

Worker participation and productivity change

*A careful assessment
of the available evidence
casts doubt on the viability of grafting
industrial relations practices from abroad
onto the U.S. scene*

SAR A. LEVITAN AND DIANE WERNEKE

In the past several years, there has been increasing speculation that the decisionmaking patterns of foreign business firms hold the key to improving U.S. productivity performance, reflecting greater recognition of institutional and cultural influences on productivity. In particular, the industrial practices found in West Germany and Japan, the United States' strongest competitors, have been cited as models to be emulated to achieve optimal productivity. Pointing to the traditional relationship between U.S. management and labor as well as the failure of many business leaders to properly manage and motivate their employees, proponents of reforming the workplace have stressed the potential of raising productivity through better labor-management communications and the establishment of programs of greater worker participation.¹

Rejecting the prevailing U.S. economic doctrine, which tends to view the firm as a machine that maximizes short-run profits, students of organizational behavior regard an enterprise as a social system with gaps between actual and optimum performance. An organization may be resistant or unresponsive to management goals. Jobs may be incom-

patibly designed, given the existing skills of employees, or they may be inappropriately meshed. Information may be lacking, thereby forestalling smooth and coordinated work processes. The consequence is deficient control over the quality and quantity of production. Management can set its goals in broad terms, but at the lower levels there is considerable room for variation both in the interpretation of goals and in the effort made to meet them. To achieve greater productivity, according to this view, management needs to share authority with workers by giving the employees a greater voice in determining production processes.

Job satisfaction may also play a major role in worker productivity. One of the principal arguments advanced in favor of worker participation is that giving employees a greater share in decisionmaking can reduce alienation and, with it, nonproductive practices such as absenteeism, turnover, and poor-quality work. Workers are viewed as being less willing to accept authoritarian decisions just because they have stepped within the factory, office, or shop.

The evidence that workers' participation plans result in greater productivity is far from conclusive, however. Generalizing on the basis of case studies is unwarranted because it is difficult to identify the nature and extent of worker participation and because it is hard to isolate the impact of workers' participation from other organizational and technological changes affecting productivity. Moreover, whatever the merits of the practices are in foreign countries, they may prove unsuitable for the American environment. Sys-

Sar A. Levitan is research professor of economics and director of the Center for Social Policy Studies, The George Washington University. Diane Werneke is an economist on the staff of U.S. Senator Paul Tsongas. This article is adapted from chapter 3 of their book, *Productivity: Problems, Prospects, and Policies* (Baltimore, The Johns Hopkins University Press, 1984).

tems of industrial relations are specific to each country, reflecting the customs, attitudes, and traditions of the society, and they are not easily transferable across continents.

Experiences from abroad

The West German and Japanese systems of worker participation have been touted as models for achieving organizational efficiency.

West Germany. In West Germany, participatory mechanisms have been established at two levels within the company: at the top and on the shop floor.² By law, workers have equal representation with shareholders on the supervisory boards of companies employing 2,000 or more workers. These boards approve major decisions about investments, loans, and other activities affecting the company's balance sheet. In addition, they select managers responsible for day-to-day decisionmaking. Thus, in principle, West German workers' representatives share with owners the power to set policy. Also, through their right to select a labor director to sit on the management board, workers share in the day-to-day implementation of these policies. However, in practical terms, in the majority of companies, workers' representatives play little more than an advisory role, as the chairman of the board is elected by the stockholders and retains control of the board and the real authority to run the company.

On the shop floor, workers' councils are elected by all employees. These councils have a voice in virtually all aspects of performance on the job, and they have, in consequence, greater authority than American shop stewards or business agents. Although worker representation on company boards has received the most attention in the United States, workers' councils are the key element of the West German work force's participation in company operations.

In addition to the labor-management system, the government has promoted a number of programs to improve working conditions by reorganizing jobs to expand worker discretion in, and responsibility for, daily work and quality control. In such cases, the organization of work has been reoriented around autonomous work groups, each of which is responsible for part of the production process; this arrangement gives every worker a voice in the performance of their work.

Have worker participation efforts in West Germany improved that nation's productivity performance? The Biedenkopf Commission, established to review the system of worker participation, found that worker participation had served industry well and had not reduced the competitiveness of companies as some employers had feared.³ The commission concluded that board representation had provided both employees and management with information that facilitated change within the company. Management found it useful to have a mechanism for informing employees of the company's situation and for encouraging

cooperation. Employees believed that communication had been increased.

The chief contribution of worker participation in West German productivity seems to be that it has promoted industrial peace and acceptance of change. Workers' councils have provided a mechanism for handling grievances and disputes and have helped to prevent management decisions that could cause employee dissatisfaction. With respect to shop floor experiments, however, little hard evidence is available on contributions to productivity.

Japan. In Japan, worker participation is less institutionalized and instead is derived from the unique system of industrial relations that characterizes many large Japanese companies.⁴ Lifetime employment is reinforced by a seniority-based system that establishes a steady progression for workers in status and pay, a system that is based on the age of the employee rather than on the precise work done. The result is a flexible work force that is willing to perform a variety of tasks and to accept technological change.

The organization of unions on a company basis rather than by occupation or industry, as is the case in most other countries, tends to stimulate cooperation between the unions and management. It is in the interest of both labor and management for the company to perform well. This commonality of interests is underpinned by a bonus system whereby as much as 6 months of wages are paid to employees on the basis of the company's performance.

In many Japanese companies, before any decision is made, consensus is sought at all levels of the company, a procedure known as *ringi*. Although time-consuming, the process stimulates an exchange of information and fosters cohesion, ultimately resulting in decisions being implemented with speed and broad support within the enterprise. This is reinforced in many companies by an extensive labor-management consultation system. Employee representatives have no formal veto power, but in practice many exercise considerable informal influence in company decisionmaking.

Shop-floor participation takes a concrete form in Japan. Adapted from the ideas of an American scientist, William Deming, quality control circles have proliferated in Japan, currently involving more than one worker in every eight. Part of the reason they have caught on is that as a concept, quality control corresponds well to the attitudes fostered by the system of industrial relations: cooperation for the common purpose of achieving company goals.

The Japanese system of industrial relations has nourished industrial harmony. Damaging strikes are rare. However, the most persuasive evidence of the positive relationship between productivity and employee participation comes from the quality control circles. With the establishment of these circles, responsibility for quality control shifted from engineers with limited shop-floor experience to employees working in teams with engineers. Numerous examples have been cited of employee suggestions that, when imple-

mented, improved productivity.⁵

It has also been suggested that because of the quality control circles, Japanese workers accept changes in the production process more willingly than workers in environments where solutions are handed down by management. This is particularly important in consumer durable industries, where changes in models require frequent alterations in the production process. Quality control circles also have an impact on the efficiency of production. Because far fewer inspectors are needed, one layer of bureaucracy is substantially reduced. For example, Japanese auto assembly plants have one inspector for every twenty employees; in the United States the ratio is one in seven. Moreover, because there is greater confidence that components are not defective (suppliers, too, are required to achieve rigorous quality standards), many companies can keep minimal inventories. As a result, the need for stock rooms and warehousing is reduced, production costs are lower, and the efficiency of assembly-line operations is increased.

The Japanese system reportedly promotes productivity in other ways. Lifetime employment, although it covers only employees of large firms, or about one-third of the work force, has been credited with reducing employee resistance to the introduction of new technology; workers have cooperated with management in seeking ways to increase productivity without fear of being displaced by machines or robots. Lifetime employment has also encouraged employers to invest heavily in the training and retraining of their employees, which has been reported to enhance the overall technical ability of the nation's work force.

The role of management

Much of the literature on linking worker participation with productivity growth has focused on harnessing workers' ideas and efforts to perform more effectively. The standard underlying assumption for many American productivity models has been that managers are inadequately motivated and need no advice to improve their performance. More recently, however, students of organizational behavior have shifted their attention to examining how employer actions promote or retard productivity growth.

Using West Germany and Japan as models, analysts have found that employers in the United States do not provide as much training for their employees. In West Germany, about half the youth leave school at age 15 or 16. Most are admitted to a 3-year apprenticeship system provided by employers. This practice reportedly produces a work force with a high level of technical competency and resulted, until the 1982 recession, in low unemployment among young people. German employers are also willing to provide necessary retraining because they have found that apprentices tend to adapt well to different work environments.⁶

In Japan, employer investments in training are substantial. Many workers are recruited directly from high school before they have had a chance to acquire specific job skills.

Once in the company, they undergo training not only to perform particular tasks but also to prepare them for other jobs in the company.⁷ The Japanese approach has two implications for productivity: flexible employment of the work force and acceptance by employees of technological change. Because the employee is trained for the company rather than for the job, narrow occupational lines are obliterated. Also, due to job security in large firms, resistance on the part of employees to technological changes and burdensome work rules are not as pronounced as in the United States.

In the United States, employers do provide considerable resources for employee training, estimated by the American Society for Training and Development at \$7 billion in 1983.⁸ However, in contrast to the West German and Japanese systems, the bulk of the training effort has focused on management and technical personnel; programs for manual workers are much rarer.

Some observers fault American employers for their short-term perspective as evidenced by the relative lack of training for production workers, claiming that it adversely affects the long-term performance of companies.⁹ This perspective is said to be a function of the high rate of turnover among managers and of management's preoccupation with short-term profits. Because managers are often rewarded with bonuses or other forms of compensation largely based on short-term profits, it is argued that they fail to plan and develop strategies for the long run. For example, capital invested in the upgrading of plants and equipment may reduce paper profits in the short run, while acquisition of established companies may result in immediate gains regardless of the long-run effects. Others fault U.S. managers who often have financial and legal backgrounds for their limited grasp of the production process and for their consequent misallocation of the investments that are needed to improve productivity over the longer term.

American managers tend to approach sales through market research and responding to customer complaints, but too much attention devoted to the current demands of customers in an effort to increase sales may frequently result in sacrificing product quality. This affects productivity in subtle but direct ways: by wasting materials and increasing the frequency of recalls to fix defective parts.¹⁰

American managers have also been criticized for failing to motivate production workers. By establishing layers of bureaucracy between workers and managers, the latter do not work as closely as their Japanese or West German counterparts do with those on the shop floor or in the office. This separation is reinforced by the wide salary disparity between American managers and blue-collar workers, a differential which far exceeds comparable pay differences abroad. And, as proponents of workers' participation would argue, American managers are less likely to provide channels for meaningful communication and involvement. Consequently, American workers are much less likely to identify with company goals than are employees abroad.

Models from abroad?

Even if American labor-management relations have serious deficiencies and the problems are compounded by inappropriate management incentives and objectives, it does not follow that a system that is effective in a foreign country would necessarily prove effective if imported to the United States. Industrial relations are most often shaped by the broader cultural forces that mold a society. The style of American management and the tenor of U.S. industrial relations are deeply embedded in the values and traditions of our society.

Despite the success attributed to the Japanese and West German systems of worker participation and the advocacy of these systems by observers in this country, these systems are unlikely to proliferate here. In West Germany, as elsewhere in Europe, worker participation is viewed in political terms as an extension of democracy which grants workers the right to participate in the organization that employs them. Such motivation is largely absent from the American labor movement, which is less doctrinaire and tends to focus more on bread-and-butter issues of pay, benefits, and working conditions.

West Germans' acceptance of the notion of workers' rights to participate in management decisions has been fostered by the relatively high unionization rates across the economy together with the strong political affiliations of the unions. Collective bargaining in European countries tends to be highly centralized, and it is often carried out on an industry-wide basis. Consequently, until workers' councils were established, there was little scope for worker participation at the company level. In contrast, bargaining at the plant level is characteristic of American industrial relations.

The idea of direct participation by labor representatives in corporate management has not been well received by either American management or labor. It has been rejected by managers concerned with their loss of control and by many union leaders who fear losing bargaining effectiveness through shared responsibility. Glenn E. Watts, president of the Communication Workers of America, put the union position succinctly: "I don't want to sit on the board and be responsible for managing the business. I want to be free as a unionist to criticize management."¹¹

Although most of U.S. organized labor also appear to prefer this adversarial relationship, the one prominent example of worker representation on a corporate board of directors in the United States also reflects the trade union dilemma. In response to their dire economic circumstances and the union "give-backs," the Chrysler Corporation invited the president of the United Auto Workers, Douglas Fraser, to serve on its board of directors so as to improve labor-management relations during a difficult restructuring period. This arrangement came to an end abruptly when Chrysler workers failed to agree on a new contract. Fraser resigned from the board before renegotiation of the contract began, citing conflict of interest (though he later returned

after the contract had been signed). This would not happen in the West German context because bargaining is centralized and labor representatives seated on company boards are proscribed by law from participating in collective bargaining. Apart from these legal and organizational distinctions, it is clear that the leaders of American labor unions are wary of being co-opted by management in matters they perceive to be of doubtful advantage to themselves or to their members.

It is equally unlikely that the Japanese model of worker participation would be readily accepted in the United States, despite the outpouring of articles from business schools and assorted experts praising the advantages of Japanese labor-management relations. Again, management seems to be opposed to diluting its authority. Perceiving the process to be slow and cumbersome, American management tends to regard these practices as inimical to efficiency. More fundamentally, Japanese practices are foreign to American culture and traditions. Consensus decisionmaking in Japan derives from a system of hierarchical relations governed by a paternalism in which the leader is responsible for all members of the group. Worker participation in Japan is integral to that country's unique system of industrial relations: Lifetime employment, seniority wages, and enterprise unions interact to harmonize individual and company goals, thereby laying the foundation on which meaningful communication and participation can be built.

Whatever the merits of the much-publicized Japanese system of industrial relations, it applies only to large companies, which employ about one-third of the work force.¹² This leaves a sizable secondary labor market of women and temporary part-time workers who have little or no say about the terms and conditions of their work or in the management decisions that affect them.

Borrowing from other industrial countries might remove some impediments to productivity growth. Adoption of desired reforms must be preceded, however, by a change in attitudes. Large-scale borrowing from successful practices abroad does not seem likely, nor could these practices be easily adopted. Traditions, norms, and legal arrangements differ too much among countries for such practices to be imported, as the limited success of experimental U.S. programs tends to demonstrate.

U.S. experiments

Major portions of foreign industrial relations models may not be transferable to the American context, but experiments have been undertaken to implement some salient features from the foreign models. Quality-of-worklife programs became a growth industry in the United States during the 1970's. These experiments fit better with U.S. traditions than the more legalistic West German or culturally different Japanese approaches. Advocates have asserted that work reform—either through job enrichment or participatory management—would make jobs more satisfying and would

usher in a new era of labor-management cooperation. This, in turn, would lead to increased productivity. In the inflationary, high-interest environment of the late 1970's, the idea of investing in participatory management as a means to improve productivity proved attractive.

The results of these experiments are far from conclusive. Several studies have reported on the experiences of some 200 American corporations experimenting with quality-of-worklife programs. These ranged from changes in individual job design (enlargement, rotation, or enrichment) to more sophisticated meshings of technology and group-work design (the socio-technical approach). On the basis of these experiments, proponents were quick to claim that the quality-of-worklife movement was gaining momentum. The hope, expressed or implied, was that encouraging employees to participate in decisions that affect their day-to-day work patterns would lead to an increase in their productivity. Drawing upon their creativity and expertise in helping to redesign jobs and improve the efficiency of the work process also would enhance productivity.

Despite all the claims surrounding the establishment of these programs there is little persuasive evidence that changes in the work environment improve productivity. According to a Work in America Institute report summarizing the literature on productivity and quality-of-worklife programs in the 1970's, "In isolated situations improved quality of work life can result in increases in productivity. We cannot, however, surmise that this is a direct cause-effect relationship."¹³

A New York Stock Exchange study was equally inconclusive. It reported that corporations which had established worker participation or related programs used them sparingly and that the programs involved only a fraction of the corporations' employees.¹⁴ Expressing hope for the future, the researchers suggested that human-resource programs might eventually be effective in raising productivity, but they noted that most of the efforts covered by their study had been in place for no more than 2 years, and thus many may have been producing a short-run improvement that would be difficult to sustain—the familiar "Hawthorne effect." Although some U.S. companies have recently been highly successful in this area, a reliable and adequate sample of corporate experience is hard to come by. Firms are not prone to report failures, and researchers are dependent upon company-released data that generally put experiments in the best possible light.

The idea of increasing productivity by means of greater participation at the workplace is deceptively simple. Evidently, workers have productive potential that is not being tapped. "Turning on" their creative energies would no doubt improve the performance of many companies. Worker participation could also provide the basis for a new spirit of cooperation, which would make it easier for management and labor to set goals and work toward them collectively. As a practical matter, however, the hoped-for reforms run

counter to deeply embedded authoritarian norms and American cultural values of individualism and competitive struggle. These values translate into adversarial and hierarchical relations at the workplace.

The real problem with establishing meaningful worker participation programs that contribute to greater productivity is that they require a redistribution of power within the workplace.¹⁵ The traditional management perspective is that the retention of control and final decisionmaking authority is essential to profit maximization. Although some employers may seek the advice of their employees in order to solve production problems, management in general is more likely to want workers to "feel" involved rather than actually to help make policy.

It is also not clear that American workers want far-reaching changes in their worklife or that management wants to encourage such changes. To workers, greater productivity may represent a threat to jobs. Conversely, management sees improving productivity as a process of gaining from labor greater flexibility in job assignment, production standards, crew sizes, and other elements over which labor has gained control.¹⁶

Organized labor has been wary of work-reform proposals. Skeptical unionists believe that many experiments at the workplace are designed to raise production standards, thereby eliciting greater work effort and circumventing seniority systems. Unions fear that these initiatives will become a means of avoiding fair compensation and will leave workers no real ability to influence key corporate decisions or to exercise greater control over their work lives.

Even the limited cooperation and consultation associated with quality control circles, a concept originally developed in the United States, is viewed with suspicion by American management and unions. Proposals by employees are not readily accepted by supervisors, who are concerned about their loss of authority, or by production engineers, who may have little direct contact with the workers making the suggestions. Consequently, many of the existing American circles tend to provide a more narrow scope for participation and for potential productivity gains. There are, of course, a number of exceptions and a number of reports of successful experiments, but the limited adoption of quality control techniques reflects continued union and management ambivalence toward these programs.¹⁷

It is therefore unrealistic to assume that in assessing existing relationships, labor and management are going to focus on cooperation and productivity considerations at the expense of traditional interests and motivations. This statement applies not only to situations where relations are governed by collective bargaining agreements but also in the nonunion sector, where management's power is often greater. Consequently, any effort to encourage greater cooperation will have to focus on working within the traditional system, rather than on building parallel but often ephemeral structures. □

¹John F. Tomer, "Worker Motivation: A Neglected Element in Micro-Micro Theory," *Journal of Economic Issues*, June 1981, pp. 351-62; Richard D. Rosenberg and Eliezer Rosenstein, "Participation and Productivity: An Empirical Study," *Industrial and Labor Relations Review*, April 1980, pp. 355-67; and Kenneth Walker, "Workers' Participation in Management," *International Institute for Labour Studies Bulletin*, no. 12, 1974.

²Johannes Schregle, "Codetermination in the Federal Republic of Germany: A Comparative View," *International Labour Review*, January-February 1978, pp. 81-90.

³Benjamin C. Roberts and others, *Collective Bargaining and Employee Participation in Western Europe, North America, and Japan* (New York, Trilateral Commission, 1979), pp. 41 ff.

⁴Organisation for Economic Co-operation and Development, *The Development of Industrial Relations Systems: Some Implications of Japanese Experience* (Paris, 1977).

⁵Robert E. Cole, *Work, Mobility, and Participation* (Berkeley, University of California Press, 1979), p. 166.

⁶Organisation for Economic Co-operation and Development, *Youth Without Work* (Paris, 1981), pp. 88-190.

⁷Organisation for Economic Co-operation and Development, *The Development of Industrial Relations Systems*, p. 17.

⁸Anthony P. Carnevale and Harold Goldstein, *Employee Training: Its Changing Role and an Analysis of New Data* (Washington, D.C., American Society for Training and Development, 1983), pp. 44-60.

⁹Robert H. Hayes and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review*, July-August 1980. A contrary view is presented by Richard R. West and Dennis E. Logue in "The False Doctrine of Productivity," *The New York Times*, Jan. 9, 1983.

¹⁰Committee for Economic Development, *Productivity Policy: Key to the Nation's Economic Future* (Washington, D.C., 1983), pp. 42 ff.

¹¹*Business Week*, May 11, 1981, p. 86.

¹²Robert Cole, *Work, Mobility, and Participation*, p. 166.

¹³Steven Parnes, *Productivity and the Quality of Working Life* (Scarsdale, NY, Work in America Institute, 1978), p. 4.

¹⁴New York Stock Exchange, Office of Economic Research, *People and Productivity: A Challenge to Corporate America* (New York, New York Stock Exchange, 1982).

¹⁵Sar A. Levitan and Clifford M. Johnson, *Second Thoughts on Work* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, 1982), pp. 173-199.

¹⁶Archie Kleingartner and Ross E. Azevedo, "Productivity Bargaining and Organizational Behavior," in *Collective Bargaining and Productivity* (Madison, Wis., Industrial Relations Research Association, 1975), pp. 119-39.

¹⁷Irving H. Siegel and Edgar Weinberg, *Labor-Management Cooperation: The American Experience* (Kalamazoo, Mich., W. E. Upjohn Institute for Employment Research, 1982).

A note on communications

The *Monthly Labor Review* welcomes communications that supplement, challenge, or expand on research published in its pages. To be considered for publication, communications should be factual and analytical, not polemical in tone. Communications should be addressed to the Editor-in-Chief, *Monthly Labor Review*, Bureau of Labor Statistics, U.S. Department of Labor, Washington, D.C. 20212.
