
Industrial relations frameworks in emerging economies:

# Policy and practice for sustainable development

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The first studies on labour and industrial relations in newly industrialising economies appeared in the 1950s. From the earliest stage, industrial relations experts were concerned with how to organize and regulate the relationship between workers and employers in such a way as to promote rapid but durable economic development. The critical questions, both then and now, are (a) the extent to which policy frameworks in developing countries should be tailored to promoting collective rather than individual industrial relations (IR); and (b) if the former, what kind of collective industrial relations system there should be. This paper explains the difference between collective and individual industrial relations and the advantages of collective IR. It then discusses what kind of industrial relations policy measures are likely to be most effective in emerging economies.

An employment contract is the agreement between a worker and an employer that specifies the kind of work a worker will do, the working time he or she will put in, the wages the employer will pay, and a range of other terms and conditions. In principle, work or employment contracts are freely drawn up and agreed by the parties, just as with any other commercial contract. This applies even when the contract is not written. A contract exists because of the fact that a worker is doing regular work for an employer, not because there is a piece of paper that says it exists. When we talk about industrial relations, we mean the institutions and processes by which the content of employment contracts is determined and applied.

*Individual industrial relations* is a system in which contracts are agreed between employers and individual workers. Employers in this system have much greater influence over the terms of employment contracts than workers. A worker with a family to support and a limited range of other livelihood opportunities has little real freedom to accept or reject the terms of a contract. Each worker's bargaining leverage is limited to the threat of refusing a new contract or resigning from an existing one. For most workers these are not strong cards to play. As long as there are other workers seeking work, an employer need not be very worried about one particular individual taking their labour elsewhere. In an individual industrial relations system, then, most employment contracts are not individually negotiated. Instead, employers simply offer them to workers on a 'take it or leave it' basis. This is not to say that employers can offer just any terms and conditions and expect to be able to recruit and retain the workers they need, particularly if there are skills shortages in the labour market. Nevertheless, as long as workers' only bargaining chip is their individual capacity to refuse an offer of employment, upward market pressure on labour costs is likely to be limited.

The recognition that workers' bargaining power is limited in this way gave rise to collective industrial relations. This is a system in which the terms of employment contracts are negotiated by employers and independent workers' organizations, usually called trade unions. Trade unions represent and act on behalf of all the workers in a particular business or occupation or sector at once. This is why the process of reaching agreement is called collective bargaining. When workers act collectively by forming a trade union, they are better able to match an employer's bargaining leverage and can hold out for a better deal where workers acting individually could not. As we will see below, this has both economic and political consequences.

Another way of thinking of the difference between collective and individual industrial relations is that under collective IR, wages, benefits and working conditions are *jointly* determined by workers and employers in an active process of dialogue. Under individual IR, by contrast, wages, benefits and working conditions are *solely* determined by employers. Beyond compliance with any legal minimum standards set by the public authorities, employers set pay and conditions according to their strategic assessment of staffing needs in the context of their reading of labour market conditions. Workers' assessments of their own needs and interests are not part of this decision-making process.

The argument about which approach to industrial relations policy should be chosen by an emerging economy turns around two main axes, one concerned with economics and the other with politics.

## The economic impacts of collective industrial relations

The conventional wisdom is that collective bargaining involves higher labour costs than individual bargaining. The research evidence suggests that the assumption that there is this 'union premium' is broadly true. The most comprehensive recent review of the evidence found that "At the heart of trade union effects on the economy is a shift in income from capital to labor" (Doucouliagos et al., 2017, p.148). The more controversial issue is whether this is damaging to economic growth.

Early work on the economics of development simply assumed that it would indeed be damaging. Higher wages were thought to mean both reduced capital investment (Galenson, 1962, p.3) and increased consumption. Increased consumption was thought to lead in turn to inflationary pressures that underdeveloped economies were ill-equipped to absorb (Mehta, 1957, p.19). However, technical developments in economics and organization studies since the 1960s have pointed to a range of trade-offs and collateral effects that mean that in practice collective industrial relations can have a positive net economic impact.

### Impacts in the workplace

At the micro level, behavioural economists have argued that we need to take into account the effect of non-economic factors like culture and psychology on economic decision-making, especially within organizations. To put it simply, there is more to business performance than prices, and there is more to trade unions than their impact on wages.

Research has found that businesses operate more effectively if workers have some influence over work relationships and work processes. Unions are a means by which this kind of influence can be exerted, acting as a channel for communication, exchange and agreement between workers and their employer. Workplaces where workers feel that they have a voice in decision-making tend to have lower worker turnover, higher job satisfaction and commitment, an increased sense of responsibility for outcomes, enhanced learning and skills development, reduced stress and consequently better physical and psychological health, and increased levels of mutual trust and loyalty (Boxall and Winterton, 2018; Doucouliagos et al., 2017; Gonzalez, 2009). It is easy to see that this will have a significant impact on business performance.

### Impacts on the whole economy

With respect to the macro level, development economists have recently argued that the importance of domestic demand in promoting growth has been underestimated, particularly in economies whose development strategy focuses on export-led growth. The UN Conference on Trade and Development summarised these arguments in its 2013 Trade & Development Report (2013). The strategy of pursuing growth through exporting is based on what UNCTAD calls the 'perceived' comparative advantage of cheap labour. However, this strategy has its limits because it "makes countries overly dependent on foreign demand growth [and] may not be sustainable for a large number of countries and over a long period of time" (p.72). UNCTAD argues that, if implemented along with the right mix of other macroeconomic policies, the policy of stimulating increases in real incomes via minimum wages and collective bargaining is associated with significant increases in growth (pp.40–41). The various mechanisms involved in this effect are too numerous to go into here, but just to give one

example, UNCTAD argues that increases in real income for the poorest groups are likely to be spent on locally produced goods. The increased demand for these goods encourages investment in productive capacity. This and other mechanisms mean that under the right conditions, a shift in national income from capital to labour is associated with an increase in fixed capital formation and not a decrease (p.77).

### Does collective industrial relations deter investment?

Economies geared towards participation in global supply chains face one further question: Would a significant increase in labour costs mean that international buyers withdraw and source their products elsewhere? The slightly unsatisfactory answer is that it depends. It depends, first of all, on whether increased productivity can compensate for higher labour costs and allow supplier firms to carry on offering the same unit cost to buyers. The overall evidence suggests that unionization is associated with increased productivity as often as it is not.[1] This in itself is encouraging as it suggests that unionization is perfectly compatible with improved competitiveness. Even better, however, the most comprehensive and most recent of these reviews found that unionization has a small to moderate positive impact on productivity in manufacturing in developing countries (Doucouliagos et al).

The second issue is whether, if unit labour costs do increase, passing this increased cost on to lead firms will necessarily be a deterrent to contracting. The point to bear in mind here is that cost is not the only criterion for awarding a contract. For example, buyers often put a high premium on political stability and industrial peace. Collective industrial relations is very likely to contribute to these outcomes, as we will see below. Buyers are also frequently 'reputation sensitive'. They may believe that it will reflect badly on them if they withdraw from contracts with suppliers that have conceded better wages and working conditions through dialogue with workers. As Anner and Gross (2020) argue in one of the other papers in this series, lead firms could even contribute to making collective bargaining viable by ring-fencing labour costs during price negotiations.

## The political impacts of collective industrial relations

Overall, the economic evidence suggests that collective industrial relations can have a positive impact on growth and development. However, this is not the only point at issue. Policy-makers often worry that trade unions are likely to be "led by political radicals dissatisfied with the existing system of government" (Galenson, 1962, p.3). As a consequence, they may fear that encouraging workers to exercise their collective strength risks destabilising not just industry but society as a whole. While in most industrialised countries trade unions are no longer seen as threatening, in emerging economies this fear remains an important deterrent to the wholehearted implementation of collective IR.

[1] There are three major reviews or 'meta-analyses' of the research evidence: Freeman & Medoff (1986), Aidt and Tzannatos (2002) and Doucouliagos and his colleagues (2017). These reviews all concur on this point.

From an early stage in the historical debate, however, it was argued that collective IR represents a net *contribution* to political progress and stability. In his introduction to one of the first published collections of papers on labour in developing economies, Galenson argues that:

> "The Argentine unions have probably raised labor costs above what they otherwise would have been, and [...] have contributed in no small measure to persistent inflation. But, as Professor Alexander points out, they have "tended to assure the worker that he will not be considered merely a 'factor of production', but will be treated as an individual, with certain prescribed rights and duties," and the resultant gain in social stability may more than offset the possible loss in investment" (Galenson, 1962, p.4).

The argument made here concerns the legitimacy of the industrial relations system and of the employment relationships that exist within it. Workers who are treated as a 'factor of production' are by definition excluded from the decision-making process. Their needs and interests as they see them are not taken into account in the management of the organizations in which they work. At the same time, as we argued above, most workers most of the time are not in a position to choose freely whether to accept a new job or continue in one they already have. To use Hirschman's well-known terms, they have no *voice* within the relationship, but neither can they exit from it (Hirschman, 1970).

Unless the wages and conditions of work offered by an employer are especially good, workers with no voice and no realistic possibility of exit are likely to view the employment relationship as illegitimate. This means that even where the terms of that relationship are perfectly legal, it will still be experienced as coercive. The feeling of coercion will be that much more acute if employment practices are illegal and abusive, as they sadly often are in emerging economies. Depending on how they understand their own agency and the severity of sanctions for breaking workplace rules or refusing management instructions, workers' behaviour will fall somewhere on a spectrum ranging from active resistance to authority to minimal and resentful compliance. In short, workers who feel coerced represent fertile territory for disruptive anti-system politics.

Collective industrial relations potentially resolves rather than exacerbates this problem because it provides workers with voice. In most circumstances, workers have little reason to believe that the employment relationship is in their interest. Management claims that they will look after workers' interests to the extent that the market permits are not generally seen as credible. The exercise of voice through collective bargaining and other mechanisms resolves this trust problem (Addison, 2015, p. 15). In the long run workers will also judge the value of collective industrial relations by its contribution to improving wages and conditions. However, the simple fact that government and employers accept that certain decisions will be made jointly with workers' representatives sends a powerful signal. It shows that workers' needs and interests must be integrated into economic decision-making. Workers do not cease to be citizens when they pass through the factory gates. Collective industrial relations responds to their aspirations for a degree of self-determination and as such improves rather than threatens political stability.

## Designing collective industrial relations institutions

The evidence strongly suggests that the potential economic and political benefits of collective industrial relations can easily outweigh its costs. The policy question is therefore not so much whether to build a collective industrial relations system but how—what kind of system best fits the particular context of emerging economies with export-led growth strategies. The range of policy questions that arise is very wide and we cannot deal with all of them here. Instead we will focus on three key issues. First, the appropriate level of collective bargaining; second, whether to distinguish between rights and interests disputes for the purposes of industrial action; and third, whether to have mandatory workplace level worker representation structures and, if so, what role and institutional form to give them.

### The level of bargaining

Perhaps the most basic choice to be made in the design of a collective industrial relations system is whether to gear that system towards single-employer collective bargaining or to encourage the development of multi-employer bargaining. It should be remembered that the two possibilities are not mutually exclusive and exist side-by-side in many systems.

Multi-employer bargaining aims to agree terms and conditions that will apply to workers in more than one business. It may cover a particular occupation, a geographical region or even an entire economy, but most commonly it covers an industrial sector. Typically, the terms of a sectoral collective bargaining agreement apply to all those workers whose employers are members of the sectoral employers' organization involved in negotiating the agreement. How many of those workers are members of trade unions and whether there is any kind of formal union organization at the workplace level does not usually affect this coverage. Trade unions that participate in sectoral bargaining generally have the right to do so by virtue of meeting some legal criterion that specifies when a union is sufficiently representative of a particular group of workers. For example, for the purposes of sectoral and national level collective bargaining in Togo, a trade union must win at least 25% of the national total of votes cast in elections for staff representatives (*délégués du personnel*) that are open to all workers.

Single-employer collective bargaining does not usually take place unless (i) a high percentage of workers in an enterprise are members of a trade union (typically 30-50%), and (ii) there is a formal union structure within the workplace that has been registered with the public authorities and/or recognised by the employer. In some cases, as in India, this structure may be a bargaining council made up of multiple unions. Many systems also include a requirement that a majority of the workforce, union members and non-members alike, vote to be represented by the union in a secret ballot.

Historically, the single-employer model has been dominant in North America. In continental Europe multi-employer bargaining has been the norm. The industrial relations systems of some emerging economies are built around multi-employer bargaining, including Brazil and a number of countries in North and West Africa. Some countries like South Africa put more or less equal weight on single and multi-employer bargaining. The countries of South and Southeast Asia overwhelmingly privilege the single-employer model.

For emerging economies, there are a number of reasons why sectoral collective bargaining may be a better option.

1. Sectoral bargaining is the most rapid route to high collective bargaining coverage. ILO research has shown that multi-employer bargaining results in a significantly higher level of collective bargaining coverage than single-employer bargaining (ILO, 2015). This is likely to be because it does not demand a high level of trade union membership and organization in every workplace. High levels of membership are very hard to achieve where workers have little experience and understanding of trade unionism. In some cases, workers and local and regional public authorities may also be very wary of organized labour because they associate it with political dissent and opposition. Workers' unwillingness to join a union cannot therefore be straightforwardly equated with unwillingness to have their wages and working conditions negotiated on their behalf by an independent organization accountable to them. Multi-employer bargaining avoids this problem by ensuring that the application of a collective agreement is not subject to a union membership threshold. It is applied either because the employer is a member of the relevant employers' organization, or because of a vote to adhere to the agreement taken by all the workers in an enterprise.

2. Sectoral bargaining makes the best use of scarce expertise. Collective bargaining demands specialist expertise. It is a complex process that has both political and technical aspects. Experience and expertise in collective bargaining tends to be in very short supply in emerging economies, both on the worker and employer sides. By centralising the bargaining process, multi-employer bargaining makes more effective use of the experience and expertise that is available. It also makes more effective use of the resources available to support the further development of bargaining skills among workers' and employers' representatives.

3. Sectoral bargaining takes labour costs out of competition and reduces worker turnover. A uniform set of wage rates and working conditions across a group of businesses in the same industrial sector prevents those businesses competing on labour costs and removes one of the major reasons for high worker turnover—one of the problems most consistently identified by managers as limiting labour productivity.[2]

4. Sectoral bargaining strengthens the institutional role and relevance of employers' organizations. Employers' organizations that play no role in collective bargaining may struggle to attract members, particularly among foreign-owned businesses. However, if an employers' organization is involved in bargaining that has direct implications for labour costs, this provides a strong incentive for businesses to join and participate.

5. Sectoral bargaining facilitates the social compliance activities of supply chain lead firms. The majority of the global businesses involved in supply chain contracting require their suppliers to abide by certain rules and standards of conduct. Monitoring the compliance of suppliers is a major task which is complicated by the fact that lead firms rarely source from only one business in any given country. Similarly, supplier businesses very rarely work with one lead firm and may have to comply with several different codes or sets of standards. The existence of a single collective bargaining agreement specifying wage rates and working conditions across all or most of the businesses working in a particular sector makes life easier for both lead firms and suppliers. For

[2] The conventional economic wisdom is that enterprise level bargaining permits firms to adjust to their particular market circumstances. If this were to be an important freedom in practice, we would expect there to be some significant variation in wage rates between firms. What we observe, in fact, are very low levels of wage dispersion (the case in Myanmar, for example) and even informal coordination of wage levels between employers (the case in Ethiopia).

example, auditing of labour conditions could be standardised across all workplaces. Lead firms would not have to design a labour audit for each supplier and suppliers would not have to comply with a different code for each lead firm. Multi-employer bargaining also opens up possibilities that do not exist under single-employer bargaining. It is generally agreed, for instance, that buyers cannot require suppliers to establish a collective bargaining relationship within their own enterprise. However, buyers *could* require their suppliers to adhere to an existing multi-employer collective bargaining agreement.

6. Sectoral bargaining facilitates the emergence of more cooperative relationships at the enterprise level. A recent ILO working paper argues that there is a difference between the process of bargaining wages, working time, benefits and other working conditions, and the resolution of problems with work systems and processes (Cradden, forthcoming). While effective bargaining demands that negotiators sometimes adopt a confrontational posture, resolving work process issues demand a more flexible and open approach. Only the most experienced managers and workers' representatives can recognise when each of the two styles of engagement is appropriate and switch easily between them. Multi-employer bargaining means that this 'code-switching' is largely unnecessary as the bargaining of wages and working conditions takes place beyond the workplace. This means that local representatives are free to concentrate on developing a problem-solving style of interaction.

### Rights vs. interests disputes

There are two types of collective labour dispute: Rights disputes are disagreements about the implementation or interpretation of existing rules, either the law or the content of collective bargaining agreements. *Interests* disputes are disagreements about whether there should be new rules or whether existing rules should be changed. Interests disputes almost always concern the content of collective bargaining agreements, including wages, working time and other working conditions.

Some systems of labour law do not distinguish between collective rights and interests disputes. In India, for example, an industrial dispute is defined simply as "any dispute or difference … which is connected with the employment or non-employment, or the terms of employment or the conditions of labour, of any person" (Industrial Disputes Act 1947, Section 2(k)). Clearly this could include either rights or interests disputes. Similar definitions can be found in the law of many former colonies of the UK. The absence of any line between the two types of dispute arises from the English common law doctrine that collective bargaining agreements are not legally binding in themselves. They are not understood as legal texts and their application and interpretation is a matter for negotiation between the parties rather than legal judgement. As with negotiation on other topics, this may involve industrial action.

In other legal systems, however, collective bargaining agreements are legal texts with the same status as other contracts. This has two implications. The first is that once an agreement is reached, its terms should apply without renegotiation for a specified period of time. The second is that while an agreement is in force, any dispute about implementation or interpretation should be resolved by the courts or by binding arbitration if a mediated or conciliated resolution cannot be found. This is why in some industrial relations systems, like those of Canada, Germany and Pakistan, it is unlawful to take industrial action either in pursuit of a demand already covered by a collective bargaining agreement or in pursuit of the resolution of a dispute about the implementation or interpretation of an agreement.

[3] In this section we do not intend to cover disputes or grievances between individual workers and their employer. We are only concerned with disputes that affect all of the workers represented by a trade union.

Some legal systems fall between the two extremes. In Cambodia for example, the law does draw a distinction between the two types of dispute that has implications for dispute resolution procedures. Nevertheless, the possibility of taking lawful industrial action in pursuit of the resolution of a collective rights dispute ultimately remains open (van Noord et al., 2011, p. 5).

For an emerging economy, the most important policy question is whether to permit industrial action to be taken in pursuit of the resolution of rights disputes. There are very good arguments for not doing so. Perhaps the most compelling is that if the default means of enforcing collective bargaining agreements is industrial action, the status of those agreements is devalued. If workers have to fight even to have existing rights respected, then industrial relations will not be characterized by the rule of law but by ongoing conflict. A second reason is stability. A common fear about collective bargaining among employers is 'where will it stop?'. Ensuring that in normal circumstances a collective bargaining agreement cannot be renegotiated for a specified period introduces a degree of stability into the system for both workers and employers.

One critical caveat to these arguments is that outlawing industrial action in pursuit of the resolution of rights disputes makes little sense unless workers have access to rapid and reliable independent dispute resolution machinery. If workers cannot take lawful industrial action against an employer who is failing to implement the terms of a collective agreement, there must be some other means of quickly settling this kind of dispute, whether through civil courts, specialized labour tribunals or expert arbitration. A system that does not provide for this will quickly lose the confidence of workers who in practice have been deprived of the ability to enforce their rights.

### Mandated workplace representation[4]

As we saw above, it is well established that dialogue between workers and employers about work systems and processes is an effective means of improving business performance. Many industrial relations systems include provisions to encourage this kind of exchange, often known as 'workplace cooperation'. Employers may be obliged to establish workplace level representative structures like works councils (as found in most countries in Europe), workplace coordination committees (Myanmar) or participation committees (Bangladesh). In many cases, global buyers' supplier codes of conduct and multi-stakeholder sustainability standards systems require businesses to establish structures of this kind. The composition of these bodies varies considerably from system to system. In most emerging economies, worker representatives are elected by the workforce as a whole unless there is a recognised trade union presence in the firm. In this case the trade union typically nominates the worker side.

Although they are both forms of social dialogue, workplace cooperation and collective bargaining are very different processes. The aim of collective bargaining is to agree the contractual terms and conditions of work. Effective bargaining demands that participants sometimes take inflexible positions and adopt a strategic attitude to communication and information sharing. Workplace cooperation aims to improve the day-to-day operation of the enterprise—work processes, productivity and so on—for the benefit of both workers and employers. This demands what we described above as a flexible and open or 'problem-solving' style of relationship between workers and employers. As we saw above, collective bargaining helps to resolve the trust problems that may prevent the development of this style of relationship. However, it is not in itself a good means of resolving operational problems in the common interest. This suggests that the best outcomes will arise when cooperation and bargaining co-exist but take place in separate institutional forums.

[4] The term 'mandated' (required) is used here to distinguish obligatory worker representation structures from trade union representation, which is of course voluntary.

The research evidence provides strong support for these arguments. The positive impacts of workplace cooperation have been found to be stronger when cooperation forums co-exist with collective bargaining, regardless of the bargaining level (Ellguth et al., 2014; Kriechel et al., 2014; Sablok et al., 2013; Stegmaier, 2012). This same multiplier effect has been observed in factories participating in the ILO's Better Work programme, where the positive effects of 'performance improvement consultative committees' were stronger where collective bargaining was also present (ILO, 2016). Recent research by Marsden (2015) suggests that the multiplier effect of the presence of collective bargaining on the effectiveness of workplace cooperation is likely to be due to the compartmentalisation of issues into different forums dealing separately with questions of terms and conditions and of work process. This separation allows workers and managers to adopt different interaction strategies—bargaining or problem-solving—depending on the issue. Marsden argues that managers in Germany have been able to maintain a 'learning' model of organization because industrial relations policy and practice has separated "responsibility for wage bargaining from that for workplace issues, and assign[ed] these respectively to unions and works councils" (2015, p. 185).

While there is little doubt that workplace cooperation structures can be useful, their presence in the context of low levels of unionisation and limited public understanding of collective industrial relations poses certain risks. First, where workplaces are not unionised, mandated workplace representation structures may be seen as an *alternative* to trade unionism or may even be thought to be trade unions. However, non-union workplace representatives are not fully independent of management and do not have the legal prerogatives of trade unions, notably that of organising lawful industrial action. Second, the aim of mandated worker representation structures is to improve business performance. Any confusion between the role of trade union representatives and worker representatives in these mandated structures risks suggesting that trade union demands are only legitimate to the extent that they are acceptable to employers.

The policies required to mitigate these risks are clear. First, the aim should be to have both high collective bargaining coverage *and* active workplace cooperation forums in every business. Mandated worker representation structures should not be used as a quick and easy alternative to unionisation. Second, collective bargaining and workplace cooperation structures should be entirely distinct, with no confusion or overlapping of functions. This is traditional practice in continental Europe, where collective bargaining machinery and works councils exist side by side but where their institutional roles are clearly distinguished.

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