

# Industrial design

Working with the union movement, rather than against it, is one of the best ways to improve a company's performance, says international industrial relations guru Dr Tom Schneider.

by HELEN VINES

**T**om Schneider has made a career of advising companies in some of the world's most highly unionised industries. He achieves results, such as improved productivity and better employee relations, by embracing union involvement in business.

Schneider is president and CEO of the US-based organisational and employment consultants, Restructuring Associates Inc. In 1997, Restructuring Associates formed a joint venture with Australian legal firm, Corrs Chambers Westgarth. The new business, Corrs Schneider, specialises in restructuring organisations to improve operating performance.

According to Schneider, it is the direct relationship an organisation develops with its employees—and the unions—that really matters when it comes to developing a competitive business strategy. “Companies should sustain themselves whichever way the winds blow in terms of government IR policies,” he says. “You should not be trying

to base your competitiveness and bottom line performance on government policy. And you shouldn't be trying to play that issue strategically. You really need to look at it from a long-term perspective.”

Major cases like the Patricks dispute and the current Royal Commission into the building industry, he says, while having the potential to alter the course of an industry, should not be viewed opportunistically by employers. “If there's a concerted effort to try to change things, there's no question that industry policy can have an effect. But if I'm the CEO or chairman of a company relying on government policy to make me competitive or save the day for me, that's not something that's going to be particularly attractive to the capital markets or shareholders.

“My basic proposition is if you look at the top performers anywhere in the world, the high-performing companies are successful over decades because of their practices, regardless of changes in government.

Companies that operate within the traditional adversarial model are invariably more dependent on government policy bailing them out, says Schneider. “But from a shareholder point of view and investing in the capital market, that's a lot less attractive than a company that's really a master of its own fate and doesn't rely on the government to save it or make it.”

**Schneider points to** SouthWest Airlines in the US as a company that has concentrated on the development of a good corporate culture in order to produce long term change. Worldwide, the airline industry is heavily unionised. “Because of the nature of the industry, it can be shut down very easily, and this happens routinely,” says Schneider. SouthWest is the most heavily unionised airline in the US, yet it is the only airline in the entire world that has been profitable every year since 1974, according to Schneider. Despite being the fifth largest airline in the US, SouthWest has a market capitalisation larger than the first four major airlines.

The secret, says Schneider, is a strong corporate culture that actively supports the development of its employees, and has done so right from its very beginnings. When the company was founded in the seventies, it recognised the central importance of people in the success of the business, he says, with the result that “they have designed an entire culture around putting the employees first”. The company is very highly unionised and wages are very high, but it is the lowest cost airline. “They’ve literally built an organisation that has the management system, the flight system and the people system that are all in synchronisation with each other and they produce extraordinary results.”

The management of the firm has a very long-term strategic focus, says Schneider. “And that’s a challenge. If the organisation doesn’t want to make that investment they have to turn to the government to make the reforms that are going to allow them to be successful. But that’s only going to last till the next change in government, or until they screw things up.”

Schneider says the issue of unionisation is largely irrelevant to optimal organisational performance, although in the US, it is illegal for management to talk directly to workers about wages and benefits, and terms and conditions of work if there is a union involved. “My experience in the 27 years I’ve been consulting is that the performance of an organisation is not dependant on whether you’re unionised or not.

“The issue is how you manage your business. And if you manage your business in a way which recognises the importance of people and makes them a central part of your business operation, then the fact that you’re unionised in no way detracts from your performance. In fact, there’s a lot of things unions can bring to the table that will make it a lot easier to manage a very large organisation.”

When you are dealing with thousands of employees, then being able to strike an agreement with a union, knowing the cultural and management systems are in place to make it happen, actually simplifies business, he says.

That said, Schneider notes that unions have not always been “the democratic models they hold themselves up to be. They do not always focus primarily on the maximisation of the overall benefits of their members. And they engage in some counter-productive behaviour. All of that takes place and needs to be recognised at the front end.

“At the same time, managers are disingenuous on this. They say, on the one hand, ‘we have to be focused on maximising our own personal income and the shareholder value’, but they begrudge the employees for trying to maximise their own personal benefits. What’s good for the goose is good for the gander. They turn around and say the unions are interested in consolidating their own power, but at the same time the unions are the collective voice of the employees.

“I’ve done some interesting exercises with senior managers, where we put them in a group setting and treat one or two individuals arbitrarily – basically unfairly. The automatic human instinct when someone is being treated unfairly is to collectivise. To form a group so that united we have a stronger voice than we do as individuals. These are the same people that decry unions, but then turn around and try to form

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collective action. They join political parties. What is a political party? It’s the common voice, with more power than the individual voice. All unions are trying to do the same thing.

“There is a certain amount of self-interest. What happens is that unions make it more difficult for managers to be arbitrary, to do whatever they want.”

**There is a lot** of talk about companies recognising the importance of people, but how widespread is it really? Schneider is of the view that it is on the rise, and points to specific examples of companies in Great Britain and the US which, he says, are increasingly recognising the value of a people-centred corporate culture. These include Scottish Power and General Mills in the US, which is one of the

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larger food processors. “They were number two in the market behind Kelloggs; they’ve now taken over from Kelloggs. And a big part of what they’ve done is focusing on building a culture around the people side of it,” he says.

The new areas of the economy, like technology, he says, do generally place a premium on people, “and they’re very different cultures, and get results”. The top companies listed in *Fortune* magazine, he says, are organisations that are viewed as being “extraordinarily great places to work. If you view them over sustained periods of time, they tend to be the best performers in the

marketplace, in their industry and the stock market.” It is a correlation he describes as “fascinating”.

“What you’re starting to see is more and more senior executives who have been going through these structural changes – redeployment of assets, stripping things out, and outsourcing – and they’re finding that they’re still under competitive pressures. This is going to continue because of globalisation and technological improvement, but it is reaching a point where they find that there are fewer options available. So companies are now starting to say ‘maybe we should be thinking about something else’, and they are coming back to the people they employ. And that’s going to be what makes them competitive over the long term.”

**From Schneider’s perspective**, one of the biggest changes in the industrial relations landscape in Australia has come from a shift from the national agreement to the enterprise agreement, to the individual agreement. “From a corporate point of view,” says Schneider, the enterprise agreement was “the critical move. Because essentially what it did was allow companies to come up with agreements for their employees which were appropriate for their own competitive situation. Moving to these individual agreements really started to become bureaucratic and add very little value.

“Companies may be pressured to do so by the government and they may be jumping through the hoops, but it really doesn’t make a big difference for most of them in terms of their competitive performance.

“What they really need to do is make certain that their employees are covered by agreements under terms and conditions that are appropriate for their setting, their industry and their competitive position.

“From a pure management point of view, if you go back to the beginning of the century, when job classifications developed they weren’t introduced by unions but management.

“Essentially, it was a tool by management to organise work. The idea of saying you have to treat every one of your 5,000 employees as unique individuals with unique agreements [is unrealistic]. You’re going to need an HR department of thousands of people in order to manage employees. It’s easier if you can go in and find one or two agreements that cover all employees. They’re all going to have the same terms and conditions. They are drafted to achieve flexibility and an agreement is created that fits the competitive challenges faced by the company.

“When I’ve looked at enterprises, they may have these individual agreements, but in many cases they’re basically going through the motions. What they’ll

all say is that ‘we got everything we needed with our enterprise agreement, this stuff is now dealing with politics’. Now if I’m a shareholder, I don’t care about that. I don’t care about ideology, I’m concerned about what my return on investment is.’

**So what’s the first** step towards improving industrial relations? “Our approach is to take the key leaders within management and the unions, then sit down and identify the challenges faced as a group, and the environment in which the company operates. Realistically, if you aren’t successful in that context, then whether you’re labour or management, you’re going to end up failing.

“So the starting point is a common agreement about what the business, market and environmental challenges are. And at that point, we’re going to sit down and ask what the common interests are within this environment. I have to say that, almost without exception, people will come up with a core set of shared interests that allow you to then start to build and restructure a firm and how it’s operating.

“You only focus on succeeding in that business, because by succeeding there, that is what is going to be the source of greater job security, greater training and development, higher wages and benefits, and higher returns to the shareholder. So there is a common interest in success.”