

The Third Pass to Industrial Democracy? The Experience of Employee Representation Plans in the US

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Abstract

Employee representation plans (ERPs) constituted an institution through which the elected representatives of the employees of a factory or a company dealt, consulted, and communicated with the management on matters of common interests for both sides of industrial relations, on issues such as working conditions and the other problems faced in the context of daily factory life and operation.

ERPs became popular in the post-WWI period, especially in the large manufacturing firms. Although the boom came to an end at the middle of the 1920s, the ERPs grasped a solid footing in the many major manufacturing companies such as Bethlehem Steel, International Harvester, General Electric, Westinghouse, Goodyear, Standard Oil, du Pont, de Nemours, and AT&T. The second boom came suddenly in 1933 just after the National Industrial Relations Act (NIRA) was passed by Congress. During this second boom, not only were many new ERPs established, but the existing ERPs also underwent significant structural reform in meeting the requirements set by the NIRA, especially article 7(a).

This paper takes up representative cases in analyzing the structural reforms of the ERPs in several major companies, and examines the possibilities of the role of ERPs in achieving a new type of industrial democracy.

The paper concluded that although the ERP system essentially had the potential to pioneer a new collective industrial relations system in the US, under the adverse economic and social situation of the 1930s, there were very few possibilities for the ERPs to fully realize this potential because of internal functional contradictions and an inherently weak collective decision making mechanism. Hence, it might be unrealistic to state that many ERPs could survive thereafter and play a role in constituting the third pass to industrial democracy in the US.

Two interrelated conditions prevented the realization of this potential. The first was that the ERPs' participatory/communicative functions were indivisibly combined with other collective decision-making functions relating to working conditions and shop-floor grievance resolution. As stated earlier, these functions could contradict each other under certain circumstances. In particular, the effects of the participatory/communicative functions and collective decision-making functions were prone to clash. Maintaining the balance between the multiple functions constituted a necessary element for the stable operations of the ERPs. However, the second condition, described below, tended to work as an obstacle to achieving this balance.

The second condition was that under the economic and social situation of the time, owing to competition from the rival union organizations, the ERPs tended to enhance their collective decision-making functions to show the employees the effectiveness of these functions in guaranteeing the improvement in their basic working conditions. As a result, some ERPs had to

sacrifice their participatory/communicative functions so as to compete with the national unions.
However, even for the most effective ERPs, it was quite difficult to compete on par with unions, because their fundamental organizational structure as a factory - or company-wide organization and their functional structure as a multifunctional organization set concrete limits to which ERPs could develop as a bargaining agency.

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INTRODUCTION

Employee representation plans (ERPs) constituted an institution through which the elected representatives of the employees of a factory or a company dealt, consulted, and communicated with the management on matters of common interests for both sides of industrial relations, on issues such as working conditions and the other problems faced in the context of daily factory life and operation.

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This paper takes up representative cases in analyzing the structural reforms of the ERPs in several major companies, and examines the possibilities of the role of ERPs in achieving a new type of industrial democracy.

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ERP REFORMS AFTER NIRA

Just after the NIRA was enacted, the number of ERPs, which at one point saw a decline, saw a sharp increase. By 1935, more than 3,100 firms had installed some type of ERP in their factories and they came to cover more than 2.5 million workers working in various industries (U. S. Department of Labor 1938). From this situation, it seemed as though a third type industrial relations system was in the course of being established in the US industrial society. However, their rapid expansion and substantial coverage notwithstanding, ERPs had been wiped out almost completely from the US industrial world by 1940. How do we understand and evaluate this situation?

The discussion in this paper is based on an analysis of the cases of seven companies listed in **Table 1**). The ERPs in these seven companies also underwent major renovations in 1933 (only US Steel had newly established ERPs in 1933). As a result, the activities of these ERPs became quite brisk and aggressive. Eventually, the Wagner act was passed, and ERPs began to disappear one by one during the late 1930s.

Table 1 Reforms of ERPs after NIRA and NLRA

Company	ERP Before NIRA	ERP After NIRA or NLRA
Goodyear Tire & Rubber Co.	Industrial Assembly	Goodyear Employees' Associations
International Harvester Co.	Industrial Council	Tractor Works Employees' Association
General Electric Co.	Works Council	Workers' Council
U. S. Steel Corp.	-----	Plan of Employee Representation
AT&T Co.	Employee Representation Plan	National Federation of Telephone Workers
du Pont de Nemours Co.	Works' Council	(Independent Labor Unions)
Western Electric Co.	Employee Representation Plan	Western Electric Employees Association

Although the strategies and contents of ERP reform differ somewhat in the details from case to case, they shared a common objective of strengthening the employees' collective voice in order to improve the basic working conditions, such as wages and hours, and in the formalization of shop floor grievance procedures; these functions served to enhance the independence of ERPs as a workers' organization.

In contrast to the fundamentally common character of the renovations in 1933, the termination processes of the ERPs were quite diverse. In both Goodyear and International Harvester, the management had, from start to end, been resisting the intrusion of external national unions. After their unsuccessful trial to reform and transform the ERPs into Independent Labor Unions (ILU) in their attempt to counter the unions, they finally and reluctantly recognized the unions and drew agreements with them. The management at the Bethlehem Steel Corp. displayed the same attitude.

In the case of GE's Schenectady Works, the story was quite different. Although, their ERP, known as the Works Council and, later, Workers Council, was very well-organized in every respect and was gaining increasing support from the general employees, the management swiftly abandoned it once the result of the representation election held by the National Labor Relations Board (NLRB) showed that the majority voted for the national union. The management of US Rubber Co. took the same stance.

In US Steel, where ERPs were initially organized in several plants just after the NIRA was enacted, by adopting the "boring from within" tactic, the national union members participated in ERP elections and assumed the leadership of the organizations. As a result, the plant-level ERPs and their consociated organizations were transformed into local union organizations of the industrial union. ERPs and unions in General Motors and Westinghouse Electric underwent similar changes.

Finally in AT&T, which included Western Electric Co., the management led the ERP's

transformation into an ILU. Relatively weak activities of external unions in the telephone service area left the door to the survival of the ILU and enabled its expansion into a nation-wide entity. Eventually, stable collective industrial relations between the company and the ILU were firmly established.

The most significant factors contributing the ERPs' diverse fates were the organizational and functional varieties of the ERPs and also the varieties of tactics implemented by each industrial union in undertaking organizational initiatives. In this paper, we will primarily discuss the former issue.

DIVERSITIES OF ERPs

The wide diversities of ERPs were a cause of the cognitive split that emerged when people attempted to assess what kind of institution the ERP was. Generally speaking, the public's understanding of ERPs was diverse and somewhat confusing from the outset (Gullett & Gray 1976; Nelson 1993; Kaufman 1997; Kaufman 2000).

On the one hand, there was a highly negative perception of ERPs. In this view, the ERPs were no more than a sophisticated and pernicious union avoidance tool, which supplemented and/or substituted traditional open-shop methods of a more direct and violent character. On the other hand, there were people who positively understood the ERP as a new institution aiming at forging a more democratic collective relationship between the management and the employees instead of undertaking either individual bargaining or traditional collective bargaining of unions. This sharp divide in the understanding of the ERP system seems to reflect the differences of the people's stance on unionism. General understanding was apparently that the people on the management side maintained positive attitudes toward ERP, and those on the union side held a negative impression.

Our research results show that the divided understanding of ERPs was a result of not only the different stances on unionism but also the diversities of ERPs themselves. Among the people who promoted ERPs, while some intended to use it simply as a more effective union avoidance instrument, other's essential intention was to develop a "non-union" but new collective-style industrial democracy. Of course, some others aimed to achieve both purposes together. The fact that diverse intentions existed among the ERP promoters was the one major cause of the cognitive split on the understanding of ERPs.

However, these initial intentions did not simply realize the actual organization and function of ERPs. Naturally, in the process of actually implementing each ERP, various unintended organizational and functional changes took place. Reaction from the rank and file employees, the attitudes of the first-line supervisors, the style and intensity of the union organization drive from outside of the firm, and so on—all these factors affected the managers' original intention and lead to unintended changes in the organization and functions of ERPs. The combined effect of the impact of these factors and the unintended changes in the functional balance of ERPs would give some ERPs a more anti-union character, and other ERPs a semblance of a non-union democratic institution.

The problem to be addressed concerns how and under what conditions an ERP became either more anti-union oriented or more non-union oriented than was originally intended. To look into this, we consider the functional aspects of ERP in detail.

INTERRELATIONS OF MULTIPLE FUNCTIONS OF ERPs

The different varieties of ERPs appeared to be strongly related to their functional multiplicity. A minute observation of ERPs showed that they usually had four major functional areas and the character of each ERP seemed to depend on how these four functional areas combined to form a unit institution.

The four functional areas were as follows: (1) collective dealing or determination of basic working conditions, (2) shop-level grievance procedures, (3) employee participation and commitment to production and factory operations, (4) communication between the management and the workers. The ERP's role in the first area was to ensure the basic working conditions through company or factory-wide bargaining with the management. Concerning the second area, with the installation of ERPs, the formal grievance procedure was, in many cases, established for the first time and elected employee representatives acted as shop stewards in the grievance settlement process. In the third area, namely, employee participation and commitment to production and operation, ERPs functioned as an institution providing employee-employer consultation. In the joint meetings organized by an ERP, the management would consult with employee representatives about the problems of production and other factory operations. In this consultation process, employee representatives gradually became interested in the problems of the factory organization and operations. In the fourth area, ERPs provided a two-way communication mechanism, a channel that was impossible to achieve through the company organ and other publishing media-like factory news. Through this two-way mechanism, some important information about factory administration and operations obtained via employee representatives went down to the general employees, and also the various useful information from the shop floor was transmitted up to the management. Such two-way communication lines, especially the upward line was quite remarkable, because first-line supervisors, including foremen, played almost no role in these settings (Farris 1995).

Concerning these four functional areas, the following general relationship was prospected from our research results. In cases of the ERP that had to be designed while keeping in mind the serious risk posed by organization drive from external unions, the role of the ERP in the first and the second areas, especially the former role, was given special importance. In other words, the ERPs' key orientation was often set in the direction of anti-unionism. On the contrary, ERPs established under weak external union pressures, tended to be designed to emphasize their "non-union" activities in the third and fourth areas.

These biases in ERP design were enhanced by the interaction of their roles in different functional areas. It is impossible to discuss this problem fully here, but at best, it suffices to say that the role of the ERP in the first functional area and in the third and fourth areas would contradict or trade-off under the certain conditions.

Table 2 Different Natures of the "Bargaining" function and "Participation"/"Communication" function

Functional Orientation	"Bargaining"	"Participation"/"Communication"
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Interests/Gain	Win – Loss	Win – Win
Voice Type	Reactive	Proactive
Major Issues	Basic Working Conditions	Personnel/Production Organization/ Operation
Information	Concealment/Restrict/Monopolize	Disclose/Sharing/Exchange
Character of Parties	Segregation/Closed/Cohesiveness	Assimilation/Openness/Accessible

As **Table 2** shows, there seem to be inherently contradicting factors between the ERPs' "bargaining" function with respect to the basic working conditions and their roles in employee "participation" or "'communication" between the management and the workers. For example, on the one hand, for strengthening the bargaining power, it is essential to limit the interaction and concealment of information in both parties, and on the other hand, for stimulating employee participation and commitment or enhancing effective communication between the management and workers, the disclosure of information and gain-sharing should be the norm. While each party in the bargaining process might naturally intend to be cohesive by themselves and be as independent from the counter party as possible, in the process that aims to enhance communication and participation, each party should lower the barrier and be as open to each other as possible. These contradicting stipulations were inevitable for the ERPs.

ERPs AS A BARGAINING AGENCY

When an ERP was installed mainly for union avoidance and collective bargaining substitution, the bargaining function of the ERP can be considered to potentially have a decisive importance. However, how could the ERPs gain bargaining power as strong as that held by the rival unions? If the bargaining function works somewhat effectively, how and under what conditions would it be realized?

Considering these issues, we have to take into account the essential fact that in general conditions, the bargaining power of ERPs was basically far weaker than that of the national unions. Our case studies of seven ERPs confirmed this fact. The ERPs' essential weakness in their bargaining power came from the fact that they were originally installed by the counter party in the bargaining process, namely, the management. Nevertheless, our research results also show that under certain circumstances, ERPs would have substantial bargaining powers against the management. However, even in these cases, the crucial limitation for enhancing the bargaining power of the ERPs lay in their basic organizational structure, especially in the case of ERPs of the most popular joint conference or joint committee type. Excepting a few employee association types of ERPs, their fundamental organization was joint-body type, consisting of both the representatives of the management and the employee representatives. In other words, they usually did not have organizations or meetings solely attended by the employee representatives. This organizational setting made it quite difficult for the employees to have a strong autonomous voice and act independently from the management, which would in turn give them a substantial bargaining power.

In addition to the above factor, as already pointed out by many scholars, if some ERPs happened to hold substantial bargaining power, their power was still generally weaker than that of the ordinary national unions, because as per their design, ERPs were inherently unable to control external labor markets the way the unions did.

Within our cases, the ERPs of International Harvester and Goodyear were intensively committed to the issues of basic working conditions. These ERPs were under the high pressure from not only organization drive from outside but also the employees' union activities from inside. In these two cases and under these high pressures, the representatives of management and employees on the ERPs had to act more aggressive and demanding, and as a result, the conferences and meetings of ERP began to progress in a manner starkly similar to genuine collective bargaining between management and the union. In this situation, if the level of the pressure had lowered for some reason, or if the management had a need to lower operating costs far beyond the ordinary level within a short time, it could have led to a significant decrease in the "bargaining power" of the employees' representative; as a result of this, the concept of "bargaining through the ERP" soon lost its reality. Bargaining through the ERP could only be effective if, at the very least, the management wanted to implement it and was able to.

After Congress enacted NIRA and its 7(a) clause, by which workers were allowed to choose their representatives and bargain collectively through them (either a union or non-union body), the management soon began to reform their ERPs to meet the new legal requirements. The reforms took various forms; as such increase in both the independence and the bargaining function of ERPs, setting up of employees' own committees or meetings, organization of steering committees or executive committees composed solely of employees, and formalization of the ERPs' commitment to the basic working condition, and other such measures formed the common agenda of the structural reforms of the time. In other words, the reforms aimed to change the ERPs' character to that of institutions having greater resemblance to a bargaining agency.

After the Wagner Act was passed by Congress, the management in some companies such as Goodyear, International Harvester, du Pont, and AT&T made attempts to transform the ERPs to "independent" employees' unions—in other words, they attempted the "unionization" of the ERPs.

As a result of these reforms, it is safe to say that the ERPs' bargaining functions were more or less intensified. Particularly in industries where the ERPs' rivalry to the outside unionism had been intense, stronger commitment to bargaining with the management was needed. In the extraordinarily severe economic conditions of the mid-1930s, where the even strong national unions had to hold quite a defensive stance, the ERPs' bargaining effort to improve their members' working conditions could yield few results.

For example, the ERP in GE's Schenectady Works—the Works' Council—was established in 1924 and gained steadily increasing support from the general employees by strengthening the decentralized shop-level grievance settlement function and information sharing through an effective communication mechanism, which transmitted various important managerial information to the shop floor. After the NIRA, the ERP was renovated, renamed the Workers' Council, and was given greater

independence from the management; this body took up various issues concerning the improvement of the basic working conditions such as through general wage hikes. Although the employees' expectations of the renovated ERP increased, it was quite difficult for the council to achieve results corresponding to this expectation under the adverse economic conditions of the time. As a result, the ERP's partial independence and somewhat frail bargaining power were exposed on some occasions.

Generally speaking, before the NIRA was enacted, the functional focus of many ERPs was not on collective decision-making regarding issues such as the improvement of the basic working conditions; in fact, they structurally lacked a strong bargaining power. Even after the NIRA was passed, although the ERPs' independence was structurally enhanced, their bargaining power still lagged far behind that of the unions. The weak bargaining power made it quite hard for this institution to play the role of a bargaining agency like the unions. The more the ERPs tried to concentrate their energy and time to decision-making aimed at improving the basic working conditions, the more their participatory/communicative functions eroded, and the more was the difference in the effectiveness of unions as bargaining agencies highlighted. To mitigate this dilemma, the management had to make a lot of concessions to the employee representatives, and it is clear that there was not much scope for large-scale concessions. As a result, the more the ERP representatives and the management univocally stressed the "predominance of ERPs" and "uselessness of unions," the more evident did the inferior position of ERPs become.

Thus, we now understand that the ERPs' area of functioning became very limited. Hypothetically, if the Wagner Act was judged to be unconstitutional and ERPs were not banned by law, it would still have been very difficult for many ERPs to survive long term as a bargaining agency. ERPs could be transformed into stable independent labor unions and survived long term only in cases where the pressure from rival unions was not too strong and the management had enough economic capacity to sustain ERPs, as seen in the cases ERPs of du Pont de Nemours and AT&T. These, however, were the exceptional cases.

CONCLUDING REMARKS

In the "non-union era" of the 1920s and the early 1930s in the American industrial society, although they had lost their power, unions maintained a certain influence and served as a typical model of industrial dispute resolution for rank and file workers; even so, ERPs were always an object of comparison and inevitably garnered severe criticism from the public. Had the management taken up a sincere search for an innovative path to industrial democracy, which could substitute the union-base collective industrial relations, the ERPs' fundamental vulnerability could have been unavoidable unless, for example, the federal government changed its industrial relations policy to allow ERP-type organizations. To this extent, the third path to industrial democracy in the US was, in fact, a very narrow defile to pass through.

It is quite ironic that as a result of the serious search for this narrow, limited path by the management and the ensuing counterattacks of the unions and the government, US industrial relations came to lack exceptionally in terms of in-house consulting and communication systems

between the management and the employees—features found in the industrial relations system of almost all developed economies.

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