



## Chapter Two

### The meaning of industrial democracy in an era of neo-liberalism

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This chapter provides a framework within which the issue of industrial democracy and its implications for organised labour can be addressed. First, forms and meanings of industrial democracy are explored. Second, a range of explanations for the development and persistence of various forms of industrial democracy are examined. Third, the rather limited attempts to introduce industrial democracy in Australia during the past two decades (despite a long period of Labor in Federal government) are analysed in relation to the 'favourable conjunctures' model. Finally, arguments about the impact of industrial democracy on firm performance are reviewed.

Debate about the meaning and forms of industrial democracy are at least a century old. British Fabians Sidney and Beatrice Webb in their book *Industrial Democracy* (first published in 1897), argued that it needed to be anchored in the existence of strong trade unions and effective collective bargaining machinery. They were joined by GDH Cole (1919) who claimed that only when industry was organised on a participatory basis and employees became self-governing in the workplace would genuine political democracy be achieved. In the United States of America, John R Commons (1919) echoed this theme when he stressed that union control in the workplace was a precondition to industrial democracy. Interest in the subject has re-emerged in recent years, particularly in Europe, where it is associated with various aspects of employee participation in decision-making within an enterprise.

In Australia there are a number of different strands to the contemporary debate. On the management side, some contend

that workers should be involved in at least some aspects of organisational decision-making. However, it is generally held that involvement should not be through trade unions, the traditional body representing workers' interests, but through individual employee participation directly in organisational decision-making, albeit on a limited range of issues which do not intrude on management's prerogatives. On the workers' side, some have argued, in the context of declining trade union membership, that new forms of representation are necessary to represent workers' interests (McCallum 1997). By the same token, the recent interest expressed by the current ACTU Secretary in works councils, demonstrates that at least some within the union movement see the promotion of forms of industrial democracy as a vehicle for strengthening the workplace presence of trade unions (Combet 2001).

Thus, the contemporary debate contains a set of competing claims about the relationship between industrial democracy and trade unionism and whether it is consistent with, or antithetical to, the aims of the labour movement. This suggests the need to revisit the conceptual literature on industrial democracy and the forms that it can take, and to re-examine the historical experience of different forms of industrial democracy in the Australian context.

#### **Explaining the development and persistence of industrial democracy**

What accounts for the development of different forms of industrial democracy in different countries and in different periods? Why do some forms of industrial democracy persist, while others tend to disappear quickly after their introduction? Three main approaches to understanding historical movements in industrial democracy can be delineated: the evolutionary approach; the focus on cycles; and the favourable conjunctures thesis.

The evolutionary approach identifies a long-term advance (which was encapsulated in the Webbs' (1898) notion of a 'democratic current') linked with such forces as a growing role for the state and legislature in industrial relations, advances in technology, the rise of a managerial elite well versed in human resource techniques, and the changing values and aspirations of

a more educated workforce. However, as Pateman (1970) argued, much of the thinking here has been Utopian, with little account being taken of the diverse patterns of power relations that, in practice, constrain the advance of industrial democracy.

'Cyclical' theorists have disputed the evolutionary position and have argued that support for industrial democracy tends to rise, particularly among employers, when the economy is strong and workers can maximise their bargaining power. Support diminishes when economic conditions decline and workers are in a weaker position (Ramsay 1980, 1982, 1983). However, the cyclical theory is based on a rather deterministic view of economic forces, which is not borne out by experience. For example, in the United Kingdom, where the cyclical thesis was particularly applied to profit-sharing schemes, there has been an important long-term advance from the mid-1980s that has been underpinned by favourable legislation, broad-based political support and endorsement by all the main actors in the industrial relations system.

We have put forward a favourable conjunctures model of the origins and development of different forms of industrial democracy (Poole *et al* 2001a and 2001b). This approach does not assume the inevitability of so-called evolutionary or cyclical patterns. Rather, it attempts to isolate the factors and conditions which help to explain the rise of particular forms of industrial democracy in particular settings and at particular times (see Poole 1986, 1989). There are four main sets of variables that can be said to influence the development of different forms of industrial democracy. These include: macro-conditions (external to the organization); strategic choices of the 'actors'; the power of the 'actors'; and organisational structures and processes at the level of the firm.

The macro-variables that affect the growth of industrial democracy include structural variables (for example favourable economic and technical conditions: Dunlop, 1958); subjective variables (the culture and prevailing ideologies within given nations that either promote or constrain industrial democracy); and the legal framework and the polity (involving governmental initiatives in the promotion of industrial democracy, such as works councils). However, these wider forces do not determine outcomes as specific types of industrial democracy require implementation

in the actual industrial relations system. The establishment of particular practices is thus seen to depend in part on the strategic choices of the actors (see Kochan, McKersie and Cappelli 1984). Indeed, diverse strategic choices help, in part, to explain the varied patterns of practices at the level of the firm when the macro conditions are roughly equivalent (Ichniowski et al 1996). Furthermore, the distribution of power amongst the main actors is undoubtedly of critical consequence. Thus trade union strength results when collective bargaining becomes the dominant form of industrial democracy. A strong state role typically occasions legislative-based representative forms (such as co-determination and works councils). An ascendant management committed to employee involvement typically enhances 'shop floor' experiments (recently seen in empowerment, team briefing, total quality management programs and so on).

A model for understanding national differences along these lines appeared in an Industrial Democracy in Europe study that encompassed macro factors, participative structures and conditions (IDE 1993). Above all, the IDE research demonstrated that power is not only relevant to understanding the origins of schemes, but also that *de facto* participation (that is, effectiveness) depends greatly on various rules and regulations (typically stemming from supportive legislation), employee mobilisation (that is, the strength of unions) and leadership style. Once institutionalised, forms of industrial democracy may persist despite the erosion of the particular conjuncture under which they developed. By the same token, a dramatic shift in the power of the parties and/or the other underlying conditions which support a particular form of industrial democracy, may create conditions for a new conjuncture. This in turn can undermine a previously durable form of industrial democracy or encourage a new form to rise.

#### **The Australian experience**

The 'favourable conjunctures' of the early to mid-1980s, when Labor gained Federal government, marked a high point of enthusiasm for industrial democracy and employee participation (ACTU and ALP 1983; Davis and Lansbury 1996). This was partly due to the strength of a Labor Accord with unions on wages and prices.

The economic problems which beset that government towards the end of the 1980s led to a gradual movement away from a collectivist approach, which favoured employee participation through unions, to a more individualistic approach, which relied on enterprise bargaining. As industrial relations became more decentralised, the ACTU saw its influence decline and enthusiasm for a national approach to industrial democracy wane. While employers have extolled the virtues of involving employees at the enterprise level, evidence suggests that as employers have gained dominance and union power has been eclipsed, most changes have been introduced with little consultation. Formal systems of indirect employee representation (such as joint consultative committees) have become widespread, yet the degree of influence which employees are able to exert through such bodies appears to be minimal. While direct forms of participation have increased, employers do not appear to regard these as vital to their enterprises and only a minority of workplaces have introduced activities such as autonomous work groups, team building, total quality management or employee share ownership (Morehead et al 1997).

The decline of union density in the past decade and the determination with which some employers have sought to move their employees away from collective union agreements to individual employment contracts, have caused some commentators to argue that alternative forms of representation, such as works councils, should be seriously considered. McCallum (1997, p. 411-12) has suggested that statutory mandated works councils should become the centrepiece of an alternative model of collective labour law, on the grounds that 'the movement must become open to other forms of employee representation... If the law does not mandate elected works councils, the coverage and importance of collective labour law will shrink.' McCallum further claims that 'a political coalition for works councils and a renewed model of collectivism can be built by mobilising for works councils as an essential part of 'industrial citizenship', i.e. the right to participate in workplace governance (*ibid*, p. 421). Within the union movement, works councils have been raised as a means of 'promoting collective bargaining structures in the workplace' (ACTU 1999, p. 19).

Opposition to works councils in Australia in the past has been based on concerns that there is an absence of preconditions that would enable them to function as effective vehicles for collective

representation and social protection. Buchanan and Briggs (2002) argue that the resurgence of unilateral managerialism and employer militancy, and the lack of commitment among employers to 'social partnership' strategies, means that works councils are likely to entrench managerial prerogatives rather than reverse the 'representation gap' left by declining unionisation. Their view is that works councils should only be considered after measures to address deepening inequalities and the rebuilding of coordinated bargaining structures and collectivism have been undertaken. We return to this debate at the end of this chapter.

#### **Industrial democracy in an era of neo-liberalism, or why too much managerial prerogative may be bad for the company**

This section turns to the relationship between industrial democracy, broadly conceived, and economic performance. As noted in the Introduction, much of the contemporary debate about industrial democracy has focused on the connection between different forms of industrial democracy and economic outcomes, reflecting the general shift to neo-liberalism in the macro-environment. To understand the relationship between industrial democracy and the aims of the labour movement it is also important to explore the contours of this debate. A number of pro-business lobbies, like the Business Council of Australia, have argued that increased competition in product markets means there is a need to alter the way workers participate in the management of organisations. The 'hard' version of this argument is that there is a need to replace union representation with individual representation or additional forms of employee representation (see Gollan, Markey and Ross, 2002). Softer versions of this argument suggest that direct forms of consultation, with no role for trade unions, are likely to have greater economic benefits than union-based forms of participation.

Both these views are based on the assumption that, left to their own devices, management will make the correct decisions for the organisation. This approach suggests that, once freed from restrictions on their action, managers can simply choose the appropriate strategy for the firm based on their analysis of the external environment (see Porter 1979, 1996). This view, that management is rational and that strategy is simply a matter of positioning the firm, implies that all forms of restrictions on managerial prerogative are seen as inconsistent with firm

competitiveness (see Whittington 1993). It is on the basis of these assumptions that business lobby groups argue that unions are bad for the performance of the firm and that only limited and direct forms of participation are consistent with firm competitiveness.

However, even within the mainstream management literature, these assumptions – that management is rational and that strategy is a deliberate process – have been widely criticised. First, it is widely argued that even where managers are rational this rationality is 'bounded' by their cognitive limits. 'Bounded rationality' refers to the tendency of humans to make decisions and accept the first solution to a problem rather than the best one, and to be biased in their perception of information (Whittington 1993).

Second, research on mergers and acquisitions suggests that strategic decisions by managers are often motivated by factors other than economic efficiency, and that these decisions can have adverse consequences for firm performance. Berkovitch and Narayanan (1993), for example, found that managers' overestimation of their abilities or the desire for personal gain motivated almost half of all mergers and acquisitions they studied. They argued that this explained the high levels of economic loss associated with many deals (see also Hayward and Hambrick 1997 and Tautwein 1990). The implication is that management does not automatically make decisions that are in the best interests of the firm.

Furthermore, the view that maximising firm competitiveness is simply a matter of management choosing the correct strategy from an analysis of the external environment, has also been widely discredited in the management literature. As Mintzberg (1987) notes, the strategies of successful companies are rarely simply the product of deliberate management action. Rather, they tend to be crafted and emerge over time from a range of sources (see also Mintzberg and Walters 1985).

These criticisms have led to greater attention being directed towards the relationship between firm performance and the internal resources of the firm. One example of such an approach is the resource-based view of the firm (see Barney 1991, Grant 1991, Prahalad and Hamel 1990). This suggests that firms consist of a unique bundle of resources and capabilities and that the strategies that firms adopt are resource-dependent. This approach not only implies that the sources of competitive advantage in a

firm are embedded in its processes and built up over a long period of time, but also that the ways in which workers and managers communicate in a firm may have a considerable bearing on the range of strategic alternatives available to it.

These critiques of managerial rationality and deliberate notions of strategy, and the insights of the resource-based view of the firm, have a number of important implications in assessing the effect of industrial democracy on firm competitiveness. They suggest that, because management does not automatically make rational decisions about the best interests of the firm, a situation in which there are few constraints on managerial decision-making can potentially undermine firm performance. In other words, too much management freedom and *ad hoc* change can potentially undermine the resources and capabilities of the firm and damage its long-term competitiveness. Mechanisms that constrain *ad hoc* decision-making and provide alternative sources of information, such as a strong workplace trade unionism or an effective consultation mechanism, may help preserve the resources of the firm and ensure better strategy development and implementation.

There is some support for this view in the literature of strategy implementation. It is generally accepted that more than half of all strategic changes fail because of problems with implementation (Miller 1997). Nutt (1989) provides empirical evidence on the relative effectiveness of different forms of strategy implementation. He demonstrates that while managers favour implementation of strategies through edict and persuasion (that is, tactics associated with managerial freedom and power), these forms are less successful than other forms of implementation. In particular, he demonstrates that strategies implemented through consultation are more effective than edict or persuasion across a range of dimensions including, interestingly, timelines. Thus it can be suggested that mandated forms of consultation or a strong independent trade union presence at the workplace, may not only meet the demands of workers but may also improve firm performance by improving the implementation of strategy.

Some argue that employee consultation explains the relative success of German firms in introducing new technology. Sadowski *et al* (1995) argue that the rights of works councils to be consulted over technological change tend to have two effects. First, they slow down the introduction of new technology. While this is often treated

as a disadvantage, it also means there is a constraint on *ad hoc* and poorly conceived technological change on the part of managers. Second, once works councils have agreed to technological change, strategic decisions tend to be implemented more quickly and thoroughly than in situations where there is no consultation (Addison *et al* 1997). This is consistent with Nutt's findings above. While managers and business lobby groups have focused on the potential disadvantages of consultation and participation, they seldom focus on either the potential disadvantages of management freedom or the potential benefits of worker participation for the firm.

### Conclusion

It has been argued that constraints on management freedom, which force managers to justify decisions and to consult over implementation, can potentially improve firm performance. But are some forms of participation better than others? Some commentators, drawing on the German experience which couples good economic performance and a relatively strong union movement, have argued for the introduction of works councils in Australia. However, the German case shows that consultation and participation mechanisms need to be effective to make a difference. In keeping with one aspect of Buchanan and Briggs' (2002) argument, in the absence of a favourable conjuncture for the introduction of works councils in Australia, trade union organisation is likely to be the most effective way by which workers in Australia can participate in the management of firms. This mirrors the views of Cole and the Webbs in an earlier era.

The challenge for the labour movement is to ensure that workplace trade unionism can be an effective mechanism for industrial democracy. Not only is the role of unions increasingly important in an era of neo-liberalism, but unions need to be effective mechanisms for representing the interests of workers, at a national level and at the level of the workplace. This is no easy task. In this regard, the strategic reorientation of the ACTU, outlined in its *unions@work* publication and the increasing focus of the union movement on organising and building workplace structures, can be seen as a positive development for industrial democracy (Cooper 2000, 2002). In this sense, contrary to Buchanan

and Briggs (2002), we would argue that the statutory introduction of works councils could play a role in facilitating this outcome by providing an institutional focus, however imperfect, for union action at the level of the workplace.

The debate in Australia about industrial democracy has been confused at times by the tendency of advocates and opponents to be unclear about the form and content of the type of scheme which they are proposing. This chapter has argued that greater clarity is required in defining the meaning of industrial democracy and the various forms which it may take. Industrial democracy need not be antithetical to trade unionism. Indeed, unless there is union support for mandated works councils they are unlikely to succeed. However, simply waiting until there is a revival of trade union membership to historically high levels will miss an opportunity to consider forms of industrial democracy which may assist the development of a stronger role for employees (and their unions) in decision-making within the enterprise.

Similarly, to equate industrial democracy with various forms of employer or government-initiated schemes only confuses the issue. A favourable conjuncture of a new federal Labor government, and a reinvigorated union movement with a coherent policy on the issue and employers who are interested in exploring a more co-operative partnership approach to relationships with their employees, could provide the preconditions for a new approach to achieving greater industrial democracy in Australia.

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