

# INCENTIVES FOR WORKERS FROM MOTOR VEHICLE ASSEMBLERS: POINTERS FROM EMPIRICAL EVIDENCE

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*People respond to incentives. This is a principle of modern economics that is drilled into the heads of the undergrad economics students. Be that as it may, in this paper we examine the incentives that are actually given to workers by employers in the global automobile industry as against what they are supposed to offer for obtaining commitment maximizing labour relations. We observe that there is neither coherence nor consistency in the package of incentives that are offered in the real world. We argue that it is impossible to give a consistent set of incentives due to the contradictory goals of the employers. Implicit in the workers' taking of whatever substandard incentives that are given them and in their compliance with the arbitrary and highhanded labour control mechanisms of management is the fear of losing job in depressed labour markets almost everywhere, which have tilted the balance of power away from labour towards capital.*

## 1. INTRODUCTION

How labour relations are influenced by the micro level industrial restructuring in terms of lean production (which can be considered as part and parcel of the supply sided economics of neoliberalism) that has occurred to cope with increasing new competitive pressures to bring out high quality products at competitive prices, as brought in by the neoliberal forces of liberalization, privatization and globalization, has been a heavily researched area. The ideologues of lean production have created a lot of hype about the materialization of high-road or commendable labour relations in terms of worker empowerment, workers development through training, employment security, performance based pay systems, consultative decision making, labour rights recognition as human rights recognition, etc., while the critics have debunked the possibility of such improved, high road labour relations.

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In this milieu, what follows is an account of the incentives that are actually given to workers in the global auto industry by reviewing the differentiated picture of labour relations in relation to each of the five sets of labour aspects, viz., work organization and worker participation, skill formation and development, remuneration and compensation, job security and staffing arrangements, and enterprise governance and labour-management relations. Kochan *et al.* (1997), followed by Charron and Stewart (eds., 2003) were the notable scholars who had documented the diversity in labour relations in this industry. We draw on these pioneering writers and others as follows.

## **2. INCENTIVES IN GLOBAL AUTOMOBILE INDUSTRY**

### **2.1 Work Organisation and Worker Participation**

There has been a great variety of experiments with team work, employee participation in problem solving and productivity improvements, quality circles and the use of TQM (Total Quality Management). However, diffusion of these practices remains uneven. For example, the Japanese and Korean plants are the most advanced in terms of multiskilling whereas plants in the USA and Canada remain the most specialized in their work systems. Interestingly, those assembly plants with the most multiskilled work systems also exhibited the lowest number of hours per vehicle, which is the indicator for productivity.

In USA, Britain, Canada and Australia where there is the strongest tradition of job control by unions, some of the most profound departures from traditional work practices are observed. This is particularly the case where a new greenfield plant or worksite is established or when major technological changes are introduced. In some situations, management has involved the unions and the employees in decisions about the introduction of workplace change, while in others a unilateral approach has been taken. In some Canadian plants there has been strong resistance to management initiatives in the area of work redesign by the Canadian Auto Workers union on the basis that these were particularly of an anti-union strategy. Research indicates that the greatest commitment to change tends to occur where employees and their unions are involved at appropriate points in the decision-making process.

In settings where new union-management partnerships have been created, there has also been considerable work reform. However, in the non Japanese-owned plants in North America, innovation in work organization practices is only partially diffused and often remains fragile. This is the case in Britain and Australia, although recent years have witnessed significant reforms in Australia with strong union and government support. Similarly, in Brazil, there has been a breakthrough in union-management relations at Mercedes Benz with an agreement on the introduction of team work and group technology.

In countries such as Sweden and Germany, the industrial-union movement has been sufficiently strong, particularly the metal workers, to influence the direction and pace of change. The famous system of codetermination in Germany has provided a channel for participation by employees through works councils. In Sweden, there has been a long tradition of experimentation with group work and participative approaches to work design so much so that researchers talk about the "Swedish model of work organization". In both the countries there is a trend toward more decentralized forms of organization; systems of work organization have been developed which rely on a highly skilled workforce involved in decision making at the plant level. In fact, researchers have pointed to greater employee influence and autonomy in Sweden and Germany than in Japanese plants. As Streb and Gellert (2011) point out, car manufacturers in these countries "are increasingly under pressure from international competition to reduce costs and improve quality. Consequently, the industry is currently setting more rigorous task performance standards, especially for workers on the production line. Jobs are analysed in terms of their value creation and streamlined according to the core value-creating tasks. Workers are then trained to perform according to a strictly laid out work design. This includes fixed workstations, within which assigned production line tasks have to be performed, fixed cycle times for each station, and single-step clocked jobs. The basic idea is to increase quality by making tasks and job training easier." The adverse impacts of this work regimen on workers is sought to be overcome, in countries such as Germany and Sweden, through job rotation (multi-functional behaviour) which lies at the heart of the team work process: "Production line rotation can be defined as an alternating system that schedules the deployment of employees in an organization work setting within a defined range of workstations or tasks. By switching workstations and tasks several times per day, or even per hour, physical overexertion with all its short-term and long-term health effects can be avoided, as can technical flaws due to repetitive and tedious tasks. The basic assumption is that rotation is beneficial with regard to variety, experience, the varying of physical strain, and job flexibility" (*ibid.*, p.145).

In France, where union density is low, the state took a leading role in fostering experiments with worker participation from the late 1960s onwards, which promote the expression of employee views. However, the process of work reform has been haphazard, at best. In Italy, the unions were super active in the 1980s promoting group-based work organization, but the employers preferred weaker forms of employee involvement such as quality circles. However, in the case of Fiat, there are a number of new initiatives being taken, especially in greenfield sites such as Melfi, which

emphasize the importance of work organization and teams.

The Japanese plants exhibit great flexibility and adaptability. Some researchers have questioned the degree of autonomy available to work groups (e.g. Dohse *et al.*, 1986); Marsh (1992) has argued that there is no 'workplace democracy' in Japanese workplaces. However, most researchers allude favourably to the Japanese makers having introduced continuous improvements in productivity and quality, given extensive training to supervisors—front line managers—who play a key role in workplace change and used extensive job rotation and workgroup activities to enhance the skills of the workforce. As such, the Japanese transplants in the USA and Britain have yielded much higher productivity and quality than the local manufacturers. Indeed, some of the local ones in North America are now successfully emulating the Japanese, but the application of lean production principles by them shows modifications made to suit local circumstances resulting in varying outcomes in different settings.

In seeking to understand changes in work organization, and supporting or rejecting them, scholars have created a lot of confusion in categorizing the lean workplace as mean in terms of Taylorism plus Fordism leading to "super-Taylorism" or the lean workplace as "creative" post-Fordism or epoch-making Toyotism that integrates high efficiency with flexibility and humanity. Taylorism married to Fordism means that while Taylorism decomposes tasks and assigns those tasks to individual workers, Fordism recomposes the tasks by welding the individual labours into a human machine (Clarke, 1990). The best way to get out of confusion in this regard is to follow Naruse's (1991) insights drawn from the greatly prescient Karl Marx himself. There is no difference between American and Japanese assembly lines but the only difference between Fordism and Toyotism, as he says, is that in the latter the rationality of work organization in terms of Taylorism is fully stretched. Which is to say, following Juravich (1985), that the Japanese, unlike the Americans, have worked on the Taylor's fundamental insight that workers' knowledge is the place to begin any production reform. This insight of Taylor was forgotten in the Western context where those aspects of the Taylor system that stress tight managerial control on the shopfloor have been most thoroughly accepted.

The Toyota production system has a more rational character with regard to the role of human labour in the workplace, particularly that of collective workers, as compared to the Ford system. The central point is that improvement in manufacturing methods or product quality depends on collective workers' concern or desire to achieve it in the

workplace. In the words of Marx (1967, p.104), "It is only the experience of the combined labourer which discovers and reveals the where and how of saving, the simplest methods of applying the discoveries, and the ways to overcome the practical frictions arising from carrying out the theory—in its application to the production process". The Ford system, based on Taylorism which aimed to exploit workers through job fragmentation and the separation of conception from execution, has further promoted the separation between intellectual and manual labour through the mechanization of production. The skills of workers on the line were narrowed and equalized in order to adapt them to fragmented jobs and specialized machine operations; in this way, management emphasized the interchangeability of the workforce. The result, however, was the diffusion of alienation among productive workers; low productivity, decline of workers' commitment to the job due to monotonous and boring work, strikes, absenteeism and instrumental attitudes to work. Since the 1970s, there has been a big wave of job redesign ideas, such as job enrichment, job enlargement and job rotation. Underlying this trend is a concern to render work both more productive and more humane by restructuring work and work organization. Fundamental to this is a belief that improvements in productivity and quality depend on the experience and creativity of the collective worker. The Toyota work organization needs to be seen as a logical culmination of work organization innovation in high volume production. In the Toyota workplace, teams are formed from multifunctional workers. Teamwork in Japan means not only cooperation between workers but also the full use of the potential capacity of each worker. Whereas Taylorism and Fordism lost sight of the benefits to be generated by cooperation between workers, that is, of the importance of the collective productive capacity of combined workers, the Toyota system on the contrary has developed a combination of job design securing the benefits of cooperation and technological design of the production process maximizing the benefits of the division of labour, achieving improvement in individual as also collective productive capacity through making each worker multifunctional.

In light of this the rise of Japanese capitalism as 'collective capitalism' that taps the gold in the head of the collective worker vis-à-vis the individualistic North American capitalism can be appreciated (also see the brilliant analysis of Juravich, 1985).

So be it. But in practice, what if there is managerial failure to respond to what it is hearing from the workers? There is some evidence to this effect. This discourages the workers from providing new information, even as lack of more equitable financial

sharing arrangements does not reinforce non-financial participation in terms of suggestion schemes or problem solving groups or quality circles by convincing the employees that all benefits will flow only to the employers. Unless the employers encourage organizational solidarity through job security and narrow pay differentials, worker participation does not take off (Lewin *et al.*, 1997). This is not all. That participation leads to commitment which in turn results in higher productivity and improved quality of product sounds very nice in theory. But this may not work in practice as workers fear that greater productivity will mean the loss of their jobs. Again we are back to square one in that unless job security is guaranteed, worker participation will not be sustained. All these issues seem to explain much of the observed reality of lack of proactive worker participation in the lean factories around the world.

Employee involvement and commitment is sought by some large firms through financial participation in terms of employee stock ownership plans or profit sharing. But there is research to show that such plans do not necessarily entail employee participation in decision making. The reason is that intrinsic to these plans is the so-called 1/N problem. If N is the number of participating employees, and if N is large, the reward an individual worker will obtain from added effort is small (*ibid.*, p.6).

## 2.2 Skill Formation and Development

Approaches to skill formation within the auto industry appear to be strongly influenced by national traditions. In Germany, a leading nation in skills development, for example, vocational training has long been a significant feature of the educational system and has provided a steady supply of skilled workers. Germany has a more regulated system than many other countries and greater union involvement in decision making about skills development (ILO, 1993). Works councils play an important role in training issues at the enterprise and plant levels. However, there has been criticism of the ability of the system to meet the changing needs of industry. Hence, in 1987, training regulations in the German metal industry were reformed in order to foster a broader and more flexible system. Skill formation has played an important role in facilitating the introduction of systemofacture and lean production.

The German vocational training, universally admired, underpins the competitive advantages of German manufacturing business, in general. Kay (2004, p.340) says thus: "Young workers undergo apprenticeships which involve a combination of formal general education, training specific to the proposed career, and personal supervision and

advice on the job from an experienced worker. Apprenticeships are available not only to craft trainees such as engineers and plumbers but also for hotel workers and shop assistants. There is no legal obligation on individuals to take such training or on firms to provide it, but the credentials obtained are valued, able students wish to have them, and as a result employers wish to hire both apprentices and qualified workers. The largest German firms, such as Siemens and Daimler Chrysler, organize training nationally, but training is mostly administered locally. Chambers of Commerce co-ordinate the efforts of business and the contribution of provincial governments. Large firms, responsible for a high proportion of industry-specific training, probably make a disproportionate contribution, to the benefit of smaller businesses and the economy as a whole. If we ask 'Why do firms do this?' the answer is 'They just do': participation is a norm of the German business community and local business organizations reinforce social pressures." Why the German training works and attempts to replicate it elsewhere like in Britain were a fiasco needs to be understood as the absence elsewhere of the presence in Germany of markets embedded in social institutions and policy resulting from the interaction of "norms and values" which is part of a subtle relationship between private and social institutions, and the powers and resources of the state (*ibid.*, p.341).

In Japan, which is also a leading nation in skills development, there is less regulation by government and a lower level of union involvement than in Germany and some other European countries. However, employers in the auto industry have emphasized the importance of continuous on the job training as a key element in developing and maintaining Japan's competitive edge. Although state-run vocational education has not been developed as much in Japan as in Germany, companies have consistently increased the amount and levels of training within the enterprise. Many maintenance and other technical skills which are the province of skilled tradespersons in other countries have been 'built into' the jobs of production workers in the Japanese auto makers.

In Italy, there has been a long-term decline in vocational training and fewer apprenticeships, compared with some other European countries. However, a national agreement was signed between unions and employers in 1989 on vocational training, involving the establishment of joint committees. In recent years, there has been an expansion of formal systems for the accreditation of skills attainment. In countries such as USA and Canada, however, which have more highly decentralized systems of industrial relations, training investment is very uneven and lower overall. Yet there is discussion of how to develop stronger joint public-private initiatives to overcome

inherent market failure problems that inhibit individual firms from investing more in skills development.

In the Australian automobile industry, since the introduction of what is called the Vehicle Industry Certificate (VIC), all new employees have been required to undertake formal training on the job to acquire necessary competencies. Wage increases are increasingly based on skills acquired and demonstrated levels of competencies. The VIC was introduced with the support of both employers and unions to formalize the training process and to recognize skills acquired. Progression by individuals within the industry will ultimately depend on having passed all stages of the VIC course. Although financial support is also provided by the government for the development of training within the auto industry, the new emphasis on competency-based wage systems was the result of negotiations between employers and unions over the restructuring of awards. While the new system is generally regarded as successful, there are considerable variations between firms in terms of the speed and extent with which they have introduced the VIC.

In terms of the number of training hours provided—an index of training—for assembly workers, there is wide variation between countries. The aggregate number of training hours provided for newly hired production workers (during their first six months of employment) was highest for Australia, followed by Japan. As noted above, the high figure for Australia may be explained in terms of the introduction of the VIC which has required all new employees to be provided with comprehensive training. However, the number of training hours provided for experienced workers was greatest in the Japanese transplants in North America. This may be due to the fact that when the Japanese firms either took over existing plants or built new ones in North America, they found that there was a considerable skills deficit among the workforce which needed to be rectified. In terms of training hours provided for all employees (production workers, supervisors, and engineers), the Japanese transplants in North America provided the most skills development, followed by the European countries (France, Italy, Spain) and then Australia. The laggards in terms of training hours for both new and experienced employees were the non Japanese owned assembly plants in Canada and USA.

According to Lewin *et al.* (1997), with employment becoming more contingent and with turnover rates higher than that in Europe and Japan, the American employers are reluctant to provide “enough” skill-enhancing training. Despite all the hype, and given the dearth of data on training practices, much training appears to be informal and is provided by co-workers. Employers also avoid training costs by selecting people with



preexisting skills so that further training is not needed.

ILO (1998) points out that the use of new technologies, in particular information-based technologies, and the use of new organizational practices for higher productivity, quality and flexibility, calls for more, better and newer kinds of skills. Some of the features of new organizational practices that ILO (1998) emphasizes are as follows. The first is work teams. This involves greater group responsibility, broader skills on the part of the workers and frequent job rotation. The second is involvement in off-line activities, such as problem solving, quality improvement, health and safety. The third is a flattening of organizational hierarchies, with greater responsibility by shopfloor workers and more intense information exchange. Work organization can only be successful if training and remuneration systems are changed to prepare and reward employees for the new responsibilities. Moreover, "Because the new forms of work organization require greater responsibility and greater skills from the workforce, low literacy rates in developing countries impede its introduction. However, in many cases, firms in developing countries have managed to become significantly more competitive through changes in work organization despite relatively low levels of education. This has required much time and resources being devoted to group meetings and training... Though considerable progress can be made with a poorly educated labour force, particularly in early stages of restructuring, in the long run firms which have educated labour are likely to make more progress in their training schemes. This is because the requirements of a multi-skilled workforce and worker participation in continuous improvement call for an understanding of the underlying technical processes" (*ibid.*, p.45). In the developing country context, it is found that many firms do not train their employees and that market failures are an important constraint on training, and that informal on the job training, by co-workers and supervisors, is more common. In the context of the automotive industry, little is known about the enterprise context, especially in India, in which training takes place and how decisions regarding training are linked to employer strategies on technological and organizational innovations.

That lean production or flexible automation requires skilled workers seems to be a myth which needs to be investigated. If history is a good guide, then throughout the history of capitalism employers have relentlessly pursued the supreme principle of division of labour and specialization and mechanized their production as well. This has reduced the skill requirements of jobs. Skills have been increasingly incorporated into the new machinery. Or else, how do we understand this: "Today, unskilled workers in Mexico

can make complex automobile engines for a fraction of the wages received by workers in the United States precisely because the detailed division of labour and machinery have removed the skill content of the job” (Yates, 2003, p.93). Neoclassical economists cannot explain this because they believe that machinery tends to raise the skill requirements of jobs. If they are prejudiced against the Marxist Braverman (1979), how they have overlooked the great work of non-Marxist Bright (1958)—the more the technological sophistication, the more the deskilling—at Harvard Business School is a mystery or a case of selective self-selection to sleep with one's ideology. What can neoclassicals say against the lively and exhaustive Noble's (1984) research about the introduction of CNC tools shifting the balance of power upward by putting production under the control of engineers and deskilling master machinists on the shop floor?

### 2.3 Remuneration and Compensation

In light of the worldwide slow-down in economic growth and productivity in most advanced industrialized countries in the 1980s and 1990s, real wage growth was held back and income inequality grew. In such a milieu, a wide variety of forms of payment emerged in the industrial landscape. In some countries there was a growth in contingent pay, which means compensation that is contingent on some measure of performance which can be assessed at the level of the individual, workgroup, plant or firm. Examples are profit sharing, employee stock ownership plans and bonuses. In most countries, there was also a modest trend toward compensation based on skills or competencies attained rather than for specific tasks performed or on the basis of seniority. Many firms also moved their employees from wages and salaries as part of the process of reducing status differentials between blue-collar workers and salaried staff.

Japan has conventionally been seen as having highly developed seniority wage systems, but these apply to only a relatively small proportion of the workforce located in large enterprises. This has changed in recent times with the wide introduction of ability-based or performance based wage systems. For most employees, much of their annual income is related to the profit performance of their employing organization.

In Australia, despite a tradition of centralized wage determination, there has been a movement toward enterprise-based bargaining which is designed to take greater account of the economic performance of the firm in wage negotiations. There has also been a trend toward employment contracts with complex compensation packages negotiated for a fixed period of years. In theory, the renewal of such contracts depends on a number

of factors, including the achievement of agreed performance targets. While this approach was initially confined mainly to professional and managerial staff, it is increasingly applied to the unionized workforce.

Rather paradoxically, contingent forms of compensation were found to be more extensive in Japan, Australia and Europe than in USA and Canada. Firm conclusions are not possible but the plausible hypothesis is that employers and unions outside North America demonstrated greater willingness to negotiate over issues of wage flexibility and apply a wider diversity of methods of compensation in return for wage increases. By contrast, North American employers have focused more narrowly on simply reducing the level of real wages.

Watson Wyatt Worldwide (1998), which makes money by advising employers how they could make money by adopting suitable compensation policies in a world of “constant change and unforgiving competition”, has come to the conclusion that “no single type of reward plan guarantees success—i.e. there are no silver bullets” although its annual surveys of Strategic Rewards practices in America do indicate that “organizations that have an overall strategic approach to rewarding employees perform better overall”. It is very critical of the merit pay or pay for performance in that it “is the primary vehicle for employee retention. However, it has lost almost all the power it may have once had to motivate performance or reward an employee for attaining skills or competencies important to the organization....As the workforce ages and tenure lengthens over the next decade, companies are likely to place even less emphasis on merit pay increases. Why? Having achieved entitlement status, merit pay largely rises with age and tenure. That link could cause payrolls to rise dramatically. Only de-linking pay from age and tenure and re-linking it to performance and productivity, such as through Strategic Rewards plans, can protect a company from the cost impact of an aging workforce.”

In the context of lean production, in theory, the use of piece rates to get more productivity does not hold good because it contradicts with the made-to-order JIT production and quality botheration of the employers. But piece rates as a compensation-related device is commonly found in most of the subcontractors attached to the lead firms of the auto industry. Piece rates induce higher productivity and higher pay for the workers. But the worker focus on quantity over quality apart, there is the problem of lack of incentive to avoid wastage of materials which is important in lean production. Furthermore, piece rates reward individual behaviour, not teamwork, and might encourage competition where cooperation is required. If employers institute team work, then they will have to

install group piece rate systems. But this invokes the aforementioned 1/N problem if the group becomes too large (Lewin *et al.*, 1997). In case employers offer promotions as rewards to get the best behaviour from executives and non-supervisory employees, that will not work because, as with individual piece rates, competition for a few higher opportunities above rather than cooperation is encouraged. "Office politics and sabotage are part of popular corporate lore as a result" (*ibid.*, p.7). Most employers, especially in larger firms, pay on a time basis (per hour, per week, per month, or per year). But higher productivity does not materialize without considerable monitoring. Employers may set a minimum work standard and dismiss those employees who do not measure up to it. They may institute merit pay in terms of merit bonuses or wage increases based on subjective supervisory evaluations like in the Japanese factories. The "pay for performance" wave which came into vogue in the 1980s is not a new idea. The idea of having an element of pay based on performance of the firm, plant, work group, or individual—also known as pay or wage flexibility is an old one (*ibid.*, p.8; also see Suri, 1999). However, some employers prefer to avoid pay-for-performance altogether! Many employers in the US showed "employer militancy" during the 1980s, by doing aggressive wage cutting despite theories like 'efficiency wages' or the historical example of Henry Ford using the theory of efficiency wages for the first time successfully, guiding them not to do so. This apart, the topic of 'performance appraisal' with all its new fads coming from the USA—like the 360° feedback in terms of self-appraisal, peer appraisal, subordinate appraisal and appraisal by customers, internal and external—is so confusing, murky and dysfunctional-prone that it is not really a developmental tool to objectively get the best out of the employees; it is more likely to become a subjective exercise in negative sanctions to promote the American culture of "hire-and-fire-at-will" (Rao, 1998c).

Some scholars have highlighted five principles that underscore the international convergence towards an optimal flexible pay system to boost productivity: "(a) Flexible pay should not be a substitute for guaranteed pay. Roughly speaking, 70 per cent of the pay can be fixed and 30 per cent variable. Normal pay revisions may reflect changes in cost of living or per capita incomes in the country; (b) Pay revision should lag behind productivity improvement. Define the lag period; (c) Performance appraisal system should be revamped to define and measure performance; (d) Define profits, the share of workers, and procedure for sharing; and (e) Provide a measure of stability in workers' income by pooling workers' share in excess of 30 per cent of their pay into a fund that can be used to pay to workers in lean years for imparting a sense of stability in their earnings" (Venkata Ratnam, 1999).

Let us consider the issue of bonus which ranks next only to wages in its adverse impact on industrial peace and harmony in India. At the outset, bonus is a simple apple-pie statement to understand as an incentive to promote productivity of the workforce and so it should be integral to any productivity boosting restructuring such as lean production. But in the Indian context, bonus is really a bastardized concept; the government through its legislation and the judicial system interpreting that legislation, have both mucked it up as a perennial cumbersome bone of contention without clarity and precision. If bonus is treated as 'deferred wage', the implication is that the employees would be entitled to 13 months' wages for 12 months' work and it is perfectly logical. In this version of thinking about bonus, bonus is totally severed from profits and becomes a 'statutory liability' of compulsory character. In such an event, there can be no question of paying more than 8.33 per cent under any circumstances. If, on the other hand, bonus is regarded as 'profit-sharing' and/or 'productivity-linked', it is certainly a welcome measure, in the context of industrial restructuring based on lean production, for the employers as also employees, because both parties can formulate their strategies to improve productivity and/or profits and of sharing the gains thereof. Such an arrangement is supposed to infuse a sense of competitiveness in both the employer and the employee as the focus automatically shifts from 'fixed-pie' to 'expanded-pie' bargaining. Operational efficiency becomes the focal point and payment of bonus thus becomes a rational 'contingent liability'. If this argument is accepted, then the idea of bonus as a 'deferred wage' should be dropped. The matter is made extremely confounding by the argument that bonus should be treated as both, which does not make any sense. "Such a theory would, if any, be the next-of-kin to caprice and humour" (Rao and Sinha, 1998). The problem of lack of clarity and the absence of corrective justice, distributive justice and productivity-boosting justice permeates not just the bonus issue, but the whole ambit of the procedures and practices of industrial dispute resolution covering gratuity, wage structure and unfair termination of service of workmen as well (Malhotra, 2001). Such is the world of industrial relations system in India even as judicial activism, even from the High Courts and the Supreme Court, has been by and large in tandem with the employer militancy in the neoliberal times.

To sum up the incentives discussion as above, there is no logically and practically sound incentive system that is compatible with lean production which can be universally applied to get the best results. As Rajender (1992, p.43) points out, the question of incentives—fixed and variable—is not a mathematical question but a "social question which workers and management should decide among themselves keeping in mind their common interests and conflicting interests....The mechanism of collective bargaining

tries to do just that by asking labour and management to negotiate with each other. In spite of all its imperfections, this is probably the best method we have right now. Other methods of wage determination are even more unsatisfactory.”

Why do employers impose compulsory overtime on workers under lean production, much to the dislike of many workers? They may not reveal their logic but Yates (2003, p.116) sees through this as follows: “Employers find it cheaper to increase the hours of their regular employees. Compulsory overtime, even though it might have to be paid at a premium wage rate...., is cheaper than hiring new workers, who have to be trained and for whom there are hiring costs and fringe benefits. Fringe benefits payments do not increase if a regular worker works overtime, but they do rise if a new worker is employed. The use of overtime work then makes it difficult for new workers to find full-time employment, and these workers form a pool of exploitable part-time workers.”

Interestingly, it is not that workers are not willing to take on overtime. In fact, the increased demand for overtime work by employers is heightened by the increased willingness of workers to do it. What explains? Again Yates (*ibid.*, pp.116-17) sees through this as follows: “Workers who experience increases in family income quickly raise their expenditures for all sorts of consumer goods and services. They increase their use of credit and get caught in ... a cycle of 'getting and spending'. To pay their bills and maintain their increased consumption, they work as much overtime as they can get. I once taught groups of automobile workers, employed at a parts plant near Pittsburgh, Pennsylvania. In addition to their employer's demand for forced overtime and the get-and-spend cycle, many of these workers had also experienced extremely insecure employment as plants in the industry shut down in the 1980s and 1990s. They were 'willing' to work long hours today in part because they might be victims of another plant shutdown tomorrow. During breaks, some of them would tell me that they had been working twelve hours a day seven days a week.... The plight of people doing long hours of involuntary part-time work in the rich countries pales in comparison to the working lives faced by the third world proletariat (including the components of this proletariat sweating it out in the rich countries). For these workers, labor is a matter of life and death, all day, every day.”

In discussing compensation, we will have to make a distinction between wages and compensation. Compensation includes not just the hourly or weekly or monthly wage but also additional costs such as fringe benefits. The most important benefits are health

care and pensions. In much of the world these are very low or nonexistent, and so in effect wages and compensation are about the same. But in the rich countries, benefits are often significant (*ibid.*, pp.110-11). One can thus understand how employers in rich countries turn away from compensation to only low wages by finding ways of exploiting the workers, especially the nonstandard workers, in the emerging economies such as India and China.

Although instituting 'productivity linked wages' is considered as a way of flexibilising wage structure and the right way of motivating the workers under lean production, can we really measure individual worker productivity and explain the wages he receives in relation to it? No, no, no. Consider the answer as given in Yates (*ibid.*, pp.152-3): "According to the (neoclassical) theory, inequality in income is simply the monetary reflection of inequality in productivity. This notion can be challenged on both theoretical and empirical grounds. Although capital in the form of machinery, buildings, and equipment is productive in the sense that, other things equal, the more capital per worker, the more output is produced, the ownership of capital is not a productive act. Therefore, income from the ownership of the nonhuman means of production cannot be justified on the grounds that the means of production are productive. A significant fraction of the nonhuman means of production become the private property of individuals through inheritance, and these cases the argument that the inheritors are productive is particularly ridiculous....It is ownership that generates income, not productivity. The neoclassical explanation of wage inequality is likewise suspect. If we say that wages reflect productivity, we must be able to measure the productivity of individual workers. This, however, is for the most part impossible....In industrial settings, work is not an individual process; it involves the necessary cooperation of large groups of workers. The productivity of an individual worker is a meaningless concept....The neoclassical theory predicts that equally productive workers will make equal wages. This is manifestly not the case. If we look at workers across the world and observe the astronomical differences in wages among workers, this prediction looks increasingly preposterous. The Mexican workers making car engines for General Motors or Ford are as productive as their Detroit counterparts, but the pay of the former is a small fraction of that of the latter." So, as the lead automobile firms internationalise themselves and adopt lean production in developing country context, workers are as productive or even more productive than workers in the developed countries even as they get paid a pittance. If this is not low-road super-exploitation, then what is? How can the protagonists of lean production sell the idea of high road in terms of high wages under lean production in

developing countries? Sheer ideology of myths. As Yates (*ibid.*, p.160) remarks, the “fact that neoclassical economics is so wrong yet so powerful tells us that it is not a science but an ideology.”

Lastly, what explains executive pay, i.e. the colossal compensation for the CEOs of the corporations? Nothing. As a shareholder activist and writer on corporate governance issues, Monks (2011) says, “...only one simple conclusion is possible: Pay is not correlated in any way with the value these leaders create for shareholders, society or any other corporate constituency. CEOs largely pay themselves...Recent protests—Occupy Wall Street, of course, but also the Tea Party movement as it first began—rise out of a profound rage over unfairness in this country. The scale of this unfairness and inequity makes it hard to know where to direct that rage, to know what to do. Occupy Wall Street has the right target; but where their rage will go, nobody today knows. I am certain, though, that any alert board should be instructing their managers to do three things: admit the problem exists, take positive steps to make the corporation function fairly, and consider what other steps would address the concerns of the protests” (also see Gautney, 2011). What should shareholders do in this context? “They must promptly and credibly associate themselves with the protesters complaining against corporate unfairness—and then present themselves as legitimate vehicles for addressing the problem. The autocratic power of CEOs is fundamentally at odds with the sustainable functioning of corporations in a democratic society. Institutional shareholders must move quickly and decisively. They should defend and legitimate their right to own property and to be responsible for corporate conduct” (Monks, 2011).

#### **2.4 Job Security and Staffing Arrangements**

The automotive factory is not a good place to work; it has always been a tough environment in which to work—one has to read only Kamata (1983) or Hamper (1992) to get a sense of the hell of labouring, hilariously though in the case of Hamper. Therefore, high labour turnover has long been a characteristic of this back-breaking industry, and was one of the factors which motivated European makers such as Volvo to embark on 'quality of worklife' programmes of job redesign and work reform during the 1970s. It was hoped that by making the jobs more interesting, the auto industry might become a more sought-after source of employment. In some other countries, such as the USA, 'efficiency wages' in terms of higher hourly rates of pay and employment benefits were used in an attempt to attract and retain labour. In many European countries, legal and illegal 'guest workers' (e.g. from Morocco) were used to fill the vacancies in the



factories as local labour sought more desirable jobs. Even in Japan, the auto industry was known as the employment of last resort and was regarded as "dirty and dangerous". The industry also has tended to follow economic cycles of boom and bust. And so, workers have been used to being either hired or fired in large numbers as the auto sales waxed and waned.

Increased global competition in conjunction with economic recessions has devastated the 'good jobs' in the industry. In Japan, the land of the rising Sun, life-long employment in the lead firms is in decline. The case of Nissan is famous in this regard as it began to lay off workers during the recession of the early 1990s. Japanese auto unions have even sought to prevent their companies from opening plants overseas because they feared that this could threaten jobs in Japan. But they have not been successful in this regard in the long term. In Japan, it is difficult to distinguish between what is voluntary severance and outright dismissal, due to the practice of older workers being patted on the shoulder, and thereby asked to leave a company—getting rid of core workers through the practice of "kata tataki", as the Japanese call tapping on the shoulder. Furthermore, the Japanese have long used subcontractors and temporary workers as a means of providing large-scale employers with a relatively high degree of labour flexibility.

Most continental European countries have laws which require employers to follow certain procedures when redundancies occur, in order to afford some protection to employees and give them a period of warning before they lose their jobs. However, these procedures have tended to collapse during harsh economic times. In France, for example, the whole system of social protection has come under heavy fire. Firms are now permitted to depart from general provisions of the law, providing that the parties give their consent. Temporary workers and short-term contracts are increasingly used to reduce the liabilities. In Germany, where the auto industry is said to be vibrant, there is still high employment security for the core workers in the lead firms but the government has permitted greater use of temporary and part-time workers who are not covered by the same level of protection.

In Sweden where there is said to be the strongest degree of legal protection against job loss for both permanent and temporary workers, things have turned out to be bad as the economic recession hit the auto industry badly. During the early 1990s, Volvo closed a number of plants and Saab sold half of its auto business to General Motors. Although an economic recovery began by the mid-90s, and the health of the industry improved, companies have been reluctant to rehire auto workers at previous levels of employment.

In USA, the land of “opportunity, peace, freedom and democracy”, employers have no obligation, contractual or otherwise, to provide security of employment. This led unions during periods when they were stronger to seek job security for its members through work rules governing job classifications and seniority in the internal labour markets. While many older unionized workers have been able to gain a degree of job security through agreements on reverse seniority layoffs, others have not. As unionization has declined and union bargaining power has been weakened, many employers have sought to regain control over these areas. Indeed, by increasing the proportion of part-time, temporary and contract workers, employers have gained greater flexibility over the way in which the workforce is deployed, as they are able to vary the size of the workforce to meet fluctuations in demand. There is thus a growing divide between the job security and conditions of the core employees who have long-term or even permanent contracts of employment, and peripheral workers who are casual, part-time or on fixed contracts.

A number of newer greenfield auto assembly plants have been built in USA as well as Britain, some of which are Japanese transplants. These are deliberately non-union so as to ensure that management has greater discretion over issues such as employment conditions and tenure. Employment in Britain has progressively become less secure as economic conditions have deteriorated and union strength has rapidly declined. On top of this, conservative governments have also reduced the obligations of employers to provide redundancy payments.

Even in Australia where government as well as unions are involved in strengthening the laws governing job security, bad times have seen firms shedding labour either through natural attrition or voluntary redundancy and the unions have just focused mainly on seeking to secure the most generous severance payments for their members. As imports have increased with gradual reduction in tariff protection under the WTO regime, local making has gone down thereby reducing prospects for future employment.

It is interesting to note how the composition of employment contracts is changing in the 'post bubble economy' phase in Japan (Sako and Sato, 1997; Watanabe, 1993). There are pressures undermining the life-time employment at the lead firms. The principle of life-time employment continues to be held by management, though, because without it, the motivational basis of workers' and unions' cooperation would falter. However, in order to defend the principle of life time employment, large firms are increasingly resorting to seconding and transferring their core employees (mostly older workers) to their affiliates and subsidiaries—the subcontractors in the production chain. Thus the practice of

continuous employment within a single enterprise is slowly giving way to the practice of continuous employment within a group of enterprises. No doubt, the core-periphery model of labour markets is a useful analytical tool. The core is defined as the labour force which benefits from stability of employment and functional flexibility, while the periphery consists of numerically flexible workers who provide a buffer for the core. In Japan, the core is contracting and the periphery is increasing with some part-time workers treated as quasi-members of the firm as family community. Sako and Sato also inform us that most of the part-timers are to some extent "permanent employees"—hired on contracts without a time limit. Why do they exist? What jobs do they perform? Why are their wages increasing even though they are not unionized? Answers to these questions pop up once we distinguish between "core part-time workers" and "supplementary part-time workers". The former perform highly skilled tasks acquiring their skills by on-the-job-training. The latter perform monotonous and repetitive jobs with no possibility of wage increases irrespective of job tenure or effort. Thus there are now "quasi-internal labour markets" at the lead firms. As such, the hoary dualistic labour market view that all part-timers are 'peripheral workers' or 'marginal workers' is now often misleading. This finding is also endorsed by Graham (1995) in her study of employment practices at a Japanese transplant in the USA, where there are 'permanent temporaries' hired through local agencies and they work on the line with regular team workers. This permanent underclass of 'temporary workers' are, however, relegated to receiving lower wages, fewer benefits and enjoying fewer rights. There exist contract workers too but there is no interaction between them and the regulars. The contract workers do everything from maintaining the conveyor systems, cleaning the locker rooms and office area, running the cafeteria, and working in security to keeping up the grounds. Some of them even hold clerical positions.

Recent studies about Hyundai Motor Co. in Korea and India have revealed multiple labour markets inside this firm which aggressively does cost cutting by combining a strict dual labour market within, and flexibility-linked wage policies. "The majority of workers in the Hyundai Motors India's (HMI) Chennai plant are hired at the trainee level for the initial three years. The HMI expects a segment of them to leave the company during the trainee period under a variety of circumstances. The trainee workers, contrary to this misleading designation, are induced into core production processes and are paid very low wages. In effect, the trainee position is a *de facto* short-term contract job and helps Hyundai Motors to keep the wages down and to retain a low-paid workforce. It also enables the company to achieve greater flexibility in labour management as they could

provide a buffer if a situation arises where there is need to reduce the workforce. This practice of employing disproportionately large irregular workers has now become the norm in the automobile industry in the (Tamil Nadu) state.” The new labour mobilization strategy “creates arbitrary categories of employment for largely similar labour inputs. The workers are recruited from a group of people who possess more or less the same skill levels into greatly varying employment categories such as regular employee, temporary workers, trainee workers, apprentices, and contract workers. Their wages and working conditions vary significantly from one another. However, in an integrated production system on the shop floor, they perform largely similar tasks” (Suresh, pp.261-263). A manager that we met from Ford Motors India near Chennai, informed us that majority of the workers on the shopfloor are skilled contract workers. It is also interesting to put here the summary of Gereffi and Guler (2010, p.118) about job quality in terms of employment arrangements in the Asian automotive assemblers: “According to the International Metalworkers' Federation (2007), there is a widespread and growing use of contract workers in the automotive industry. Some assembly and parts-making operations in China are staffed almost entirely by workers on fixed-term contracts. In many cases, almost half of the workforce is in precarious jobs, receiving much lower compensation and social benefits than regular employees, unequal or inadequate access to facilities, and worse conditions of work. Similarly, in the case of India, a permanent worker at the Hero Honda Gurgaon operation can draw a monthly wage of up to Rs. 40,000, compared to only about Rs.6,700 for contract workers, with some earning only Rs. 2,200 (International Metalworkers' Federation, 2006).” Hye-ja (1997) reports extensive use of contract workers in the Korean industries, including the auto industry.

Harrison (1998) has very nicely summed up how new competitive pressures have destroyed the “internal labour market” of the good old times—a portrayal that holds good everywhere in the globalizing world where firms must now be more flexible in order to compete: “This means that they must reduce their fixed costs, and this has had a serious impact on the security of jobs and worker remuneration.... Far-ranging changes are underway in how companies organize work: How they produce, where they locate the work to be done, and whom they hire to do the work. A central feature of these changes is what now appears to be a long-run... move away from what ... constituted the dominant ... employment system of the post-World War II era. ...In the quarter century after 1945, with job tasks substantially standardized and broken down into a finely grained division of labour, managers commonly hired new young workers at the bottom of job ladders, trained them on the job, promoted people within the organization, and

paid wages more in accord with seniority and experience than with individual productivity or current firm performance. ....by according greater job security to more experienced employees, business could expect in return that senior employees would more willingly train and otherwise teach skills to and share know-how with younger workers within the organization....But (now) there is a growing consensus among scholars that (this) old system is coming apart...The changes are motivated by a complex of reasons: deregulation, greater actual or potential competition from abroad, growing numbers of corporate hostile takeover attempts and other signals from stockholders that put a premium on short-term firm performance. All of this has made managers increasingly conscious of short-term fixed....costs, and committed to reducing them whenever and as much as possible....What this amounts to, in practice, is a proliferation of different forms of work organization, blurring the traditional distinctions between 'core' and 'periphery', 'permanent' and 'contingent', 'inside' and 'outside' employees and between 'primary' and 'secondary' labour markets. Thus managers employ some workers in more or less routine wage and salary positions inside the firm or agency. But then they also hire temporary help agencies, management consulting firms, and other contractors to provide employees (ranging from specialized computer programmers to janitors and clerical personnel) to work alongside the 'regular' people but on short-term assignments and under the management of the contractor. Companies...outsource work formerly performed in-house to outside suppliers, here and abroad. They also shift some work from full-time to part-time schedules, in part to avoid federal labour regulations covering wages and benefits that have been interpreted by the courts as not covering 'leased' workers. The 'temp' agencies and other contractors are being used increasingly by managers in the 'focal' firm as a mechanism for screening potential regular employees, with candidates serving their 'probation' on the payrolls of the contractor before moving into the focal company or agency. This creates the possibility for further inequities, since two persons working side by side for an outside contractor may be equally competent, yet one will eventually be absorbed into a full-time job while the other remains bouncing from one temporary assignment to another....Two concrete expressions of this growing heterogeneity in work organization and practices...are declining employment security and more uncertain wage and salary prospects over time....Flatter organizational structures—yet another workplace 'innovation' whose introduction in recent years has been responsible for the layoffs of so many middle-level managers—contribute to reduced promotion opportunities within the surviving internal labour markets of companies and agencies. More generally, the payoff to seniority, as measured by age-earnings profiles, is shrinking over time, both

across the workforce and, more precisely, over the careers of specific individuals, including those who stay with the same employer....And there is more...workers in the 1980s and 1990s may now be facing increasingly fluctuating earnings from one year to the next....It appears that a growing fraction of pay is becoming 'contingent'—on individual job performance, on the fortunes of the employer, on the current state of the 'animal spirits' in the stock market, or on what the company thinks it can get for its money by turning to suppliers in other, lower cost locations. Whatever the causes, the results are stagnating long-run average wages, declining personal mobility over time, and (possibly) increasing uncertainty in what a person's earnings next year will be." All this is, in a nutshell, the dark side of the era of flexible accumulation through lean production. This 'low road' in labour policy exists as a matter of fact unlike the 'dark side of the moon'—*a la* Pink Floyd—which as a matter of fact does not exist. The low road is preferred by the businesses despite the advocacy for 'high road' in labour policy from the 'progressive voices' including the ideologues of 'modern factories' of lean production and the 'confused and lameduck' ILO that peddles 'decent work' in times of indecent employment conditions.

The flexibility aspect of industrial restructuring forces the management to go in for more and more irregular employment contracts. By contrast, the quality and productivity aspect of industrial restructuring demands from employers the offer of longer and stable employment contracts to the workers. The fact that irregular workforce has rapidly increased in the workplaces all over the world is the indication that the flexibility aspect of restructuring is overwhelming for cost cutting. Economic theorisation in this regard is profoundly disparate or confused. Giving a worker a fair deal in terms of longish and stable employment contract brings out good performance (e.g. Akerlof, 1982). Similarly, the fear of losing a relatively better job also induces the worker to perform well (Shapiro and Stiglitz, 1984). In light of this, the insight we can draw is that the employers have gone for flexibility for cost cutting while expecting good performance from the increasingly irregularly employed workforce on the basis of fear of losing job. Moreover, the passing on of responsibilities to direct production workers from management can be avoided by making quality the botheration of the managers and engineers, not of direct production workers. This seems to be the underlying basis for the widespread observation in the world of lack of worker participation in many lean factories. We may also add that employers will use the Akerlof theory in the context of tight labour markets and use the Shapiro-Stiglitz theory in the context of oversupplied labour markets. In the context of globalization wherein the lead firms in the auto industry

are making foreign direct investments in areas of vast reserve armies of labour, we cannot expect them to go in for 'high road' in their labour policies as their goal is to create low cost positions for themselves in the areas of market growth.

A contradiction nevertheless remains in the logic of lean production. If contingent workforce increases at the workplace due to labour flexibility requirement, how can issues of quality and productivity growth over time be managed? How can employee commitment arise? There is a contradiction between lowering labour cost through flexible labour arrangements and enhancing productivity through job security and relatively higher pay. The theory and praxis of lean production is fuzzy in this sense. As Ramaswamy (1997) remarks, "The kind of performance needed to take the world has nowhere been got out of labour through fear. As the rest of the world has pointed out, workers cannot give their best without some commitment to the goals of the enterprise and some power to influence its decisions". Ramaswamy (*ibid.*) thus suggests two ways of achieving this objective, viz. participative management and HRM. He may be correct, but most employers have opted for dealing with labour through Hobbesian fear and punishment. Which implies, either employers or HRM/participative management theorists are inept and stupid.

To sum up, the contract of employment, as Loveridge (1983) points out, is a central component of the placement of individual employees within the structure of a single organization as well as within the fabric of society. It is in fact a principal component of the incentive system. The entrepreneur's perception of his dependence on the employee tends to be reflected in the content and length of the employment contract on offer. At the extremes, patterns of employment represent either a short term profit maximizing view in which labour is regarded as a variable cost or, by contrast, the longer term perspective taken in high road theory, but only rarely adopted in practice, in which labour is treated as 'human capital'. In the context of lean production, the short-term view seems to be the guiding principle of the dominant practice of the employers. Permanent contracts are increasingly replaced by atypical contracts like fixed term contracts. This is not surprising in the context of depressed labour markets or the Lewisian unlimited supplies of labour.

A more likely prognosis is that permanent contracts among direct production workers will eventually vanish. A minority among managerial workers may enjoy permanent secure employment but motivating them would become a problem when the promotion

prospects are small as the number of openings at middle and senior management levels continue to shrink due to the removal under lean production of the so-called “layer of clay”—a stratum of middle management with little real function that preoccupies itself by interpreting instructions from above and filtering information from below. As a result, the bottom of the organization has little clear idea of top management thinking and top management has little idea of what is happening on the shopfloor. Removing that layer of clay allows information to flow more freely—something most companies now recognize as an essential part of maintaining their competitive edge but this is not without the downside as pointed out above (Clutterbuck, 1985).

It seems that in order to get an edge over the rivals in low road competitiveness, the auto firms are getting rid of the old workers somehow or the other. While it is difficult for old workers to bear with the tough working conditions which lead to premature worker burnout, it seems that top management often considers older workers costly, less flexible and adaptable to new technology, and less willing to cooperate and learn new skills. Thus, how to manage an aging workforce with decreased physical abilities towards competitiveness has become a serious concern in the Western industrialized countries (Streb and Gellert, 2011). These writers have, however, found in their research on team work in the Mercedes-Benz plant in Bremen, Germany and the Volvo truck plant in Tuve, Sweden that in light of the exemplary management culture of accommodating older workers and the exemplary team management process in these plants, the stereotypical apprehensions about older workers as not suitable for competitiveness have turned out to be untrue. In fact with a growing average age of workforce, team performance improved in these plants. These German and Swedish findings may, however, be the exception to the general reality of the moves by the automotive management to kick the old workers out on some pretext or the other and bring in raw youth. Employers prefer youth to 'oldies' because the former do not ask questions and resist unlike the latter (Danford, 1997); also because it seems that most auto workers get physically burnt out by the age of 35 to 40 years.

## **2.5 Enterprise Governance, Worker Organisation and Labour-management Relations**

Do workers have board-level involvement (i.e. at the level of Board of Directors) in large firms? Forget about that. The Confederation of Indian Industry, for example, is not in its favour, and so must be the employer associations elsewhere. As some radicals would say, such questions can only lead one to see the dirty bottoms of modern capitalist



history; although capital as dead labour cannot create value without labour as living labour at the workplace, the big bourgeoisie have never shown true democratic credentials in relation to labour, even during the golden age of capitalism, so to say. In India, in Mumbai, some independent employee unions have made attempts to intelligently factor themselves into corporate governance at the board level by arguing on the basis of modern company law that there is no reason why they should not be part of board level decision making. Unfortunately, as of now, corporate governance is underpinned by the largely ideological rather than really legal doctrine of 'shareholder primacy', and the established political unions in India have shamelessly accepted this ideology and thereby killed the potential of labour movement extracting workers' rights in the new economic order. Some of the central trade unions have also shamelessly accepted the argument of the big business that there should be no interference in the internal management of their affairs (Banaji, 2000). It is also a matter of unpardonable shame, treachery and farce that the ILO, the great custodian of workers' rights, interacts with these soldout central unions instead of the really pro-working-class independent employee unions that argue out their stake in corporate governance, and want to do composite bargaining as well.

Let us ask the simple question: what is the degree to which employees are represented in corporate governance through institutions such as works councils or joint labour-management committees and what is the extent to which workers are at least consulted informally by management in the auto industry? Again, there is wide variation.

In Germany the evidence suggests that the role of works councils has increased relative to that of the unions, as 'qualitative' issues such as the introduction of new technologies, training and work organization have gained in importance. However, the end of the German 'economic miracle' has imposed considerable strains on the existing system and conflict has flared. Employers have sought to decentralize decisions which were formerly negotiated with the industry-wide union, to the plant level, where union representation is often at its weakest. Furthermore, many firms within and outside auto industry are promoting direct forms of employee involvement which do not require participation of the works council. Although unions remain strong within the auto industry, there has been gradual decline in unionization. This is a trend which can be understood as the structure of the labour market continues to evolve in a direction that favours white-collar and service-related occupations, which are less unionized than the blue-collar and manufacturing-based jobs.

Sweden does not have highly institutionalized works councils as in Germany, but the workplace reforms of the 1970s strengthened the role of union representatives in decision-making within the enterprise. While unions directly challenged management prerogatives and championed radical plans for wage earner funds, economic difficulties in the 1980s and 1990s saw the balance of power swing back to the employers. Employers sought to end the centralized wage agreements and some withdrew from cooperative arrangements with the trade unions. Yet, as a result of continued union influence at the enterprise level, direct forms of employee participation in decision-making are said to persist. Of course, it should be noted that such renewed interest in consultative approaches is dependent on the presence of a Social Democratic government.

Employee involvement programmes have been prevalent in the USA for a number of years, under various terminologies, but tend to be found more often in unionized than non-unionised workplaces. Canada has a similar pattern of firm-level governance to the USA, in that management has the right to make business decisions based on corporate law, regarding hiring and firing of employees, investment, plant closures and technological change. Yet, the Canadian Auto Workers union has gained significant influence through occupational health and safety laws at the workplace level, but has been opposing employee participation proposed by management. In the Canadian auto industry, as in the USA, most strategic decisions remain the prerogative of management.

In Japan, the presence of formal labour-management consultative committees tends to be highly correlated with union presence within a firm. But the Japanese approach to consultation is said to be highly idiosyncratic and difficult to compare with Western systems. All the same, a number of activities which are present in most large enterprises, such as Quality Circles, have been used by auto makers in other countries.

During 1983-96, under successive Labour governments, Australia saw a thick nexus between the federal government and the union movement. This gave the Australian Council of Trade Unions unprecedented influence in strategic economic and political decisions. The union movement cooperated with the government and employers in the introduction of greater flexibility in the wage determination system through enterprise bargaining. But unions remained weakly represented at the workplace level, even in the auto industry where there is a very high level of unionization. This can be ascribed partly to many years of reliance on the centralized arbitration tribunals. Consequently, there has been only a moderate role for unions and employees in corporate governance, even though there has been a steady growth of interest in various forms of consultation.

In discussing enterprise governance, there are two problems. First, it is difficult to ascertain the extent to which human resource and/or industrial relations professionals play a key role in strategic decision making within automotive firms in various countries. Secondly, there is the difficulty of measuring employee involvement in decision making at the plant level for making comparisons even as employees generally perceive low level of influence that they have.

The label 'despotic regimes', reminiscent of the early capitalism in which coercion prevailed over consent, is commonly found in the vertical supply chains; A more sophisticated management style found in the lead firms, in relation to the core workforce, is what Burawoy (1983) had called "despotic paternalism" or "hegemonic factory regimes" wherein consent is manufactured (Burawoy, 1979) by offering better labouring conditions and it somehow prevails although never to the exclusion of coercion.

Management style in enterprise governance or production chain governance in the auto industry is mostly of the type labeled variously as 'macho management', 'autocratic or authoritarian management', 'union hating/busting management', and 'military style discipline-and-punish management'. So, industrial democracy is still a far cry. And this kind of undemocratic management culture persists despite the evidence that workers and their unions do not impede competitiveness and that they may even further competitiveness (Standing, 1991; Mishel and Voos eds., 1992). Whether indeed employers and managers are really interested in creating good labour relations is a moot, fundamental question, in light of this.

Big and strong industrial unions such as IG Metal in Germany or the union of unions such as the International Metalworkers Federation, Geneva have contributed to the rise of a "new model of unionism" wherein the union drops the old 'job control unionism' and gets integrated into managerial decision making without compromising on workers' interests by playing a more active role in employee training and thereby facilitating diversified, quality, high volume production in Germany against the Japanese and other foreign competition (Hoerr, 1991; International Metalworkers Federation, 1997; Bosch, 1990). It is interesting to see how unions like IG Metal have broken free from the shackles of the earlier industrial unionism in the Western countries. This kind of unionism promotes productivity and quality which is a departure from the traditional trade union role of collective bargaining. It may be noted that in the post war period, "the very success of industrial unionism also sowed the seeds of its eventual decline. In order to defend

workers against the abuses of scientific management, the new industrial unions accepted, even embraced, all that went with it—in particular, the rigid separation of thinking from doing, 'managing' from 'working'. Cut off from decision-making responsibilities, unions focused on protecting workers from exploitation by using Taylorism as a base of shopfloor power. They negotiated multiple job classifications, linked wage rates to the job instead of a worker's skills, and established seniority as the basis of promotion. This 'job control unionism' gave unions a negative power to hamstringing management but not a positive power to influence operations. Rules bred more rules, eventually straitjacketing the production system and creating unproductive hierarchies in both companies and unions. The costs of this system were obscured as long as the US mass production economy dominated the world. But since the late 1960s, changes in the world economy have threatened to leave both US companies and unions behind. In a global economy, wage competition is also global. And under the impact of changing markets and technologies, companies around the world are scrapping the old mass-production systems and converting to flexible manufacturing, flattening hierarchies, blurring the boundaries among functions and jobs, and encouraging—indeed, demanding—that workers make critical decisions on the factory floor. Neither traditional American management nor American unionism fits in well with this new economic environment—a fact that even strong union supporters now recognize” (*ibid.*, pp.36-37).

In contexts where there are no such proactive strong industry-wide unions as IG Metal, or contexts where proneness to conflict of the industrial relations system such as in India (Johri, 1992) is not giving way to labour-management cooperation for productivity and quality (APO, 1992; 1994), employers and the civil society in general see the adversarial unions hooked only to collective bargaining as irrelevant. Financially weak independent enterprise level unions are finding themselves ill-suited to meeting the needs of both workers and companies. And the paradox of growing worker discontent and union decline continues to rule the roost. In this connection, Rao and Patwardhan (2001) make two points, one in general and the other in relation to India: first, there is no doubt that the primary objective of HRM is to marginalize trade unions given its emphasis on unitarism, non-unionism and individual bargaining. Many employers have been overtaken by this but they failed to institute new institutions even as they destroyed the old ones. The destruction of the traditional adversarial industrial relations is found to be associated with the lack of a significant increase in 'new' forms of employee representation or communication so much so that this has resulted in a vacuum in non-union organization. This coupled with the fact that “employees were treated as 'factors of

production' testifies both to the depraved content and degenerated process of HRM philosophy." It is the task of unions to expose and fight the degeneracy of HRM; secondly, "...field experience does not lend any support to the argument that non-unionism is any better than unionism, nor that the unionized organizations are placed in a relatively disadvantageous position. On the contrary, a strong trade union has several positive features in terms of accountability and enforcement of contracts. It is observed that in almost all cases, *conflict and cooperation coexist and inform employment relations, by turns, and ultimately it only through the good offices of the union that employers sell the concepts of productivity and quality to the vast mass of workers.*" But the complacent political trade unionism that has evolved in India in the "most unscientific, haphazard and defiant manner over decades" is now facing extinction as its leadership generally drawn from one political party or the other, has had a dampening effect on employees' attitudes towards the efficacy of unions in meeting their expectations. And this anachronistic leadership is damaging labour movement in India by resorting to unmindful violence—"One peremptory requirement is that trade unions should eschew, at all costs, the kind of violence exhibited in Bata Shoe Company in July, 1998. Industrial organizations cannot be treated as battlegrounds for rival unions to display their combating skills. And an employer is under no obligation, whatsoever, to remain a helpless spectator. He may opt for, and can afford, a long-drawn lockout, if driven with his back to the wall. Can the workers afford it? Such misplaced heroism, wherever practised, has brought disrepute to unions and misery to workers, depriving them not only of their jobs and earnings but also public sympathy and legal support, regardless of the legitimacy of their demands. Union leaders should pose the question 'would it be wrong, and what would happen, if employers, as a class, decide to pay them in the same coin' and also find an answer for themselves".

"Enterprise union" is integral to the so-called conflict-free Japanese enterprise governance. But most unions outside Japan take it as sort of pro-management "yellow union" wherein leadership often is dominated by managerial personnel and as such it provides little resistance to the unilateral direction of work. Workers in Japan have little autonomy vis-à-vis the production supervisor—the first-line manager—who often is also their union representative. As such, it is not surprising that in order to implement lean production not only Japanese transplants but also non-Japanese companies impose managerial prerogatives on the shopfloor by going to greenfield sites and setting up shop without unions or with 'strike-free agreements' with very weak or marginalized unions and with highly selective recruitment of psychologically "suitable workers".

While not disagreeing with the need for countervailing power through unions to protect workers from the worst excesses of management power, Humphrey (1994) seems to be happy with the Brazilian experience with Japanese methods as both anti-union and beneficial to labour: "Even when the union is weak or has been marginalized by management, improvements to employment conditions are evident: increased stability, better relations between workers and supervisors and more training." In this milieu, no wonder, unions in brownfield sites are generally hostile to Japanese type methods as a calculated strategy to undermine union power. All in all, with growing unemployment, even militant unions have been falling in line to facilitate top-down, management led programmes of quality, productivity and flexibility enhancement, as part of their own survival strategies, which in turn fuels the fire of macho management so much so that there is a trend towards the conversion of 'hegemonic factory regimes' into 'despotic regimes' even for the so-called core workforce. Unions in the process are locked into the contradiction of assisting the management in mobilizing workers to increase productivity and profits of the enterprise on the one hand and representing and protecting workers' interests on the other. Their management of this contradiction becomes eventually tragic in that they become less and less effective in dealing with workers' grievances and protecting workers' rights. As far as the rank and file workers are concerned, they are unhappy with their ineffective unions and there are cases where they have voted against their 'soldout' unions even as their wish to have a "true union" has become a hopeless dream. If this is the state of frustration and helplessness at the lead firms and large component firms, the prospects of keeping alive the old agenda of industrial democracy that strong independent democratic union is needed to keep the companies honest and to give a bigger voice for workers in the way things are done at the plant, are very bleak indeed.

In this milieu, a quintessential Marxist thinking is that unions do matter for the dignity of workers despite the fact that there are grave difficulties accounting for the low and declining union density--there are external difficulties by way of anti-labour bias of the laws, the exceptionally close alliance between business and the government, and the deep animosity of the media toward organized labour; and there are internal failings of trade unions in terms of failure to aggressively organize new members, internalizing the employer strategy of divide and rule, corruption in the labour movement, lack of consistent union democracy and the lack of an independent labour politics (Yates, 1998). How trade unions should reinvent themselves in the present context wherein they are sandwiched between addressing the issues of profound alienation faced by workers on the one hand and the need for shifting from collective bargaining to a participative or

quality of work life programmes on the other in conjunction with the need for integrating with a larger social and political movement, has now become a hot frontier research topic (Ramaswamy, 1994; Moody, 1997; Venkata Ratnam, 2001).

There are cases where workers in the restructured factories—reorganised on the JIT/TQM lines—in greenfield sites say they do not need unions. In such cases the workers are hand in glove with the anti-union campaign of their employers. A Marxist deconstruction of such workplaces is as follows. In such workplaces, the employers “devise company-dominated arrangements which they hope will serve as substitutes for unions. The basic idea is to group the workers into 'quality circles' which then brainstorm more efficient ways to work, or into 'teams', which serve as problem-solvers for management. Each team member is trained to do every other member's job. Management provides special training for circles and teams, often outside of the workplace and under the supervision of supposedly neutral experts. This training deliberately imparts the impression that the employer is concerned with the workers as human beings with needs beyond the workplace. Employers may even provide special technical training and give workers access to company data so that the teams can, in fact, solve problems and take on some of the work previously done by lower-level management. Workers, desperate for any kind of attention, often are enthusiastic about teams. But in time most find that management uses teams for one reason only—to increase productivity and profits. Since most jobs have been engineered to require as few real skills as possible, the fact that team members know each other's jobs means that management will not have to hire replacements when a member is sick or injured. Workers may find it more interesting to keep exact track of every move they make on a job, but employers have them do this in order to reduce the amount of labour used. When workers make suggestions for increasing productivity, they are giving their employer the knowledge which will eventually allow the employer to speed up their work or eliminate their jobs. When jobs are re-evaluated with team assistance, workers may be helping the employer to discover which jobs can be profitably contracted out. When team members are called 'associates' instead of workers, the employer is using manipulative psychology to give the workers the trappings of power without relinquishing any real control” (Yates, 1998; also see *HR*, 2000). Sooner or later, workers in such non-union workplaces will realize that even as they are resurrecting the employers' workplaces, they are actually digging their own graves and will have to accept that unions do matter in dealing with the super-cleverness of employers in the field of 'enterprise governance'.

In the nonunion sector, disputes between labour and management are settled usually by the informal handling of the immediate supervisors or a formal 'grievance redressal mechanism'. But there is a downside to this in that there are reprisals against those workers who file grievances. As Lewin *et al.* (1997), point out, there is "evidence that workers who file nonunion grievances have poor subsequent work histories on average than nonfilers." This is not all. The replacement of collective bargaining by individual bargaining is theoretically as also practically unjustifiable; It is instructive to note what Rao and Patwardhan say in this regard: "As a matter of fact, every organization bargains at an individual level in two situations: first, while recruiting employees—an exercise aimed at fixing entry-level salary which is determined by a complex set of factors including the last pay drawn; and second, throughout their stay in the organization, but restricted to the managerial personnel. HRM seeks to extend the latter version of this concept to workmen who fall within the ambit of industrial relations legislation. The feasibility of this proposal depends on a range of factors, such as the right of workmen to organize and bargain collectively, problems of inequity and the de-motivating influence of unilateral decisions, the need for uniform standards of administration, legal restrictions on unfair labour practices and the extent of unionization of the unit. A direct linkage of pay, in its entirety, with individual performance means that intra-grade heterogeneity in pay and benefits becomes the accepted norm of personnel management, with its concomitant evils of demotivation, interpersonal disharmony, politicking and, not infrequently, even sabotage. Employees engaged in small-scale units might reconcile with such glaring imbalances, but not those engaged in large corporations. Grievances soon pile up leading to a rich crop of dysfunctional consequences. Given the superior bargaining power of employer, individual bargaining stands reduced to an arbitrary and unilateral grant of salary increase at the sole discretion of management, which, though manifestly capricious, is final and not open to question. All that an employee aggrieved of internal inequity can do is to request his superior, rather slavishly, for reconsideration, and nothing more. This is the ultimate form in which the HRM brand of 'mutuality' is practised in non-union organizations!

### 3. CONCLUSION

How to induce appropriate behaviour from the employees and get more productivity has been a perennial botheration for employers and personnel professionals. A multitude of different mechanisms are used to induce workers to act in the interests of their employers (Prendergast, 1999). There is no single set of ideal incentives consistent with one another



that is favoured by the employers. The theory associated with these mechanisms is not useful to resolve the contradictions of implementation and get the desired outcomes.

All that one can safely conclude is that the chaos on the employers' side in this regard does not matter to workers simply because they are on the receiving side without bargaining power due to oversupplied labour markets. In any case most of the workers work with low road incentives as they face the choice of take them or leave to join the jobless. The incentives that they want are opposite to the incentives that the employers want to give. For example, from the workers' point of view high wages and effective protection against arbitrary dismissal are an essential factor for the maintenance of a decent life. From the employer's viewpoint, high wages increase production costs and therefore reduce the competitive position of the enterprise on the market, and limitations by law or collective agreement on management's power to hire and fire reduce the area of managerial decision making, and consequently management flexibility and adaptability to changing conditions and market fluctuations. Thus it seems that it is impossible to design and implement an incentive system that is agreeable to both the parties, statically and dynamically.

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