1 Introduction

The key theme of this book is how economic crisis shaped the management of workrules in unionised companies in Britain between 1979 and 1991. During this period, many of the advanced industrialised countries experienced product market collapse and labour market slump. Britain endured an especially harsh recession in the early 1980s. Commentators have argued that these competitive shocks weakened the collective organisation of labour on the shopfloor, and engendered the radical restructuring of working practices in unionised companies. But there has been less attention to the processes by which such change took place, and in particular to the interplay between economic pressures, the 'strategic choices' made by managers, and the pattern of change to formal rule structures and informal practices at the workplace.

These themes are explored through a comparison of fifty highly unionised companies in Britain in 1979 and 1991. Semi-structured interviews were undertaken with senior personnel managers in each company in both years. Reference will also be made to a panel of fifteen employers' associations, interviewed in 1979 and again in 1990. The comparative advantage of these data is that they highlight the broad patterns and specific processes of reform. The study aspires neither to the richness of the detailed case study nor to the coverage of the large-scale questionnaire survey. Rather, the aim is to explore the process of adjustment in a panel of organisations which have in common strong labour organisation and deeply entrenched collective-bargaining institutions.

This first chapter is set out in four further sections which examine the nature of economic crisis in Britain and the other advanced economies; economic crisis and industrial relations reform; strategic choice and industrial relations change; and strategic choice under crisis conditions.

Economic crisis in Britain and the other advanced economies

Economic crisis has afflicted much of the Western industrialised world in the past twenty years, most especially the decentralised market-driven economies, such as Britain and the United States. Between the end of the Second World War and the middle of the 1970s, many of the advanced economies enjoyed historically high rates of unbroken economic growth. Compared to the slumps of the inter-war era, demand for manufactured goods and services was buoyant, unemployment was low and skilled labour was scarce. In most Western industrialised countries, trade union membership was rising and penetrating into previously unorganised sectors of the economy and into traditionally non-union occupational groups.

Since the middle of the 1970s the Western economies have suffered a sustained economic downturn. National economies have experienced lengthy periods of recession, while unemployment has risen to and persists at historically high rates. These trends are in part a consequence of the globalisation of competition, a process which has accelerated in the past twenty years. The range of product lines and branded goods has expanded, and products markets have become further segmented. With advances in microprocessor technology, there has been a quickening in the frequency with which products and services are re-specified, and production systems are reconfigured.

In response to the failure of the economy, governments in several countries, including the United States, have attempted to 'deregulate' labour markets, and to weaken the bargaining position of trade unions. In few countries was the economic crisis as severe, or the reframing of employment law as marked, as in Britain. For much of the 1950s and 1960s, the British political economy was characterised by Keynesian demand management to sustain high rates of consumption together with low rates of unemployment (for reviews, see Dunn 1979, MacInness 1987). To this might be added a preference for 'voluntarism', or free collective bargaining between employees and trade unions, in which the role of employment law was largely confined to setting a 'minimum floor' of wage and health and safety standards. This system came to be associated with the post-war economic boom conditions of high output and scarce labour which prevailed until the early 1970's.

Concern at Britain's relatively slow economic growth, balance of payments difficulties and persistent inflation grew during the 1960s. Trade unions and the voluntarist industrial relations system were considered a factor in the sluggish rate of growth, so much so that the Donovan Commission was established in 1965. The report of the Commission (Donovan 1968) argued that tight labour markets and expanding product markets had enabled groups of workers on the shopfloor to exert bargaining pressure over supervisors and junior management. The outcome was a disjuncture between the 'formal' system of collective bargaining at industry level, and the 'informal' system at the workplace. The unofficial and fragmented nature of bargaining on the shopfloor led to wage 'drift', or a disparity between rates stipulated in national agreements and those paid on the shopfloor, together with 'restrictive practices' including overmanning and systematic overtime, and unconstitutional or 'wildcat' strike action (Dunn 1979: 10). Donovan's prescription, consistent with the voluntarist ethos, was the extension of the system of formalised collective bargaining to the workplace, and the development of written, comprehensive collective agreements at this level.

With the Industrial Relations Act 1971, passed by the Heath government, came an initial incursion into the voluntarist 'space' (Dunn 1979: 1). The Act required trade unions to register to preserve their immunity from liability for inducing breaching of contract. It also provided for a mandatory 'cooling-off' period, as well as compulsory balloting, in the case of 'unfair industrial practices'. Collective agreements were also assumed to be legally enforceable contracts, unless the parties stipulated otherwise.

By the middle of the 1970s, the trade-off between inflation and unemployment upon which Keynesian demand management was founded appeared to be breaking down, and conditions of 'stagflation' prevailed – persistent price inflation combined with low economic growth. Between 1974 and 1975, unemployment increased from 0.6 million to above 1 million, while inflation also rose from 9.3 per cent in 1973 to over 26 per cent in 1975 (Dunn 1979: 26). The Labour government turned to the Social Contract, in which union wage restraint was traded for the repeal of the Industrial Relations Act 1971 and a new employment law framework, along with measures to boost demand and reduce unemployment. The Social Contract began to unravel in 1977–8, with union leaders increasingly unwilling or unable to impose wage restraint upon their members. With it, the Labour government turned to measures to restrict the money supply, in an attempt to combat inflation.

For the incoming Conservative government in 1979, tight monetary policy was one of the cornerstones of its economic policy. Interest rates were raised, in an attempt to halt the growth of cash and credit. As the value of the pound soared, and exports became more expensive and imports cheaper, the British economy moved sharply into recession. The fall in output and employment in Britain in the early 1980s was much greater than in the other industrialised economies (see Table 1.1). British manufacturing output fell by 17 per cent between 1979 and 1981, and by 9 per cent in 1980 alone. Product market collapse was accompanied by labour market slump. The manufacturing and processing sectors, where union organisation was at its strongest, were affected by job shedding on a scale unprecedented in the post-war period. Seasonally adjusted unemployment increased. Between 1975 and 1978, unemployment averaged just above 1,000,000. From 1979 to 1982, this figure averaged approximately 2,000,000, and then between 1983 and 1986, more than 3,000,000.

Table 1.1 *Maximum two-year percentage decline after 1979*

Country	Output	Employment
UK	3.5	5.7
US	0.4	(0.4)
France	(1.6)	1.3
Germany	0.4	3.2
Italy	(0.7)	(0.6)
Sweden	(0.5)	0.9
EEC	(0.6)	2.1

Source: Layard and Nickell (1989: 13)
Figures in brackets indicate increase.

The Thatcher government also profoundly altered the legal and political status of organised labour. The government took an aggressive stance towards bargaining with public sector unions, the outcome of which was a series of industrial disputes in the public sector, most notably in the coal mining industry in 1984–5 but also in water, rail transport, local government and secondary and higher education. Union recognition and the right to be a member of a trade union were withdrawn at GCHQ, the government intelligence communications headquarters. Government also refused to condemn employer action to derecognise unions in the print industry, as with the Stockport Messenger and News International industrial disputes.

Far-reaching changes were made to the framework of trade union and employment law between 1979 and 1991 (for reviews, sees Brown, Deakin and Ryan 1997, Dickens and Hall 1995, Dunn and Metcalf 1996). The closed shop, whereby union membership is made a requirement in order to obtain ('pre-entry' shop) or retain ('post-entry' shop) employment, was made legally unenforceable. The scope for unions to organise effective industrial action was narrowed. Trade union immunity for inducing breach of contract was withdrawn for strike action other than with the workers' own employer and at their own place of work. Immunity was also denied where the action takes place without a postal ballot of union members.

In addition to the magnitude of the changes in the political economy, their unanticipated nature also denotes this period as one of crisis. The collapse in corporate profitability came against a backdrop of a thirty-year period of relative stability and prosperity. Several major companies, such as the construction group BICC, recorded their first operating loss in the post-war era within the first three years of the Thatcher administration. The early 1980s also reversed long-standing trends in the UK labour market, such as the extension of union membership to traditionally non-union sectors of the economy, including private services, and to historically unorganised occupational groups such as white-collar, clerical, supervisory and managerial employees. The 1977–9 period marked a post-war high not only in aggregate union membership and union density, but also in the percentage of employees covered by collective agreements, and in the total number of days lost through industrial action. Cognitive psychologists commonly argue that perceivers' expectations of the future are informed by their experience of the recent past (e.g., Reger 1990). Any expectations of a continued and rising tide of trade union and labour influence into the 1980s were quickly confounded.

Economic crisis and industrial relations reform

The main question posed by the present study is how the economic and political shifts outlined above impacted upon the institutional framework of industrial relations in unionised companies. Fortunately, several large-scale surveys were conducted in the 1980s, which offer detailed and comprehensive data on industrial relations change. These include the Workplace Industrial Relations Survey (WIRS), which examined some 2,000 establishments with twenty-five or more employees in 1980 (Daniel and Millward 1983), 1984 (Millward and Stevens 1986) and 1990 (Millward *et al*. 1992); the Warwick Company Level Industrial Relations Survey (CLIRS), of 143 companies in 1985 and 176 companies in 1992 (Marginson *et al*. 1993); the survey by Gregg and Yates (1991) of industrial relations practices in 558 UK companies for the periods 1980–4 and 1985–9; and Edwards' (1987) survey of 229 factory managers in plants with 250 or more employees. Finally, there is the earlier company-level survey of manufacturing enterprises by Brown and his colleagues (Brown 1981).

Evidence suggests that the combination of product market pressures, increased unemployment and legal restrictions on the organising ability of trade unions led to widespread restructuring of work practices (Metcalf 1989, 1994, Oulton 1995). As Layard and Nickel (1989: 13) argued: 'the collapse in output and employment, accompanied as it was by an enormous rise in closures and bankruptcies . . . gave both workers and management little alternative but to increase productivity or go under.' Fear of bankruptcy, it is argued, disciplined employers into confronting overmanning and union job controls (Metcalf 1989: 19). Legislative change, combined with fear of redundancy, left unions less capable of opposing such changes and workers more inclined to comply with managerial demands (Oulton 1995, Metcalf 1989). Substantive change in unionised workplaces was commonly negotiated through collective-bargaining procedures. Where unions proved to be a material obstacle to restructuring, management were increasingly prepared to terminate union recognition in whole or in part, and to refute union membership agreements. These changes in union status may have signalled to employees a greater assertiveness on the part of management, together with the need to work harder, which may have been a factor in raising labour productivity in unionised establishments (Gregg, Machin and Metcalf 1993).

Such an argument implies a measure of continuity in collective-bargaining arrangements, for which there is some supporting evidence. The large majority of establishments that recognised trade unions in 1984 continued to do so in 1990 (Gregg and Yates 1991). Shop steward organisation in union companies remained little changed, although the total number of stewards had fallen in line with the total employed in the unionised sector. Procedures for industrial disputes and individual employee grievances also remained largely intact. While there is evidence of continued union presence in the majority of establishments that were unionised in 1979, this has been accompanied by widespread restructuring of collective-bargaining arrangements. The scope of issues which were covered by collective bargaining contracted. Union derecognition, while confined to a minority of enterprises, became more common. WIRS found that 9 per cent of the panel of trading sector workplaces reported the complete withdrawal of collective-bargaining rights between 1984 and 1990 (Millward *et al*. 1992: 75). Even where collective-bargaining procedures were retained, the level of bargaining had frequently been decentralised away from the multi-employer or corporate level. Walsh (1993) interviewed personnel managers in eighteen large, private-sector organisations in 1990 about their pay-setting arrangements. Nine companies had withdrawn from multi-employer bargaining or had decentralised collective bargaining in the 1980s (1993: 413). But the devolution of pay bargaining was often accompanied by the corporate centre monitoring or directly controlling pay levels in subsidiaries and establishments, to minimise the scope for pay leapfrogging.

Perhaps most notable was the reported decline in the presence of the closed shop, which has long been considered a symbol of union power (McCarthy 1963, Dunn and Gennard 1984). The pre-entry closed shop especially has been associated with union power to drive up the relative pay of workers covered by it (Metcalf 1993). An expansion in the coverage of the closed shop was registered in the 1970s, as closed shop arrangements extended to previously uncovered sectors such as food, drink and tobacco, clothing and footwear, transport and communications, the public utilities, and into non-manual occupational groups (Dunn and Gennard 1984: 15–16). These ‘soft’ closed shops were more likely to result from managerially sponsored procedural reform, than were the ‘hard’ closed shops in industries such as engineering, print and port transport, which had been imposed upon management, or in which management had acquiesced in order to promote stability and workplace order (Dunn and Gennard 1984: 41–55). In line with legislative change, WIRS shows a steep fall in the incidence of the closed shop in the 1980s. Compulsory unionism became 'far less numerous', diminishing from 20 per cent of establishments in 1984, to 4 per cent in 1990 for manual workers, and from 9 per cent to 1 per cent for non-manuals.

While collective-bargaining procedures may have remained extant in the majority of union establishments, there is evidence to suggest that management were increasingly able to define the bargaining agenda and to secure their preferred outcomes in negotiations. Morris and Wood (1991) interviewed personnel managers at a range of levels in fifteen large, private-sector organisations that were surveyed in the first CLIRS (Marginson *et al*. 1988). Morris and Wood (1991) found considerable continuity in procedural arrangements, such as union recognition, bargaining structures, consultation arrangements and shop steward facilities. But management had been changing the way that institutions worked. Management was becoming more confident about gaining 'what they wanted' from bargaining (1991: 269): 'In all but two of the [thirteen] unionised firms in our sample, managers said they took the initiative in negotiations more now' (1991: 270). Even where the number of shop stewards had remained unchanged, management had frequently attempted to reduce their influence, using methods such as limiting the number of shopfloor meetings allowed in work time and returning full time stewards to their work roles (1991: 271).

Storey (1992) finds that attacks on procedure in his fifteen case study companies were rare. But management had 'seized the initiative' and were more inclined to take an aggressive stance towards unions without having an agenda to replace them (1992: 77 and 246). Gregg and Yates (1991) report managerial perceptions of union strength. In what they admit to be a crude test, in the period 1984–9, 57 per cent of respondents felt that unions had become weaker, as against 7 per cent who felt that unions had become stronger. Case studies, such as in the coal industry after the 1984 strike, indicate that management were becoming better able to push through changes to working practices which increased labour productivity (Richardson and Wood 1989).

There is also evidence of widespread work restructuring, particularly of an attack on union job controls over effort and output, upon demarcation lines between labour of different crafts or skills, the introduction of new technology and the reduction of staffing levels (e.g., Metcalf 1989, Storey and Sisson 1993). Dunn and Wright (1994) examined the contents of fifty collective agreements in 1979 and 1990. They found that procedural indices, such as the scope of union recognition, disputes procedures and the administrative facilities that were granted to shop stewards, had remained largely intact. Substantive indices, such as productivity clauses, job structures and flexibility agreements had been much more extensively overhauled. However, there is little evidence to suggest that a more fundamental redesign of jobs has occurred. Storey and Sisson (1993) note that profound alterations in job content have been rare and changes are more likely to have taken the form of 'financially driven cost reductions' (1993: 34–5). 'Advanced' teamworking systems, the core of which are self-governing work groups, remain confined to a small minority of establishments (Geary 1995).

In summary, the competitive crisis of the early 1980s forced management to uproot union job controls and to implement more efficient forms of work organisation, while legislative reforms reduced the ability of trade union to resist these changes. Much of this change was negotiated through collective-bargaining procedures, although such procedures had often been decentralised away from the multi-employer and corporate level. Closed shop arrangements had commonly been rescinded, while in a minority of establishments, union recognition had been partly or completely withdrawn.

The context and processes of industrial relations change

In addition to the above broad developments, there is also evidence that management industrial relations policies and styles became increasingly diverse in the 1980s. Certain authors have argued that the Donovan model of formalised, decentralised collective bargaining may have come to dominate management thinking in unionised companies in the late 1970s. Dunn (1993) argues that management 'got incorporated' by Donovan logic, which stunted their ambition and unionised their imagination. There is certainly evidence to support such a view. Written collective-bargaining agreements, including grievance and disputes procedures, became more common at establishment level in the 1970s (Sisson and Brown 1983, Storey 1983). Shop steward organisation, such as formal entitlements to time off work and access to office facilities, was strengthened. There was, as noted above, a broadening in the coverage of the closed shop (Dunn and Gennard 1984). Storey (1980) suggests that the range of issues that were subject to joint workplace control expanded during the 1970s, which would be consistent with the formalisation of shopfloor procedures. These developments may have been especially well represented among the present panel of firms, which was determined in 1979 by high union membership and likely operation of a closed shop. It was to companies such as these, with strong collective organisation, to which Donovan primarily directed its reform proposals.

By the early 1990s, Dunn (1993) argues, management had 'deincorporated' itself from Donovan, and a 'more diverse pattern' of management policy was evident, with companies having embarked on widely differing courses of reform. Others detect a similar fracturing of personnel management orthodoxy. Purcell and Ahlstrand's (1994) study of multi-divisional companies (1994: 209) found a shift away from the previously numerically dominant policy which centred upon formalised collective bargaining – what they term 'bargained constitutionalism'. Companies were turning to a whole host of other policies. One popular route was towards a 'sophisticated consultative' policy, which combines a union presence with a more developmental approach to employees (1994: 197 and 213). Others were shifting towards a 'traditional' style of cost minimisation and labour subordination, or towards the 'sophisticated human relations' style, in which non-unionism is allied with 'commitment-empowerment' employee management.

Storey (1992) observed a 'retreat from proceduralism', along with a 'welter of initiatives' and a 'bewildering variety of approaches' (1992: 2). Management were experimenting with schemes which included 'an emphasis upon adaptability, direct communication with employees, "managerial leadership", and the moulding of a more tractable employee stock' (1992: 77). These initiatives were usually placed alongside existing collective bargaining and employee representation arrangements. Ahlstrand's (1990) study of the Fawley refinery shows how management turned away from its long-standing policy of negotiating formal productivity agreements, following their 'obvious failure', in favour of union derecognition, and the introduction of personal employee contracts with individual appraisal and reward.

The factories in Scott's (1994) three case studies had started to follow quite different labour relations policies, with the biscuit works remaining committed to Donovan-style pluralism, while the frozen food works had reorganised production into autonomous teams of workers. At the chocolate works, management had chosen to introduce single status, extend the incentive payments scheme to the shopfloor, eliminate direct supervision and transfer tasks such as minor maintenance duties and quality checking to production operatives.

Strategic choice and industrial relations change

Accounting for the greater diversity of industrial relations policies and styles apparent by the early 1990s is plainly fundamental to any assessment of the overall pattern of change. Perhaps the most influential studies to have addressed these processes are the US 'strategic choice' studies (Kochan, Katz and McKersie 1986, Capelli 1984, Kochan *et al*. 1984). Examining the competitive pressures faced by large US enterprises in the late 1970s and early 1980s, Kochan and his colleagues argued that the major industrial relations actors – government, unions and, especially, management – must be seen as active agents with a degree of choice over their preferences and behaviour. Actors exercise choice at three levels of the system (Table 1.2): over long-term strategic business policy and human resource issues, such as investment, plant location and new technology; over collective bargaining and personnel policy, such as personnel and negotiation strategies; and over workplace relations, such as supervisory style, worker participation and work organisation. Decisions are 'strategic' in that they bind the three levels of the system together.

Kochan *et al*. (1986) advance a link between the external environment and the institutional structure of firm-level industrial relations (Figure 1). This link is mediated by the values and strategies of the main actors, and by their history and current structures. Thus a destabilising incident, such as aggressive market moves by competitor firms, sets in motion a stream of business and industrial relations decisions (Kochan *et al*. 1984: 22). A firm must first decide upon its commitment to its existing lines of business, whether it wishes to continue to compete in these sectors or to withdraw from them. There then follow a series of 'competitive strategy' decisions, such as whether to compete on the basis of low cost, high quality or to be a niche player; such considerations frame downstream industrial relations issues, including collective-bargaining priorities.

Capelli (1984) shows for the airline industry that following deregulation, carriers pursued quite differing competitive strategies, and varied in their decisions to compete in the heavily contested, high volume trunk routes, or to avoid competition by concentrating upon the more sheltered, low-volume regional routes. These business decisions were informed by the carrier's financial position and available aircraft and by management's view of the market and the goals of their own firm (1984: 321). Such matters set the context for collective-bargaining negotiations, in terms of the need to secure concessions from the union, and their ability to finance any agreement with trade unions. For example, the 'strong competitors', such as American and Delta, had the financial resources to respond to route and price competition, and were better able to negotiate changes to workrules and wage savings, in return for job security guarantees. 'Weaker' competitors, such as Continental and Eastern, pursued short-term business strategies aimed at achieving financial stability and avoiding insolvency. These carriers were generally able to negotiate wage reductions and costs savings but not changes to workrules, which unions were reluctant to make permanent.

Kochan *et al*. (1984) make a similar point about the response of US tyre producers to import penetration in the rapidly growing US radial tyre market in the late 1970s. Goodyear, the market leader in sales volume, chose