What do Unions Do to Management? Rethinking Unions' Effect in a Cognitive Perspective.

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ABSTRACT

What do unions do on management? Responses to this question have been organized in industrial relations literature around two main theoretical perspectives – monopoly and collective voice/institutional response – covering three effects: price, shock and voice effects. These three effects insist on the unions' influence on the managerial decisions' parameters and not on the decision-making process itself. Recently, Verma (2005) proposes an opposite and fruitful perspective in calling *learning effect* the intervention of unions in managerial deliberations. However, to predict a systematic positive effect attached to union presence would probably be a too simplified conclusion. Rather, we have to recognize the complexity of the phenomenom. In one hand, unionization, by challenging management, appears as an incentive to produce and share informations and thus rationalize decision. On the other hand, management can choose to protect itself from contestation and unions' opportunism by raising information asymmetry and thus inhibits managerial deliberation. In other words, the union cognitive effect is a double-edge one and depends on the perception of unions by management.

INTRODUCTION.

The very recurrent observation, for many years, in the field of industrial relations has definitely been the one of union question decline. For scholars, it is then possible to acknowledge this tendency and to replace industrial relations by a larger object: employment relations. Another reaction consists in rethinking union theories. This communication would like to take part of this second perspective by integrating the provisions of cognitive approaches to re-conceptualize the "*what do unions do*" question. It is argued that classical responses provided by economic literature through the notions of monopolistic power and collective voice are limited because they largely ignore the question of decision-making process in organizations. With various postulates about information availability, these answers' background is a neo-classical vision of economic rationality. Although these responses are largely dominant, it seems that an alternative approach in cognitive terms can be fruitful. In recognizing that decision-making process matters, this perspective lets us question the union effect on the deliberation process effectiveness.

WHAT DO UNIONS DO ? THE CLASSICAL RESPONSES.

To understand the provisions of cognitive theories, it is, at first, necessary to briefly come back on the classical responses provided by economic literature to the question of unionization effect on firm performance. Indeed, they are derived from two main conceptualisations sharing a common paradigmatic background whose identification highlights their theoretical limits. Both union as monopoly power and union as collective voice stand on the same assumption of economic rationality, although a disagree can be noted about the information available to decision makers. Verma (2005), in a clear and complete review, presents these perspectives around three effects : price effect, shock effect and voice effect.

Price effect.

The price effect directly stands on the neo-classical economy. Unionism is defined as a rational actor who maximises its utility function by raising its members' wages. To do this, it takes advantage of its monopolistic power. In this perspective, unionism is perceived as a barrier to market regulation of wages. And, as firms are supposed already efficient, unionization must be associated with an inefficient resources allocation. Management's role is then to correct this distorsion by substituting capital for labor.

> "*In the most basic monopoly analysis, in which unions can simply raise wages, management's responses are limited. It can reduce employment, substitute capital for labor, or hire more skilled workers to raise labor's productivity*" (Freeman and Medoff, 1984).

Shock effect.

The shock effect, theorized by Slichter, Heavy et Livernash (1941) also largely rests on a price interpretation. It distinguishes from pure price effect by accepting a possible firms' sub-optimization. The core argument is that costs associated with union presence reveal the sources of ineficiencies and prompt management to adopt more rational and productive practices.

Voice effect.

Freeman and Medoff (1984) propose to enlarge the vision of unionism. Taking support on the famous work of Hirschman, they show that unions are not only a monopolistic power but also an institution which authorizes employees to take voice and management to respond them. Collective voice and dialogue are supposed to facilitate the conciliation of divergent objectives between employees and their employer. It is why, according to Freeman and Medoff (1984) union presence should be associated with better productivity. As in the case of shock effect, it is accepted that firms can be inefficiently organised because of a lack of information.

What about the decision making process?

Finally, the three effects induced by unionization have contradictory consequences. The wages' increase is, in part, compensated by a better productivity due to shock and voice effects. If these effects are conceptually distinct, Verma (2005) note that it is not always easy to diferentiate them in practice. A lot of interaction phenomena hide frontiers. For example, it is often in the dialogue engaged after a shock effect that management discover better practices. Another example is that voice effect may be correlated with monopolistic power.
The difficulty in differentiating between these effects is also the consequence of a nearness of predictions. The case of productivity is well illustrating it since Freeman and Medoff (1984) argue that productivity raise is due as much to wages' increase as to rational practices adoption.
In our view, this nearness is not surprising because these effects depend on a common paradigmatic and are various declinations of a same assumption. In the three cases, decision is supposed to be a rational one. And decision makers are supposed to take efficient decision regarding information available. If a decision is non-optimal, it is because of

a lack of information. In the case of shock effect, costs are sources of information. In the case of voice effect, informations are shared in dialogue.
However, it isnow well established that management is not as rational as considered by neo-classical economy. Simon (1945) and March and Simon (1958) clearly show that managerial rationality is bounded because of a lack of information but also because of cognitive limits. Decision makers are not in a maximizing behavior but in a satisfacing one. Cognitive approaches reinforce and make clearer this observation. Tversky and Kahneman (1974) demonstrate that economic actors, when they lack informations, adopt simplified intellectual schemas named cognitive heuristics. According to the authors, those heuristics are particularly useful in a context of uncertainty because they reduce complexity and allow quick inferences. At the opposite, cognitive heuristics are risky simplifications which can produce bad decisions. In this perspective, a field of research has emerged in which scholars identified a lot of cognitive biases. Schwenk (1984), for example, proposes a synthesis of main biases which appear at the three stages of decision: problem identification, alternatives generation, choice of a solution.

TOWARD A COGNITIVE PERSPECTIVE.

The adoption of a cognitive perspective in union theory imply a paradigmatic rupture which delivers a welcome re-conceptualization of the "*what do unions do*" question. Explaining union effect on economic parameters of decision is not sufficient any more. It is now necessary to understand the union effect on managerial behavior in the decision making process.

Some intuitions in IR literature.

Some proposals can be found in industrial relations literature which can be inserted in a cognitive perspective. However, they are often limited to intuitions remained untheorized. Those proposals suggest that union challenge to managerial decision stimulate deliberation in the decision process. Verma (2005) call it the "*learning effect*":

> "*[...] a significant theme in industrial relations literature that the union's principal is to question management decisions. A related dynamic of labor-management interaction may be called the learning effect, i.e., both sides learn of new arrangements that can be used to govern the workplace and to guide efficient production. Such learning would be less likely to occur in the absence of unions and the dialectic they establish.*" (Verma, 2005).

At the origin of the argument isthe observation according to which deliberations in decision making process, and the presence of divergent opinions in those deliberations, are essential to ensure economic rationality. The linkbetween deliberation in decision process and quality of the decision iswell accepted in cognitive researches.

> "*If there is a divergence of assumptions among group members, if assumptions are held with some tentativeness, and if they are examined critically in the decision-making process, these simplification processes are more likely to be corrected. Assumptions underlying expert reports may be challenged and thus the effect of the simplification processes would be reduced*" (Schwenk, 1984).

Based on this observation, it is then imagined that union challenge can promote deliberations and stimulate economic rationality. However, the generalization of thisphenomenon to the labor-management interaction is probably too simplistic. As noted by Cosier *et al.* (1991), union voice can't systematically imply a dialectic because management is not always open to feedback. In fact, contradictory influences are in tension.

"*If, in fact, employees have the right to a voice in organizations, cognitive conflict can be very beneficial in avoiding poor decisions. However, there is an important downside from cognitive conflict that could reduce the desire from management to allow employees "a voice." The groupthink phenomenon shows that cognitive conflict may lead to affective conflict that involves emotions and bad feelings. Cognitive conflict challenges ideas and the status quo. Personal positions are called into question. This could easily result in some managers feeling threatened by cognitive conflict and cause them to squelch dissent and the opportunity to speak one's mind*" (Cosier *et al.*, 1991).

Groupthink in managerial decision making.

Indeed, the phenomenon is complex and call for a more developped theorization whose first step consists to explain why managerial decision lackof deliberation. An answer isprovided by the Janis' concept of groupthink. In studying some major US fiascoes, the author shows that a linkcan be drawn between group cohesiveness and errors in decision making.

"*I use the term "groupthink" as a quick and easy way to refer to a mode of thinking that people engage in when they are deeply involved in a cohesive in-group , when the member's strivings for unanimity override their motivation to reallistically appraise alternative courses of action*" (Janis, 1972).

Janis (1972) recognizes that cohesiveness allows an effective deliberate process because people are out of recrimination. But the paradox he isolates is that the more cohesive is a group the more a discord jeopardizes the group unity. In fact, two opposed mechanisms act simultaneously and explain why the relationship between cohesiveness and probability of error in decision making is a U-shaped one. There is a cohesiveness level over which groupthink is more important than critical examination. Figure 1 illustrates this relationship.

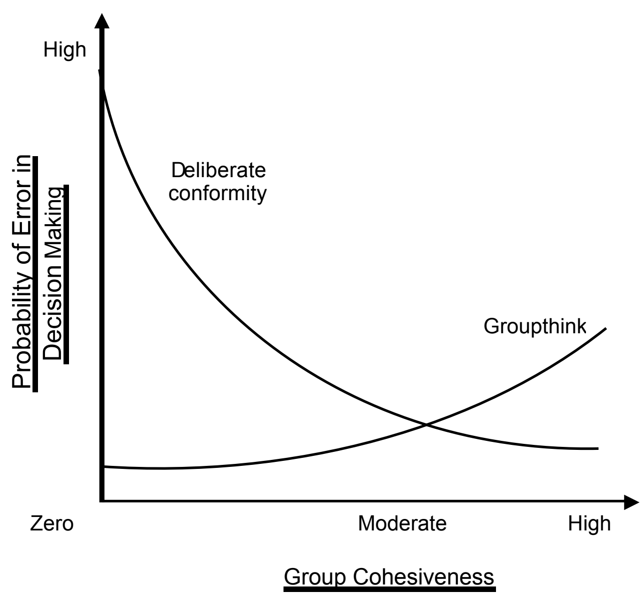

Figure 1. Relationship between group cohesiveness and error in decision making (Janis, 1972)

Janis (1972) identifies eight symptoms of groupthink :

1- An illusion of invulnerability.
2- Collective efforts to rationalize in order to discount warning.
3- An unquestioned belief in the group's inherent morality.
4- Stereotyped views of enemy leaders.
5- Direct pressure on any member who expresses strong arguments against any of the group's stereotype.
6- Self-censorship of deviations from the apparent group consensus.
7- A shared illusion of unanimity.
8- The emergence of self appointed mindguards.

One generally accepted idea is that top managerial teams' quest for consensus is a natural tendency and largely an explanation of mimicry and conservative managerial decisions.

Does unionisation limit or exacerbate groupthink?

Then, can unionization limit this tendency ? It has been showed that previous contributions considered an affirmative response to this question. In this case, it is supposed that union challenge introduce a benefic dialectic in decision making process. But an accurate exploration of groupthink mechanism justify a negative answer. This prediction is founded around three simple and intuitive propositions.

Proposition 1: Unions and management are engaged in an intergroup relationship. It is a well accepted proposition in the field of industrial relations but it is not sure that we always consider its consequences. Saying that union challenge can stimulate decision making, one generalizes the idea according to which *"if there is a divergence of assumptions among group members [...] these simplification processes are more likely to be corrected"* Schwenk (1984). The limit is that unions' representatives are not in-group members but out-group members. Social influence exerts itself in the group and union challenge introduce dialectic only if it is relayed by one or more managerial group member(s).

Proposition 2: Conflict is not only cognitive but also affective. The second proposition is explicit in the previous quotation of Cosier *et al.* (1991). The challenge opposed by union is not a pure cognitive conflict. Groups necessarily perceive hostility in opponent behavior and try to protect themselves from this hostility.

Propositon 3: Conflict with out-groups increases internal cohesion. This formulation is from Coser (1956) who tries to popularize Simmel's thoughts. The idea is that the injunction for unanimity in a group is more important when it is in conflict with other groups. In other words, the groups in conflict become intolerant to internal discord and the propensity to groupthink in those groups is higher. Note that all fiascoes described by Janis (1972) take place in a war context.

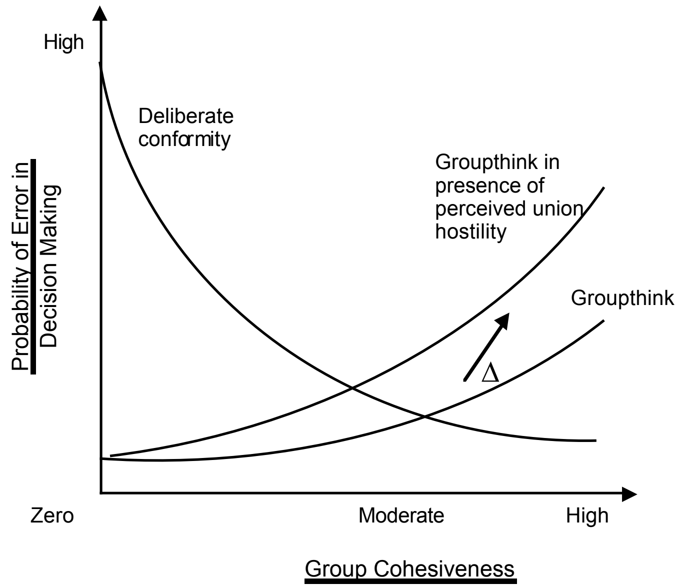

Figure 2. Effect of perceived union hostility on groupthink.

These three simple and well accepted propositions invite us to predict that perceived unions hostility exacerbates error in decision making, as showned in figure 2. The effect, represented by the Δ, is twofold. First the groupthink curve ismore pronounced what means that for an equal degree of cohesiveness, groupthinkis more important in a top managerial team which perceives union hostility. Second, when a group meets hostility, its cohesiveness is reinforced.

IMPLICATIONS FOR FUTURE RESEARCH.

As a conclusion, we would like to isolate two main implications of cognitive perspective for future researches.

1- In the present state, research largely adopt a monolithic vision of unions. They are supposed to share the same objectives and to act homogeneously. In a cognitive perspective, it's not the case. Union-management climate, which plays a central role, is an historical and collective construction.
2- Secondly, it is difficult to predict union effect in term of firm performance. If, as proposed, perceived unions hostility exacerbate managerial mimicry, it does not mean that it will be associated with lower performance. Managerial mimicry does not systematically mean underperformance since some practices are institutionalized because they prove their economic relevance in some cases. This generalization process is sometimes a good thing, sometimes a bad one.

For these two main reasons, this re-conceptualisation imply to leave the quest for a systematic link between unionization and firms performance. In some cases, unionization may limit groupthink and may exacerbate it in some other. What future research will have to study is the conditions under which union challenge can introduce dissensions in managerial in-group.

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