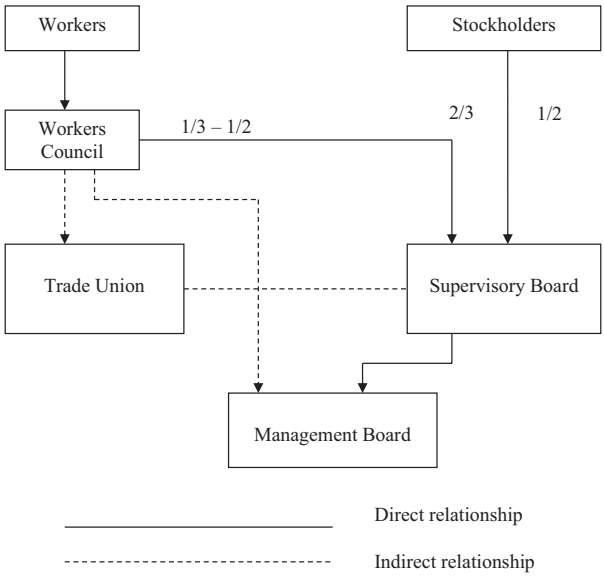

Fig. 12.2 Structural arrangement of codetermination

1. All private companies and profit or nonprofit organizations with five employees or more are subject to the Work Constitution Law of 1972. This law makes provision for the formation of workers' councils in each firm or in each independent unit within a company. The size of the council depends on the number of employees and can vary from 1 to 35. Where the size of the council is at least 3, blue-collar and white-collar workers vote separately and are represented on the council proportionately to their numbers. Employers and councils are encouraged to cooperate and are bound by the framework of collective bargaining.

   The functions of work councils include areas that are not regulated by collective bargainings, such as handling grievances, agreements on piece rates and wages, and working conditions that are not covered by a union contract. Furthermore, a work council is entitled to negotiate with an employer on matters such as hiring, firing of large numbers of employees, establishing plant rules, and making changes in the plant location. Also, it supervises the application of work laws and administers the welfare agencies in the plant. The members of the work councils need not be trade union members. However, in practice, more than 80% of the members of all work councils belong to trade unions.
2. Companies with more than 500 employees are governed by two boards: the supervisory board and the management board. The supervisory board is the equivalent of the board of directors of an American corporation and is a policy-making body. The supervisory board appoints the management board. The management board is responsible for the day-to-day operations of the firm. The appointment of the labor director on the management board—who represents labor viewpoints and promotes their cause—needs the approval of the majority of workers' representatives. The workers elect one-third to one-half of the supervisory board, depending on the size of the firm, and the employers elect two-thirds to one-half.
3. The election of representatives to the supervisory board is governed by an intricate and elaborate set of procedures. For example, in the case of a ten-member board, of the five workers' representatives, two are elected by the workers' council, two are elected by the union federation approved by the firm's union and the workers' council, and the fifth member is an outsider designated by the union federation. The chairman and vice chairman of the board must be elected by a two-thirds' majority of the board members. If a two-thirds' majority cannot be reached, the stockholders' representatives elect the chairman, and the vice chairman is elected by the workers' representatives. The chairman has the tie-breaking vote (Refs [36]., pp. 53–55; [37], pp. 117–118). The supervisory board meets at least quarterly, and besides having policy-making power and the power to select the management board, its consent is required on matters such as the purchase of land and property, mergers and acquisitions, a new plant location, important investment decisions, long-term loans, and the purchase or sales of stocks of other companies.

Opposition to Codetermination

Opposition to codetermination comes from three sources (pp. 50–52) [35]. The first source of opposition is employers or their representatives. They fear that codetermination may result in the loss of management control and dilution of power and authority. They also fear that inefficiency may follow and profits may suffer if high-level decision-making becomes subject to labor approval. The second group opposing workers' participation at the board level, interestingly enough, is the labor unions. They would prefer to achieve industrial democracy through the institutionalization and strengthening of collective bargaining rather than participation and representation on the board of directors. Communists and socialists are the third source of opposition. They see participation in high-level decision-making as a delay in the final victory of the proletariat. From this perspective, collaboration with capitalists will not advance the labor cause. Developments in the post-Soviet era have had an impact on the strength of this source of opposition.

Whatever the arguments are against codetermination, the opposition cannot ignore some of its benefits and impacts on the German economy. The workers' representatives have shown an understanding of "economic necessities" and consideration for the firm's long-term objectives. There is also no evidence that these representatives have exploited their position to obtain unreasonable pay raises for the employees (Refs [36]., p. 57; [37], pp. 117–118). However, these claims were made prior to the globalization of markets. Recent economic woes and the rise in unemployment in Europe and especially in Germany, however, have been attributed to the nature of management labor relationships [38]. Some have asserted that the recent corruption scandals in large German companies, such as Volkswagen and Daimler-Chrysler, were due to the cozy relationship between the labor members of codetermination boards and the management of these firms [39]. Faced with economic difficulties, the German government has shown interest in curbing labor benefits [40], which may signal changes in labor-management relations.

Moreover, in response to the criticisms leveled against codetermination, Mazzolini argues that there is no basis for management's fear that codetermination may result in the dilution of management authority and control. Based on an extensive series of interviews with leading executives throughout Europe, Mazzolini provides the following explanation: [41].

> Contrary to common belief, especially in countries where there is no tradition of participation, systems such as German co-determination do not imply the downfall of the free enterprise system. . .Experience shows that labor generally worries only about those issues which have a clear bearing on [the] working class, leaving administrative and overall policy decisions to management. While labor's influence causes firms to be more socially responsible, fears of more fundamental changes are unwarranted. (p. 80).

Most American labor unions are opposed to board-level workers' representation because they see it as a potential threat to the union's power and existence. They fear that the workers' representative on the board of directors might be independent of

the union. Codetermination might also undermine the "adversary relationship" image between US unions and management. American labor leaders consider codetermination rather superfluous compared with what US labor has achieved through collective bargaining (p. 108) [42]. They believe that unions influence more issues through collective bargaining than they could hope to affect by worker representation on the board of directors of corporations. In the words of one union officer, if unions were to share decision-making with management as partners, the unions would be "most likely the junior partner in success and the senior partner in failure" (p. 110) [42]. Other objections of unions to codetermination stem from the fear of losing power, the possibility of creating conflicts of interest, and the fear of disturbing the existing economic order. Traditionally, Americans favor minimum or no government involvement in business. They are reluctant to invite the government into an already complicated setting [43]. Additional opposition to codetermination comes from critics who assert that cultural differences would impede the application of codetermination in the United States.

Evidently, this skepticism is not shared by European unions. Advocates of codetermination and industrial democracy claim that union strength can be supplemented through workers' representation on the boards of directors of firms. For example, "in a system of collective bargaining alone, contract enforcement is difficult since management must be relied on for implementation. A system of workers' councils and board representation, in contrast, provides alternative institutions for contract enforcement" (p. 65) [28]. According to many European labor relations analysts, collective bargaining and workers' participation at the board level are each essential to the other's continued expansion [28].

French Labor Unions

According to Pieper, certain cultural characteristics of French society are reflected in its industrial relations (pp. 94–95): [31] The French value rationality and order, and they view authority as absolute and omnipotent. Because of its absolute nature, authority cannot be shared or compromised. Both in practical terms and symbolically, it must remain sovereign. Checks and balances of due process and countervailing institutionalized power common to American society are foreign to the French. These values have greatly influenced the fate of organized labor in France. Viewed from the upper levels of the hierarchy, the imposition of substantive rules from the top is necessary to be rational and bring about order and harmony. Viewed from the lower levels, authority is threatening and should be avoided. Achieving independence, autonomy, and security necessitates keeping a distance from superiors and not dealing with them directly. Directly dealing with one's superior leads to the acknowledgment of one's total dependence. The solution is to avoid face-to-face relationships between superiors and subordinates and to create rules. The only other alternatives are total conflict and absolute submission, neither of which is culturally acceptable. To protect one's independence and not submit to the absolute authority, one obeys the rules. In the words of Pieper: [31].

From the top, edicting the rules affirms the capacity of sovereign power. Those rules are impersonal, which from below reinforces the sense of following an abstract order and not bowing to absolutism; and from above follows the rational model of "one best way" of ruling absolutely over one's domain without having to be bothered to make unnecessary allowances for individual peculiarities. . . . Thus the power is centralized at the top; and below, the impersonal rules define strata of subordinates with precisely defined borders . . . [in which] . . . individuals enjoy total protection and independence. . . . Therefore the power recedes higher and higher, farther and farther from the knowledge of the element necessary to take decisions. It must decide without knowing . . . and it is in the interest of the subordinates to hide or manipulate information. (p. 95).

A preference for formal, ritualistic activities and the absence of cooperation between various levels within the hierarchy produces a general climate of apathy. The training of elite French administrators and executives confounds the problem. Most elite French managers are from grandes écoles, the selective and prestigious universities that act as a clubby network that doles out top positions only to its own members.

The combination of the French cultural characteristics just discussed and a variety of historical reasons has resulted in very low unionization in France. The large number of small firms, which are usually not unionized, also contributes to low unionization. Moreover, French unions have held on to a society-changing agenda much longer than most unions in the United States and northern Europe, instead of concentrating on economic issues [44].

Among the major European countries, union membership is the lowest in France. By various estimates, only 7–10% of the labor force is unionized (p. 191) [45].

French labor unions are highly political, ideologically oriented, and weak in the private sector. They are, however, strong in the public sector. Their low level of membership does not reflect the real power of French unions. Union strength comes indirectly through the election of union candidates to positions in firm-specific representative institutions, particularly the works councils (pp. 181–197) [45]. Their strength becomes evident when labor strikes in the public sector disturb electricity supplies, transportation services, and civil organizations. Unions, however, enjoy public support. Even those workers who are not union members fully support the unions in a crisis or when they are called on to strike.

Labor Unions in Britain

Labor relations and collective bargaining in the United Kingdom have been described as "formal" and "informal" systems coexisting in a context of legal abstentionism [46]. In contrast to the situation in the United States and Germany, industrial relations in Britain are characterized by a relative lack of legal restrictions and structure. Voluntarism, a social philosophy of the undisputed pursuit of self-interest, is a hallmark of industrial relations in the United Kingdom [47]. Voluntarism and the lack of restriction mean that there are no limitations on wildcat strikes or

lockouts. There are also fewer restrictions on layoffs, the hiring of part-time workers, and subcontracting. Collective bargaining agreements are considered "gentlemen's agreements," which are binding in honor only and not subject to legal enforcement. The tradition of collective bargaining reflects the "grassroots" character of British labor organizations. The shop steward has a very significant role in workplace bargaining and is as important as the unions in making and administering the rules. This is in contrast with the European system, where the pattern and overall regulation of collective bargaining are influenced from the top [46]. The shop steward is a unique feature of English labor relations: [8].

Shop stewards are elected by fellow union members in the plant. Today they play a central part in helping to determine the likely reaction there to the eventual terms for a settlement. Their influence in this respect is very great and it is equally powerful at the bargaining table. The national union officials may lead the contract negotiations with employers but the stewards, by virtue of their everyday ties to the rank and file, wield almost as much, if not more, influence in the bargaining. (pp. 123–124).

Since British labor has traditionally relied on "self-help" and has preferred minimum or no legislative interference, it is not surprising that, unlike other European labor movements, British labor has opposed institutional forms of labor representation, such as codetermination. In recent years, however, the state has been getting more involved in industrial relations. The Employment Protection Act of 1975, for example, grants certain rights to unions, including access to information and consultation with management in the case of workforce reduction. It grants certain rights to unions and workers and established government agencies to provide arbitration, mediation, and conciliation for resolving industrial disputes [48].

A unique characteristic of labor unions in Britain is their participation in politics. The historical roots of labor involvement in politics go back to the 1906 election, when a newly formed Labour party won 29 seats in the House of Commons. Over the years, the Labour party has become the political counterpart of the union movement. While in other European countries, left-wing political parties sponsored the trade unions, in Britain, the unions created the socialist political party. While the relationship between the unions and the Labour party is very strong, labor unions have not attempted to dominate the party and the government. They have always worked pragmatically with the government of the day. Even within the Labour party, major initiatives come from what might be called the intellectual rather than the union side [48].

Japanese Enterprise Unions

Japanese labor relation practices are quite different from those of other industrialized countries. Historical precedents and cultural attributes have created a unique set of relationships between labor and management in Japan. Unlike the labor unions of other nations, Japanese labor unions are not separate entities independent of business firms. As "enterprise unions," they could be regarded as extensions of the organizations. Although Japanese labor unions are not totally independent, nonetheless, they represent the workers and play an important role in the economy.

Management practices and attitudes toward workers are important factors that shape the nature and type of industrial relations in an enterprise. The distinguishing features of Japanese management practices are lifetime commitment (employment), a seniority-based wage system, and collective decision-making (ringi). These practices and historical developments have created the enterprise unions and industrial relations that are uniquely Japanese.

Historical Factors
After World War II, with encouragement from the Americans, the Japanese government enacted a trade union law that ensured that labor had the right to organize, bargain collectively, and strike. The economic hardships following the war made it urgent for labor unions to safeguard the living standards of workers. To achieve this objective, unions launched a joint effort, bringing together white- and blue-collar workers at the enterprise or plant level. Similarly, employers wanting to restore the balance of power in their own favor exerted considerable effort to create just such enterprise unions. To prevent the establishment of an all-powerful labor organization, however, they undertook three measures:

1. They established vertical labor organizations.
2. To bring about order in the workplace, radical workers were terminated from service.
3. They set up a new industrial relations system in every company.

These measures, particularly the vertical character of the unions, weakened their horizontal solidarity. Various levels of union organizations were established parallel to the corporate structure, such as at the head office, plant, department, and section. At each level, the unions were in constant interface with their corresponding management counterparts. Article 2 of the labor law facilitated the establishment of this unique labor-management relationship. It stipulated that all employees below the section heads, regardless of their jobs, may organize into unions. Therefore, in some large plants, supervisors are often elected as union representatives. This adds to the fragmentation of unions and increases management's influence [49].

Management Practices
Lifetime employment and the no-layoff policy practiced by large Japanese firms increase the loyalty of workers to the firm and reduce the cost of training and turnover. Long-term relationships among employees foster an attitude of cooperation and trust and minimize conflict. Slow and orderly promotion based on seniority emphasizes the individuals and not the job titles. Knowing that they will work together for a lifetime and that there is ample time for the firm to recognize their contributions, employees learn to work for mutual benefits. Permanent employment makes the rotation of workers to different jobs in the firm a practical choice. Although it is time-consuming, the ringi system of collective decision-making and consensus building produces quality decisions that those affected by them understand and accept. The slow process of collective decision-making allows enough time for everyone to adjust to the emerging decisions and commits them to the implementation of those decisions.

The Japanese Enigma

As far as outsiders can tell, most Japanese accept with equanimity all the daily demands that subordinate individual desires to those of the community. This striking communalism is, however, the result of political arrangements consciously inserted into society more than three centuries ago by a ruling elite. For centuries, statecraft in Japan has resulted from a balance between semi-autonomous groups that share power.

At the most basic level of political life, Japan is no different from any other country. The Japanese have laws, legislators, a parliament, political parties, labor unions, and a prime minister. But don't be misled by these familiar labels. The Japanese prime minister is not expected to show much leadership; labor unions organize strikes to be held during lunch breaks; the legislature does not in fact legislate (bureaucrats in ministries write the laws); and laws are enforced only if they are not too much in conflict with the interests of the powerful [50].

More than in any other industrial country, labor relations in Japan are based on the realities of the labor market condition rather than on an open contest of power. Permanent employment and seniority-based promotion procedures enable Japanese workers to anticipate, with a high degree of certainty, how they will advance in jobs, wages, and other amenities. With assurances of job security and near certainty on career prospects, wages are the remaining major bargaining issue that could cause occasional conflict. Also, until recently, in an environment of continuous and rapid economic growth, conflict over wages could be resolved with a win-win outcome [51].

The unique Japanese labor relations have evolved in a cultural framework of collectivism and paternalism. While modernization and global competition are eroding the foundation of lifetime employment, most large Japanese firms still follow this tradition. These firms continue to offer the welfare benefits that were established at the beginning of modernization and those that were established after World War I to eliminate the turnover of skilled employees. Now, the typical benefits offered by these firms are housing, medical and health care, recreational and sports facilities, day care for children, commuter subsidies, and meals at work. Since employees are expected to stay with their firms for a long time, they are also expected to be team players. Instead of seeking individual gains, each member is expected to strive for collective benefits. The Japanese attribute of collectivism stands in sharp contrast to the Western ideal of individualism. While modernization and global competition are changing labor-management relationships, Japan has maintained its unique paternalistic character. Again, these relationships have cultural and historical roots: [52].

Because industrialization was originally sparked by a dynastic elite, the idea of paternalistic concern for the welfare of subordinates is strongly rooted in Japanese management. Although the government has intervened to regulate the manager in the field of labor relations, it has nevertheless given strong encouragement to the paternalistic approach. (p. 131).

Almost all unions in Japan are enterprise unions. Because they are company specific, there are more than 74,000 of them, in 94 federations (p. 231) [53]. With the tradition of enterprise unions and the collectivist orientation of the Japanese, the labor unions take a less adversarial posture against the firms. Japan has a lower incidence of labor strikes than most other industrial countries, except Germany. Many strikes do not last long, some lasting only a few hours. Most contract negotiations, and about half the strikes, take place during shunto or the annual Spring Labor Offensive. Regardless of a union's affiliation or lack thereof, negotiations take place at the company level, and in their negotiations and demands for wage increases, unions consider the good of the company. A sharp public expression of conflict came from Shinichi Tsuji, the leader of the smallest and most radical of the three unions at the Japanese affiliate of Shell Oil Company. He told a newspaper reporter that his union was getting tough. The day before, they had gone on strike for 45 min, and they were planning a lunchtime multi-union demonstration so that workers would not have to miss any work [54].

Chapter Summary

International industrial relations pose problems for both labor and management. Managerial problems are due to differences in legal practices, labor laws, and customs, host government interference with market forces, and cultural characteristics of various national markets. The problems facing national labor unions center on the erosion of bargaining power. In collective bargaining, the balance of power has shifted in favor of MNCs. Worldwide variations in wages, benefits, and industrial practices provide MNCs with the opportunity to relocate jobs to places that offer more favorable business conditions. Obviously, such moves will result in loss of jobs in areas where wages are higher and business conditions are less conducive to profit-making.

While the increasing internationalization of business and the consequent interdependencies create problems for MNCs, they pose a much bigger challenge to labor unions [9]. National borders limiting workers to separate national labor markets restrict labor's options in contract negotiations with MNCs. These borders, however, are much less restrictive where MNCs are concerned. Competition among nations to attract foreign direct investment offers MNCs multiple opportunities for investment and additional munitions for fighting the demands of national labor unions. These problems will intensify with the gradual removal of trade barriers. Low trade barriers provide more opportunities to capital than labor. Because capital is much more mobile than labor, with the lowering of trade barriers, capital can relocate to countries where labor costs are low, while labor mobility is hampered due to political, social, economic, and cultural factors. Even if trade and business barriers are totally removed, labor cannot readily take advantage of the opportunities in other labor markets. Empirical evidence suggests that the removal of trade barriers undermines the power of unions in setting higher wages. While

reducing barriers may eventually lead to an improved economy, initially, at least, it reduces the power of national labor unions and increases the need for international cooperation among these unions [55].

Faced with the reality of decreasing trade barriers, national labor unions are searching for ways to counter the increasing bargaining power of MNCs. While national laws do not permit formal labor cooperation across national borders, informal methods are still available. Through international labor organizations such as the ILO, national labor unions are expanding the extent of their informal cooperation and coordination for negotiation with MNCs. A few successful examples of these types of activities have encouraged national labor unions to search for additional measures. The ultimate goal of collective bargaining with MNCs at the international level, however, might be achieved only in the distant future. Given the present circumstances and developments, we can safely predict that the future of international collective bargaining will be much more contentious and volatile.

Discussion Questions

1. What is the major problem faced by national unions negotiating with MNCs?
2. Why do the MNCs treat each subsidiary as a separate entity for collective bargaining and labor contract negotiations?
3. Why do host countries get involved in international labor relations?
4. Elaborate on the cross-border tactics used by national unions for promoting the labor agenda.
5. What is the ultimate goal of international labor unions? Do you think that this is an attainable goal?
6. What is the objective of the ILO?
7. Explain the major features of German industrial democracy (codetermination).
8. In the United States, the relationship between management and labor is called adversarial. Why?
9. French labor unions have the lowest membership rate among all European countries. What cultural characteristics explain this low membership rate?
10. What are the major characteristics of British labor relations?
11. Distinguish between European industrial democracy and Japanese enterprise unions.
12. Northern Europeans claim that their model of industrial democracy provides for smoother industrial conflict resolution than the adversarial labor-management relations of the United States. Elaborate on your acceptance or rejection of this claim.

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