

Industrial Relations in the Transnational Business Scenario: An Overview

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In the pursuit of business excellence, the transnational corporations have aggressively adopted the practice of off-shoring of production and operations. In response to this development transnational industrial relations scenario have experienced continuous evolution from 'Rules Model' (1990-2000) of employee relational connectedness to 'Bargain Model' since 2000. Though both the models are fundamentally different in their approaches, yet a spirit of mutuality is looming large in the contemporary situation governing industrial relations in transnational business environment. This is a conceptual paper based on extensive literature survey on the back-ground, development and future development in the industrial relations practice under transnational business framework.

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Introduction

Industrial relations and workers' rights have been traditionally managed by the processes of collective bargaining and industry level agreements between organizations and unions under various degrees of government intervention and supervision in different countries over the years. It has also been observed that the three main actors –firms, unions and governments - are mostly involved in determining industrial stability by addressing workers' issues. However, the role of international institutions, like the ILO are playing the tripartite constellations based on these actors of industrial relations system. Similarly, systems of industrial relations have predominantly been based on national legislation and thus been characterized by a high degree of national path-dependence. However, this industrial relations landscape currently is undergoing a fundamental change with the emergence of transnational organizations like never before, who have distinct strategic priority of off-shoring production system to developing countries, changing role of governments and challenges faced by the unions in these developing countries in the new political and economic context.

In the above background two different models of industrial relations are being promoted by the actors – i.e., the ‘Bargaining Model’ on the one hand and the ‘Rules Model’ on the other. These two models are growingly treated as manifestations of different forms of social capital configurations, implying specific types of ‘civicness’ or ‘relational connectedness’ in the industrial relations context.

Research Trends: an Overview

During recent years it has been argued that a process of globalization is at the matured stage of development leading to the marking of a profound shift in economic structures, institutional arrangements and the organization of work (Stieglitz, 2003; Bhagwati, 2005; Cohen, 2006). Evidence of this development usually includes increasing competitive pressures, global outsourcing, communication technology evolution, and a homogenization of consumer tastes and branding. The transnational organization of production became prevalent during the 1980s and 1990s as European and US-based TNCs started to offshore much of their production to developing countries (Jones, 2005; Taylor, 2005). This trend has been particularly evident in low-skill industries – such as the garment, footwear and toy industries in which TNCs, to a large extent, pursue low-cost strategies (Christenson & Appelbaum, 1995; Hathcote & Nam, 1999). Through this off-shoring of production, workers’ rights issues in low-skill and other industries continue to move geographically from a European and US backdrop to a predomi-

nantly Asian condition (Frenkel, 2001). In the process, the European and US national arenas where workers’ rights issues traditionally have been negotiated become less relevant and, consequently, the dominant actors in these settings such as the national European and US governments loose influence. In contrast, the national backdrops of developing countries in mainly Asia increase in importance. Many of these countries have fairly stringent labor laws similar to those in Europe and US with countries such as China, India and Vietnam recently making profound changes in their labor laws (Warner, 1996; Chan, 1998; Cooney et al., 2002). However, there are large gaps between the labor laws and corporate practices in these countries – especially in the countries with recently changed laws (Zhu & Fahey, 1999; Cooney et al., 2002). In practice, this means that TNCs that are off-shoring production to Asian countries are entering national settings with little labor law enforcement. Since transnational institutions for workers’ rights have not yet developed to balance the off-shoring trend and the weak enforcement of Asian labor laws, the workers’ right situation can be characterized as ‘governance without government’ with TNCs, unions, NGOs governing industrial relations (Beck, 1992; Rosenau & Czempiel, 1992; Strange, 1996; Christmann & Taylor, 2002; Frenkel

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Prieto & Quinteros, 2004). Paralleling this decreasing role of governments in industrial relations is an increase in influence of transnational corporations in general (Anderson & Cavanagh, 1996) and in relation to industrial relations in particular (Deetz, 1992; Riisgaard, 2005). In this way, TNCs have gained enormously and governments are fast losing their significance in industrial relations system.

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The trend towards TNC-centered industrial relations rather than state-centered national governance poses considerable challenge to unions. A strategic response from unions has included the setting up of so-called European Works Councils, based on the 1994 EC directive, an ongoing process which has been made possible by political strategies of labor movements seeking to pursue a legislative underpinning for transnational organizing (Gregory & Nilsson, 2004). Yet, Hardt and Negri (2001) have concluded that European Works Councils are unlikely to be sufficient in balancing TNC influence as the marketplace expands beyond the European setting. Unions' legal and political strategies are also made increasingly difficult by the neo-liberal political agenda that dominates Western politics, leading to a decline in unions' political influence (Wills, 1998; Connor, 2004). As suggested by previous studies (Ramsay, 1997; Weston & Lucio, 1997; Wills, 1998), Nordic unions

have also proven reluctant to transfer any real bargaining mandate to European Works Councils, since they perceive these councils to provide weaker protection for unions than the existing national legislation.

Unions' roles and influence are also challenged by declining membership numbers in Western countries (Wills, 1998), as well as low or virtually non-existent membership numbers in developing countries (Chan & Ross, 2003; Valor, 2005). A popular argument supporting this 'secular decline' thesis is that the collectivist ideology of unions has become outdated as work has become individualized (Allvin & Sverke, 2000), roles and identities are being recast around individual service production (Phelps Brown, 1990) and shaped more by one's role as a consumer rather than a producer (Lyon, 1999). Statistics on union membership trends during the last twenty years also seem to support this thesis. For Western Europe as a whole, union membership density has dropped from 44 per cent down to 32 per cent between 1980 and 1998 (Beori et al., 2001). A similar development can be observed in the USA (Gregory & Nilsson, 2004). Some countries – such as Sweden, Denmark and Belgium – have been able to maintain a high degree of union membership, mainly due to unions' role in these countries in distributing state benefits (Huzzard et al., 2004). Whatever the reasons for the membership decline are, these developments negatively affect the ability of the unions to exert influence politically as well as economically. A third trend resulting from the increasingly transnational

organization of production is the decentralization of industrial relations (Gregory & Nilsson, 2004). Recent studies show that most of EU's member states were characterized by a decentralization of their bargaining systems (Beori et al, 2001). Bamber and Lansbury (1998) concluded in a review of industrial relations tendencies in ten industrial countries that the enterprise level has become a more important locus of dialogue and bargaining between unions and management. Evidence of this development has been found both in a US setting (Deutsch, 1994) and in a European context; as seen in Sweden (Deutsch, 1994; Hammarström et al, 2004), Ireland (Von Prondzynski, 1998), Italy and Spain (Elvander, 2002). All of these trends have reinforced the move to a 'governance without government' model of industrial relations, while most also point to decreasing influence of labor unions in such an industrial relations system.

Rules Model

Rules Model in industrial relations focuses on rules based governance embedded through growing number of regulations, the rule systems, standards and formal as well as informal codes of conduct effecting operations of firms, organizations and governments in the

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same ways (Brunsson & Jacobsson, 2000; Ahrne & Brunsson, 2004). Moreover, several certifications, standards have been accepted as the part of performance management process during late 80s and 90s and this is still continuing (Jutterström, 2006). In this context, audit is being growingly practiced by virtue of the 'rhetoric' of 'neutrality', 'objectivity', 'dispassion' and 'expertise' (Van Maanen & Pentland, 1994). Another, relative major development in this situation can be identified in the growing linkage between code of conduct (rules based) and CSR initiatives effecting each and every stake-holder of the business. However, defining the codes remains an issue of debate and discussion. In most of the Asian countries tagged as developing countries like China, India, Vietnam, Bangladesh, SriLanka etc. the involvement of trade unions as well as social groups in defining codes and rules remain significantly limited. Most of the codifications are still stemming from global actors like ILO and the requirement of local actors' involvement under the universal guidelines promoted by international actors cannot be ignored. The emergence and domination of 'Rules Model' in defining industrial relations setting under transnational business scenario can be traced during 1985-2000 at different paradigms across the globe.

The Bargaining Model

The *Bargaining Model* is representative of the traditional national tripartite industrial relations system involving negotiations and collective bargaining be-

tween firms and unions with the state as a more or less passive actor in the background. Virtually all national industrial relations systems have its basis in this model as it is the traditional way in which unions have sought to increase and implement their influence (Bamber & Lansbury, 1998). The fundamentals of the bargaining model can be traced to following factors :

- The model is primarily focused on bargaining as a process, i.e. definitions of workers rights' are continuously defined through negotiations rather than being defined a priori (Huzzard et al, 2004). Thus, relatively few general regulations exist on workers' rights issues but rather these are determined locally by the parties involved.
- Within the Bargaining Model, trust is (re)produced within interpersonal relationships and networks and can thus be said to be socially embedded (Granovetter, 1985). This is an important reason for the bargaining model's focus on the collective process of bargaining and on locally determined outcomes of such negotiations (Northrup & Rowan, 1979; Akerman, 2003). Hence, rather than trust residing in institutionalized codified rules as in the Rules Model, trust resided in interpersonal relations in the Bargaining Model. Consequently, civicism, according to the Bargaining Model of industrial relations, is constructed as entering into and participating in an ongoing social dialogue between the involved parties.

Transnational Business Scenario: Commonalities & Distinctiveness

While the first phase (1990-2000) was characterized by a Rules Model of industrial relations, the second phase (Since 2001) saw the emergence of a distinctly different Bargaining Model of transnational industrial relations. The cornerstones of the bargaining and rules models are distinctly different with the Bargaining Model building trust from the process of (collective) bargaining (i.e. the focus is on standardizing processes), while the Rules Model building trust from codified sets of rules.

However, the debate between the bargaining and rules models reveal that two main workers' rights representatives stand out in attempting to define the basis for trust in transnational industrial relations: unions, struggling to preserve the traditional Bargaining Model, and workers' rights NGOs proposing a Rules Model.

Another interpretation is provided when considering that the number of TNCs signing global agreements, thus adhering to the Bargaining Model logic, is steadily increasing. Particularly TNCs based in countries with a strong tradition of a national Bargaining Model such as Sweden, Denmark, Germany, and the Netherlands, seem willing to sign global agreements. However, even if the future holds a shift from the codes of conduct to global agreements, the focus of such agreements would be one of centralized negotiations between TNCs and global unions rather than negotiations between

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national unions and TNCs. Hence, as global agreements transfer bargaining power from national unions to global unions at industry level and local unions at the TNC level respectively, this signifies an important compromise on behalf of the unions when adapting to an emerging transnational governance structure. This centralization of negotiations implies that the content of the global agreements becomes focused on the basic conventions on workers' rights, since global unions seldom have local knowledge of specific workplaces. The legal enforceability of these agreements is also doubtful as the necessary legal infrastructure is lacking.

Conclusion

Transnational industrial relations have been the imminent response to transnational companies' off-shoring of operations to mainly Asian countries. In shaping this transnational system two conflicting models of industrial relations- Rules Model and Bargaining Model -are being practiced across the globe over two phases (1990-2000: Rules Model and since 2001: Bargaining Model) across the globe. The Rules Model has been promoted and practiced by Transnational Companies, whereas Bargaining Model has been translated into action points by trade-unions to a great extent in

transnational business environment. Though, currently, the rules anchored approach of codes of conduct proposed by TNCs is dominating the transnational system, yet there are noticeable tendencies that the unions' approach of global agreements including elements of bargaining are gaining momentum. However, both approaches involve a move towards a Rules Model as compared to the traditional national bargaining model of industrial relations prevalent specifically in Europe. Hence, both the approaches imply a shift from a participative social dialogue to an emerging model focused on preserving, protecting and defending minimum requirements and codified rules governing the industrial relations at the transnational level. With negotiations located on a firm level and firms being transnational, unions based in Europe and US will need partnerships with unions in developing countries. Since union influence in most of the developing countries is extremely limited, the union movement needs to invest heavily in creating a network of local unions in developing countries.

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