

PRODUCTIVITY BARGAINING

Collective bargaining refers to the process of bilateral negotiations between representatives of management and labour representatives on such issues as wages, wage grades, working conditions and other welfare amenities. At the end of negotiations both the parties sign an agreement which has a stipulated duration. In conventional bargaining whether at enterprise-level or industry level, the lead is normally taken by the union, which demands higher wages, fringe benefits, better working conditions, etc. Most of the times after considerable amount of negotiations, the parties more or less settle by compromise on the demands raised and conceded. Normally no mention is made about work aspects and managements simply require that the unions continue working as before.

The collective bargaining system has the following merits:

- i) It spells out in clear terms the common thinking and decisions arrived at between management and labour union. The agreement generally has a life-span of 3 to 5.
- ii) It has established effective machinery whereby matters in dispute can be dealt with at the conference table and has, to the extent possible, substituted a system of law and order for open and damaging conflict.
- iii) It also provides a means to bring about uniformity in wage structure and common conditions of employment within an industry.
- iv) It is a powerful forum to protect the workers' interests. For e.g., in a number of industries, it has secured better wages and working conditions for the labour which remained unorganized for long.

However the collective bargaining system is not without short-comings. In a changing economy, unless the productivity of the workers is raised continually, mere wage increases will only create inflationary conditions. Workers must be made to realize that any wage increase, unaccompanied by productivity increase, is only harmful in the long run. But collective bargaining rarely ever has stressed the need for rise in productivity. It only deals with wage rises, securing good conditions of employment and working conditions and welfare amenities. In general, the system suffers from the following disadvantages:

Source : Incentives in Indian Industries, National Productivity Council.

- a) The issues involved in collective bargaining are not always fully understood by all the members concerned. In the words of Prof. Lupton:
- b) Collective bargaining does not always take into account the effect on overall economy and industry, of the wage agreements whether at local or national level.
- c) The bargaining is not realistically oriented to the performance. No mention is made of the productivity at the industry or at the plant level during the course of collective bargaining. It fails to obtain full union and worker co-operation to promote productivity, remove restrictive practices, re-development of labour in different craft. It fails to relate wage increase directly to change in the value of jobs in terms of increased effort or responsibility.
- d) Collective bargain is subject to political and social pressures and when wage increases are un-accompanied by productivity increases, it gives rise to inflationary tendencies. This is often reflected in terms of enhanced prices for products and services and as such the community has to bear the brunt of this inflationary tendencies. While the productivity gain, if any, is absorbed as profits, without in any way directly benefiting the consumers, wage increases are reflected as cost increases in case of no change in productivity.

Quoting the experience of Steel industry, Owen Smith observes:

“Traditional bargaining techniques were employed by Steel company of Wales. When using this method, both sides behave rather as if they are at an auction, with much importance being attached to finding the highest point to which employers will go and the lowest point below which trade unions will not go. In both cases, it is usually assumed that existing employment levels will be maintained. More important, both sides leave the negotiating table uncertain as to the practicability of an agreement, let alone its life expectancy. This does not mean that either side need be dishonorable, but that short-run considerations transcend the long-term need to anticipate productivity changes with both the waged structure and any increases in earnings. Existing anomalies in a wage structure might grow worse as this type of negotiation proceeds and underpaid workers will become more resentful of their overpaid colleagues. It has already been established that, within limits, such a behaviour pattern will probably always exist in a collective bargaining situation; the introduction of measuring techniques will minimize this tendency.”

- e) When once the agreement is broken it is damaged beyond repair.
- f) Collective bargaining does not take into account the consumers interest in terms of reduced or steady price levels. It does not provide an effective check when either of the parties violates the agreement. It is essential that any bilateral agreement should be protected under law and any attempt by either of the parties to raise disputes seeking to re-open existing agreements should not be considered.

NEED FOR PRODUCTIVITY BARGAINING

The emphasis has so far been on the positive aspects of incentive or Payment by Results (PER) Schemes. Writing about the experience of British steel industry E. Owen Smith writes:

“These disadvantages are particularly apparent in the PER system such as the tonnage bonus one, in which many workers must be geared to some proxy for their output. Naturally, criticism of the proposal to abolish the tonnage bonus came from those sections of the plant likely to lose financially. But PER systems do become rapidly outdated and cause endless anomalies to arise: Under-paid and over-paid workers emerge with all the consequent envy and odious comparisons that this situation implies. Only those workers who are located in the areas of technical change has been possible will benefit financially from such schemes.”

More often than not, increased productivity is the result of technological change and because of sophisticated equipment. Hence some employers argue that if the increased productivity is not due to increased effectiveness of working of employees, but due to better equipment, all the benefits should accrue to capital alone. They also point out that while the labour shares the gains of increased productivity which reflects as increased cost to the employers. But this is a rather insular view considering the fact that the workers should also equally co-operate in the change, as otherwise it will not bear full fruits to the management. Also it is not easy to separate the contribution to productivity of individual factors of production in exactitude. In introducing new and sophisticated machinery in the wake of technological innovations, there is need to re-train the workers in new skills and also to re-deploy the workforce in a more rational manner.

It will not be possible to achieve these changes without the consequent industrial strife if the management is unwilling to share the gains of increased productivity. Those who adopt such an insular attitude should understand that the running of an enterprise is a co-operative endeavour, the aims of management and labour must conform and not contradict. Even in advance countries, the workers' wages are high because of the technological

improvement and not because of extra effort of the workers themselves. Hence both must share the gains arising out of increased productivity.

Even as early as 1939, Roethlisberger and Dickson, as an outcome of the Hawthorne Studies stated that: "None of the results gave the slightest substantiation to the theory that the worker is primarily motivated by economic interest. The evidence indicated that the efficacy of a wage incentive is so dependent on other factors that it is impossible to separate it out as a thing in itself having an independent effect". But quite a number of studies and experiments reveal that financial incentives do influence the output. But the problems of productivity, satisfaction and group relations are normally problems of group activities. Financial incentives if applied injudiciously can lead to widespread discontent and fall in morale.

Financial incentives of PER Schemes do give rise to an initial response of increased output. But an industrial situation is not something static, i.e., things will not remain as they are during the subsequent periods; rather it is a 'dynamic' situation of change in attitudes, preferences and motives of workers. In course of time the incentive scheme comes to be taken for granted. Then how to increase the output further and try to keep the costs within reasonable limits? The only answer is to improve continually the productivity of the workers and of the equipment. But such a change cannot be done unilaterally by the management. It is a result of bilateral agreements to further productivity, a sequel to 'Collective Bargaining. But Owen Smith declares that "Collective Bargaining until recently rarely took positive steps to relate input and output except by expressing the pious hope that this would be brought about simply by signing an agreement". Productivity bargaining attempts for a continual rise in productivity through elimination of restriction of outfit.

HISTORY OF PRODUCTIVITY BARGAINING

The origin of productivity bargaining can be traced to the economic difficulties experienced by Britain in the sixties. With wages and prices more and more under government control, a lead was taken by ESSO's refining affiliate, viz., ESSO Oil Company Limited in this new field. ESSO took a close look at the wages, job classifications, overtime practices and other practices and offered wage increases and other fringe benefits in return for unions' acceptance for increased productivity and changes in work practices. A printed booklet containing proposed changes in wages, work practices, working hours, etc., was circulated among the workers and union members in advance and their views and criticisms were solicited. The booklet also contained the schedule for implementing changes. It provided a means for the labour to receive higher pay and work lesser hours a radical change from the historic labour practices work rules and other transactions, if those objectives were to be met. ESSO's lead was followed by I.C.I., Alcan Industries, British Oxygen, etc. In the words of Mr. E.G. Frement, Jr.: "The object of the negotiations was

to improve the basic efficiency of the companies' operations while evolving a more satisfactory method of answering labour's needs. In practice, Productivity Bargaining in England has succeeded in raising the ratio of productive to non-productive time spent on the job by maintenance and process workers at several large factories. It has enabled capital intensive production and distribution facilities to go to shift working and reduced the time lost due to dispute arising from cumbersome wage structures."

PRODUCTIVITY BARGAINING

How is productivity bargaining different from collective bargaining is a question that crops up to everybody's mind. Strictly the idea of productivity bargaining is not entirely new. In a survey conducted by CIB (Confederation of British Industry), the replies indicated that in many industries negotiations on such matters as piece-work rates and bonus payments have always occurred, particularly at the level of the workplace. Those negotiations have to a limited extent tried to relate wages in some way to the level of output although the rates actually agreed have often been more a reflection of the relative bargaining strength of the two sides than of any exact assessment of the effect of agreement on productivity.

But 'productivity bargaining' is applied in a wider sense than in the narrower sense of just stimulation of greater effort through increased earnings. It refers to negotiations and agreements which incorporate increases in productivity through re-organisation of work-force, changes in work-practices and working conditions in return for improvements in pay and conditions of service. Mostly it originates from the managements side and provides for, at times, more than what the union asks for in return for something of value. The PIB points out that "changes in relations are designed to increase productivity of the factory or company, not necessarily the productivity of labour only. It soundly designed these agreements will increase profits as well as wages".

The idea that labour must be paid for its higher productivity is sound but inadequate. Labour is but one of the factors of production and the productivity due to other factors become equally important with the advent of higher mechanization. Let us consider a hypothetical example where 100 workers are turning out 100 articles. To induce them to make 200 units is to increase their productivity 100% but how will they react to this. Surely they would not produce 200 unless they are adequately compensated unless new methods are devised and new equipment is installed, unless they are suitably trained and also under trained managerial and supervisory personnel. But when we achieve these conditions, they all would have added to the input and the productivity increase would be very different from the target fixed. Hence change in labour productivity alone would be an insufficient index of measure of performance in case of companies with higher degree of mechanization. But to overcome the restrictive practices, the capital equipment would have to be utilized to the optimum extent and resultant cost reductions, if any, should be shared in a previously agreed manner. However the CIB expressed its view that technological change alone, which may in fact result in a worker

having to give less effort instead of more, should not be regarded as justifying an increase in pay simply because it results in higher out-put.

One must find out why there are restrictive practices curtailing output existing in industries. Experimental research points out that restrictive practices exist both from point of view of security and a need to compensate for uncertainty and unsatisfactory nature of various jobs in the company. The attitude of the worker is based on the nature of work and also the domestic situation and surroundings. The management takes for granted certain practices without really getting to know the attitudes and feelings of the workers. Or it fears to face the 'problem' of higher productivity in the light of statutory restrictions involving redundancy of work force. Matters become still worse had the management not planned for re-training and reorganizing the work-force, supervisory personnel and management staff itself. According to Prof. Lupton, restriction of output and sabotage are at least lively and positive reaction of workers in their attempt to get security and self-respect.

GUIDELINES FOR THE ASSESSMENT OF INCREASED PRODUCTIVITY

Productivity refers to the ratio of output and input i.e., it is the efficiency with which inputs are utilized and spent in achieving the output

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

Or more precisely, productivity is the ratio of production to one of the factors of production viz, Land, Labour, Capital, etc. Thus we can arrive at different productivity ratios for different factors of production. A distinction must be made between production and productivity. The former relates to the production or volume of output whereas the latter refers to the ratio of efficiency of utilization of different factors of production. That higher productivity implies higher and higher standard of living for the workers and the community is a forgone conclusion.

The National Board for price and Incomes (PIB) of Britain, in three reports (Nos. 23, 36 and 123) had laid down certain criteria for assessing an increase and share in the gains of productivity. It not only stressed the need to optimize the use of manual labour but also non-manual labour and capital equipment. The PIB gave the following guide lines:

1st GUIDELINE

It should be shown that the workers are contributing towards the achievement of constantly rising levels of efficiency. Where appropriate, major changes in working practice or working methods should be specified in the agreement.

The objective of efficiency agreements is to make possible the constant raising of efficiency; this will require close and continuing co-operation between managements and workers so as to achieve and maintain the highest standards in the use of both equipment and manpower. The second sentence has special reference to agreements which specify major changes in working practice to which workers have agreed. Such changes should always be spelled out if there is any possibility that commitments in more general terms will lead to difficulties of interpretation or will not be given full expression in practice.

2nd GUIDELINE

measurements of efficiency should be based on the application of relevant indices of performance or work standards.

Management should devise and use appropriate yardsticks for measuring the contribution of workers of all kinds towards achieving rising levels of efficiency and develop an information system which makes full use of the data obtained as a result. For many manual operations work-studied standards are applicable and should be used, but work measurement can also be applied to a wide range of clerical and other non-manual work. For other situations it will be necessary to use more broad based indicators of performance, if necessary on a group basis.

3rd GUIDELINE

A realistic calculation of all the relevant costs of the agreement and of the gain attributable in the workers' contribution should normally show that the effect is to reduce the total cost of output or the cost of providing a given service.

'Relevant costs' may include, for example, the cost of redundancy payments or a proportion of consultants' fees where they are an integral part of an agreement, and these should be apportioned as necessary over a reasonable period rather than charged only to the first year following the agreement. The 'gains attributable to the workers' contribution' may result from more effective working methods, the fuller utilization of existing capital equipment, the adaptation of working practices to enable full and prompt use to be made of new equipment and reduced capital investment (if for example revised scheduling and shift working make possible a smaller transport fleet). The reference to a reduction in cost assumes a calculation for the purpose of which unrelated costs, e.g., the price of raw materials, are left out of account.

4th GUIDELINE

There should be effective controls to ensure that projected increases in efficiency are achieved and that higher pay or other improvements are made only when such increases are assured.

In order to observe this guideline, managements must operate effective controls, including an information system which makes it possible to estimate in advance and subsequently monitor the extent to which increases in the efficiency are in fact being achieved. In so far as the information system shows that progress exceeds or falls short of the original projection, some adjustment may have to be made. In any case, due allowance should be made for the accrual of some of the achieved gain to the consumer. Particular care also needs to be taken to distinguish the contribution of workers from other sources of more efficient working.

5th GUIDELINE

There should be clear benefits to, the consumer by way of a contribution to stable or lower prices.

This guideline is of particular importance in areas of rapid economic expansion, since the most needs to be made of opportunities to reduce prices in these areas in order to contribute as much as possible to raising the real incomes of the community as a whole. In some cases the community may benefit by an improvement in quality while prices remain un-changed or by the use of the gains to complete more effectively in export markets.

6th GUIDELINE

An agreement applying to one group of workers only should bear the cost of consequential increases to other groups, if any have to be granted.

An example would be if supervisors have to be given a pay increase to prevent the disappearance of a differential as a result of a pay increase granted to the workers whom they supervise. The need for consequential increases unrelated to increases in efficiency should, however, be reduced as much as possible by enabling other groups of workers to conclude their own efficiency agreements or by including them within the scope of the original agreement.

7th GUIDELINE

Negotiators should avoid setting levels of pay or conditions which might have undesirable repercussions elsewhere.

Where large increases in pay are shown to be justified, negotiators should consider the possibility of staggering the increases over a period of time or, alternatively, of a non-recurring lump sum payment. Failure to do so, might raise expectations for future increases which could not be fulfilled and might also, because of the exceptional size of the increases, have repercussions which would eventually rebound on the undertaking granting the original increase.

REQUIREMENTS OF PRODUCTIVITY BARGAINING

The fundamental requirement of productivity bargaining is that a sincere attempt must be made to raise productivity through positive increase in efforts.

The bargain should aim at reduction in unit costs or at least try to de-escalate the spiraling price increases. A careful application of Productivity techniques for improving over-all performance is essential to achieve this.

A systems approach can help considerably in designing a productivity agreement. The inputs in the form of changes in operational procedures, re-organization of workers or work-place are to be clearly and unambiguously spelt out and a schedule of completion of such inputs stage by stage should be clearly defined. The output in the form of increased productivity and rewards should be worked out on the basis of guidelines discussed earlier. The most important limb of a system is its control points. The system should constantly check whether the output as envisaged is achieved or not. It is thus useful at times to implement the system in stages, in which case we may draw from experience gained in preceding stages.

When a productivity agreement is signed covering only part of the workers in the plant, a question arises as how to compensate those workers who are not covered in these agreements. One possibility is to grant pay rises to only such of those staff who are covered under the agreement. But obviously this would not be very conducive to harmonious industrial relations. The PIB's guidelines suggests that all rewards must result from the direct savings accruing out of implementation of the agreement. Thus all the workers may be partly compensated through this change, the rest being given after the other set of workers are brought into the purview of the agreement.

In large plants or companies with more than one plant, if a productivity agreement is envisaged forming part of a single or a few sections or plants, it is desirable to relate pay increases to the overall improvement of the plant rather than that achieved in the particular section or plant. If a job evaluation is simultaneously carried out, it can help to reduce the disparities in wage structure and ensure that increases in earning do not distort the existing wage structure.

The reward for increased Productivity may also take the shape of non-financial perquisites such as improved status, free grants or more welfare amenities, though it may be difficult to tell this idea immediately.

Consumers must also have a share in the benefits of increased productivity, in the form of lower prices or stable price levels. If an agreement provides also for the growth of the organization in terms of re-equipping through sophisticated equipments and as a consequence the productivity improves enormously, then it would be wrong for all the benefits to be enjoyed by the

workers and owners of the company. A reasonable share must be provided for the community as a whole.

It is essential that all the implications of a productivity agreement are understood by all the levels of management. This calls for educating all of them through negotiations and other means.

There must be suitable organizational set up with qualified personnel to undertake productivity measurement collection and proceedings of relevant information, etc., within the company itself. Also other aspects such as maintenance, safety and protective measures which are incidental to productivity increase must be taken care of in course of agreement.

DIFFICULTIES IN INTRODUCING A PRODUCTIVITY BARGAIN

Productivity bargain is a more through attempt to achieve productivity rise in the company and increased earnings to the workers than what is attempted with conventional collective bargaining. However there are several difficulties to be encountered while introducing a productivity bargain in a company:

- i) The chief difficulty is to get over the inter and intra union rivalry. Speaking at a recent seminar on “Multiplicity of Trade Unions and its Effect on Industrial Relations and Productivity” on June 15, 1972, the President Mr. V.V. Giri reiterated the slogan of “one union in one industry” and said that multiplicity of trade unions is neither conducive to the promotion of good industrial relations nor did it help increase production and productivity so essential to national prosperity. It weakens the power of collective bargaining and reduces the effectiveness of workers in securing their legitimate rights.
- ii) The management must spend considerable time and effort to keep the required information ready and this calls for an effective information system. Also this information must be circulated in advance, so that the union can check the information and get all the clarifications required.
- iii) Alternate avenues of employment must be ensured for redundant labour to ensure “productivity without tears”. This would call for expenditure for retraining labour in new skills.
- iv) There must be a continuous appraisal of the job evaluation system, since the skill requirements vary from time to time. There would also be difficulties arising out of the subjective elements of a job evaluation system and the irrational conceptions of individuals about their own importance.
- v) The management must realize the productivity agreements are not solely intended to reduce labour costs, but have wider benefits also

and as such should try to maximize the potential benefits from productivity bargaining.

- vi) Greater knowledge of management and unions about the productivity techniques, its concepts and implications leads to removal of hesitation and hostility by both sides towards productivity agreements.

CONCLUSIONS

1. Productivity Bargaining is different from collective Bargaining, even though both have some similarities.
2. Mutually accepted guidelines/models help in sharing the gains of productivity equitably.
3. Introduction and implementation of productivity bargaining agreements involve considerable preparation.