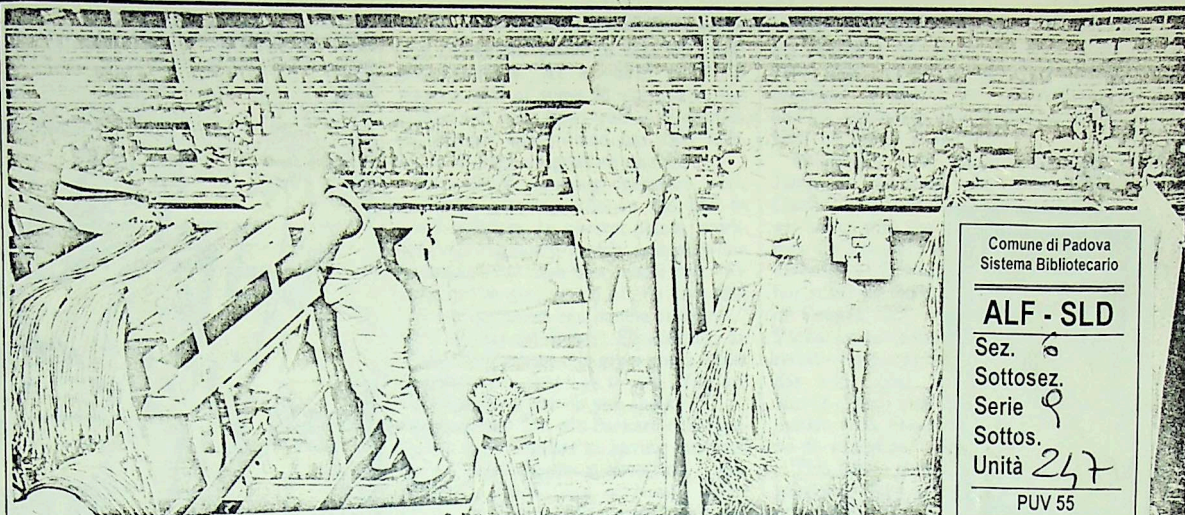


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A WORKER-MANAGED ASSEMBLY LINE: PARTICIPATION HAS BOOSTED PRODUCTIVITY, BUT TO STAY COMPETITIVE, A TENTATIVE...

LABOR

THE REVOLUTIONARY WAGE DEAL AT GM'S PACKARD ELECTRIC

MANAGEMENT AND WORKERS TEAM UP TO COMBAT CHEAP FOREIGN LABOR

By the mid-1970s, a decade of labor-management warfare had made life miserable for workers and managers at General Motors Corp.'s Packard Electric Div. in Warren, Ohio. Packard had moved 2,000 jobs out of Warren and declared it would never hire there again. But a few managers and union leaders, fighting tradition and custom, set out in 1977 to change that climate. Over the next six years, their effort expanded into the most advanced model of union-management collaboration in the U.S. Now this teamwork is on the verge of producing its most dramatic result: a radically new pay system that may become a precedent for American unions trying to compete with low-wage labor at home and abroad.

A tentative agreement negotiated in mid-August by Packard and Local 717 of the International Union of Electronic Workers (IUE) provides that all new workers will receive only \$4.50 per hour in wages and \$1.50 worth of benefits, or a total of \$6 an hour—less than a third of the normal GM rate of \$19.60. The 8,941 hourly workers currently at Warren, however, would continue to draw their regular pay. And, within three to four years, the entire current work force could be protected against permanent layoffs through an inventive method of linking attrition to job security.

The lower rate would address Packard's main competitive problem in producing wiring for GM cars at Warren. Some 2,700 workers are employed on final-assembly lines, where dozens of wires are bundled into harnesses for installation in cars. At the GM pay rate, these semi-skilled workers cannot compete with the \$1 per hour that Packard pays at three plants in Mexico or the \$6-and-up wage paid by "integrated suppliers"—independent companies in the U.S. that have their own work force but use Packard equipment. The new low-paid employees, although segregated in their own plants, would do precisely the same work as the current assembly force but for a third the pay.

A PRECEDENT. A union ratification vote on Aug. 23 on what is called the "final-assembly option" (FAO) is expected to be close. The concept of a two-tier wage structure for identical jobs goes counter to the union principle of equal pay for equal work. But Robert L. Sutton, Local 717's shop chairman and chief bargainer, is campaigning for the pact in shop-floor meetings. And he has a reason to be persuasive—he stands for reelection on Sept. 15. "I intend to sell the pact," Sutton says. "There's opposition to the idea, but it's the only alternative to losing 2,700 jobs in Warren."

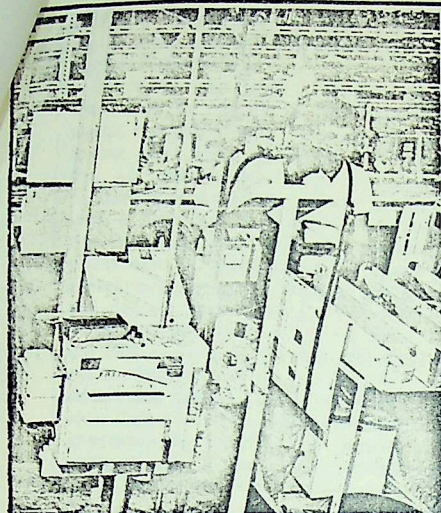
If the FAO is ratified, it undoubtedly

will set a precedent for other GM divisions that produce auto components. Indeed, it could become the model for any industry where union bargaining has driven up wages for relatively unskilled jobs that can be duplicated in low-wage countries. Unions are resisting the massive wage cuts for current members that would be necessary to make them competitive with Mexican or Taiwanese workers, but a movement toward a lower wage structure for future employees is more likely.

"This basic concept could be a major breakthrough in industrial America," says Elmer E. Reese, Packard's general manager. "What I'd really like to see is a multitiered structure, with wage rates of \$6, \$9, \$12 an hour and so forth, to give hourly people an opportunity to grow into the \$19-an-hour range." Donald F. Ephlin, the United Auto Workers' chief negotiator at GM, anticipates a low-wage proposal in next year's auto talks. "We understand the problem [at Packard], but we'd have to do some soul-searching before changing our uniform wage system," he says.

The FAO has generated plenty of controversy at Local 717. The local's officers face tough opponents in the Sept. 15 election, and the 37-year-old Sutton—a hard bargainer but also a supporter of the cooperative effort—faces four rivals.

CARL SKALK



NEW WORKERS ONE-THIRD THE EXISTING RATE

Harold E. Nichols, one of Sutton's opponents who served on the local bargaining committee, contends that Packard is "double-dealing" the workers by renegeing on promises. But the IUE's international and district officers also support the FAO. Mike Bindas, Sutton's predecessor as chairman and now secretary-treasurer of IUE District 7 in Ohio, conceived the idea in 1981.

SELF-HELP. At that time, Packard contended that 3,800 final-assembly jobs in the Warren plants were "noncompetitive" at GM wage rates. The Mahoning Valley, which encompasses much of the Warren-Youngstown area, had already lost 20,000 to 40,000 jobs through the shutdown of steel mills and other plants. "We were faced with losing thousands of jobs and the devastation of our community," Bindas says. "Until we get an industrial policy, or plant-closing legislation to help us, we have to help ourselves." One union committeeman explains his support of the FAO this way: "Local 717 may go down in labor history for selling out the store, but the company hasn't lied to me yet."

And that is the crux of the collaboration at Packard: the trust that has developed between labor and management on the shop floor and in top-level decision-making councils. BUSINESS WEEK explored the Packard-IUE relationship in visits to many of Packard's 14 plants in the Warren area. Interviews with dozens of managers, union officials, and workers disclosed a deep commitment to worker involvement in decision-making. Some workers and managers still reject this approach, but it is fairly pervasive in the Warren plants.

About 65 problem-solving committees enable employees to use their own ideas in improving productivity and the workplace environment. Rank-and-filers trav-

el to customers' plants to help sell Packard products. At a cable plant in Warren, 85% of some 95 workers in the rubber mill have been trained in statistical process control and use this technique to improve product quality.

Some 2,000 assembly operators work in teams, rotating jobs on the line to avoid boredom. In several plants, workers help engineers design assembly-line equipment for each new model run. "Finally, we're getting rid of the idea that just the engineers can handle problems," says 33-year-old Robert Sturdevant, an assembly operator. "It gives you a sense of pride when they say to you, 'You are the experts. What do you think?'"

TEA PARTIES. The IUE-Packard collaboration is also unusual in having survived for so long, despite a recession, union political turmoil, and corporate policy shifts. It arose out of adversity. In the 1960s, the big surge in auto sales forced Packard to grow at a rapid rate. It hired 1,000 new workers every year from 1962 until 1973. Poorly trained foremen and union committeemen constantly clashed over shop-floor issues. Because Packard was the sole source of wire harnesses for GM cars, Local 717 often won disputes over work practices and discipline.

There were many slowdowns, wildcat strikes, and "tea parties," a local tradition in which dozens of union officials would converge on a foreman, shouting, pushing, and generally intimidating him. Management, meanwhile, ran the plants in the old adversary style. "It was miserable," says A. Lee Crawford, who now manages all assembly operations in the Warren area but who was a foreman in

"There's a lot of
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the 1960s. "We were adversaries, screaming and yelling at one another. We didn't hire people to get involved. Even thinking wasn't a criterion for employment. We assumed that the people didn't really care about their work—but they did."

In 1973 the division's general manager declared that Packard would stop hiring and building plants in the Warren area. Over the next eight years, the division opened two plants in Mississippi and three in Mexico. In late 1977, alarmed by the loss of 2,000 jobs, Local 717 members elected a "responsibility ticket" headed by Mike Bindas. He had served as shop chairman from 1968 to 1975, during the worst labor battles, and manag-

ers regarded his return to office as "a black day," as one recalls. But Bindas promised to seek a new relationship—and his reputation as a militant gave him high credibility in the local.

Packard's new general manager, James R. Rinehart (now chairman of Clark Equipment Co.), also wanted to get along with the union. With his mandate for change, Packard's top personnel executives—Edward A. Hodge, now labor relations director of General Motors of Canada Ltd., and Gordon S. White, Packard's current assistant personnel director—began to meet weekly with Bindas and Local 717 President Morris Muntz. Their idea was to "share information with each other so there would be no surprises," White says.

This led to cooperation on "low risk" programs such as plant-gate collections for needy children. The two sides then began collaborating on increasingly tough problems. In June, 1978, they created a Jobs Committee with eight managers and eight union officials. Its purpose was to find ways to increase employment in Warren. The members did not engage in bargaining but only made recommendations to higher authorities on each side—an executive committee for Packard and Local 717's bargaining committee. The talks were kept confidential to ensure a free flow of ideas. "When we're in a creative mood," says Crawford, a committee member from the beginning, "there's a lot of electricity in the meetings, and you can't tell who's management and who's union by what they say."

ADDING JOBS. Over the next five years, the committee proposed many ideas for changing work practices to reduce costs. Under an "earned jobs" concept, Local 717 gained a net 350 jobs by 1981. If it agreed to a work-rule change that eliminated a job, the affected worker would be transferred to another job. And Packard would hire one additional worker in Warren instead of in Mexico or Mississippi. Packard's strategy then was to phase out the noncompetitive assembly jobs in Warren by the 1990s. However, the jobs involved in producing cable, terminals, and other components of a harness—now numbering about 6,300—would continue to grow with the business. The technology and worker skill required by these jobs could not be matched by competitors.

Packard finally reversed the "no hiring, no bricks and mortar" policy in 1979. Federally mandated emission controls for cars required new, more sophisticated wiring harnesses, and Packard—with the IUE's collaboration—decided to assemble them in four new "branch" plants. Local 717 helped pick the sites, develop the work-force plan, and select supervisors. One of the new plants was

located in Warren and the other three in the outlying towns of Cortland, Hubbard, and Austintown.

Employees who lived in those areas were able to transfer to the branch plants, creating a "sense of community" in each plant. The IUE agreed to collapse five job classifications into one, and Packard agreed that the workers would have a high degree of participation in running their own jobs. The branch plants have led the division in reducing absenteeism, improving product quality and delivery, and reducing labor costs every year since they opened. So far in the 1983 model year, the branches have cut the hourly input per unit by 19%.

SHOCK AND ANGER. But in 1981 came a blow that would have killed most quality-of-work-life programs: a corporate policy change. To lower costs during the

could be kept here at a little more than the minimum wage."

To whittle down the number of non-competitive jobs, in 1982 the two sides negotiated what they call the Plan to Compete. It consisted of special attrition programs, including early retirement, a scheme under which the company could "buy out" a worker's job for up to \$30,000 depending on seniority, and a part-time-employee plan that reduces the need for full-time workers. By July some 1,100 workers had left Packard under these programs, leaving 2,700 non-competitive jobs. Only then, after all workers laid off during the recession had been recalled, would the IUE negotiate the final details of the FAO.

The FAO contains several innovative—and complex—features designed to protect the current employees' job security

ed" members will be moved to the protected list on a one-for-one basis as workers leave the main work force under special attrition plans starting in 1984. If 200 employees leave the company, for example, 200 of the younger members will go to the protected list. Meanwhile, Packard would also hire 200 new employees for an FAO plant—and this would send 200 additional workers to the protected list.

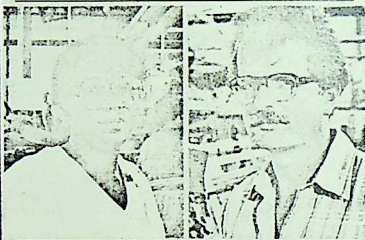
The number of \$19-an-hour assembly jobs will shrink as the \$6-an-hour FAO jobs grow. Eventually, if business continues good, if the attrition rate is high enough, and if the FAO plants remain competitive, most of the 2,700 assembly jobs in the main plant will disappear—though the people will be retrained for manufacturing jobs—and 100% of the current work force will be on the lifetime employment list. Packard's chief negotiator, Larry L. Haid, says this could happen within three to four years.

□ **Pay and benefits.** In addition to the \$4.50-per-hour wage rate, FAO employees will have a limited health insurance program and a few other benefits. Since they are not covered by the national IUE-GM contract, they will not get any wage increases bargained in 1984. Instead, Packard and the IUE will develop a "gains-sharing" plan—that is, a wage-productivity formula for pay increases based on performance. Eventually, FAO workers will be able to move to the main plants and get wage parity.

The scope and inventiveness of the plan testify to the special relationship developed between Local 717 and Packard that most unionized companies lack. It came about partly because Packard changed its management style by "getting people involved in the business," as Crawford says. But collaboration has not meant the end of adversary bargaining when there are conflicting interests. Neither side wants that. "We always have to keep changing because of the continuing need to improve productivity and stay ahead of the competition," Packard's White says. For the IUE's Sutton, negotiating the FAO was an intensely emotional experience, and he still worries how management will use it. "If we set up the FAO plant and they turn around and move any of our jobs to Mexico, I will burn them," Sutton says.

What happened at Packard, Bindas says, shows that unions, instead of only reacting to management moves, can play a new role. "We collectively planned a way to keep union jobs in this country," he says. Adds Donald O. Jewell, a professor at Georgia State University and a worker-participation expert who advised Packard and the IUE: "Collaboration of the kind at Packard offers the most promise of dealing with the competitive pressures faced by U.S. industry." ■

'YOU HAVE TO BEND AND STRETCH A LITTLE TO KEEP YOUR JOB'



In a sense, Antoinette Smith and Dominic P. Peters are their own bosses. They are part of a 22-member team that operates a "self-managed" assembly line at Packard Electric's Austintown (Ohio) plant. To avoid the tedium of working at the same station day after day, workers rotate line jobs and—most important—get to work off

the line several times a month to handle material and repairs. The team members also perform many of the foreman's functions: setting the line speed, ordering material, establishing rules for handling disputes, checking quality, and doing paperwork. Each day a different worker serves as the "coordinator," the person who makes decisions.

"It's the whole atmosphere that I like," Smith says. "There's not a lot of tension, your mind is exercised, and we all try to keep the department working well." Peters, 33, likes working on the line because "it gives you a feeling of authority." He thinks workers today want more responsibility on the job. "People are finding that you have to bend and stretch a little to keep your job," he says. "If we aren't productive, there's nothing to stop the company from sending 3,000 jobs to Mexico."

recession, GM told its component divisions that they would have to supply their products to the car divisions at competitive prices or lose GM's business. At a tense, emotional meeting with Local 717 leaders in December, 1981, the division's executive committee gave the bad news: 3,800 "noncompetitive" jobs had to be eliminated by 1986. This shocked and angered the unionists. "Without that three years of working together, the relationship couldn't have survived that meeting," Bindas says.

When Bindas asked what it would take to keep the jobs in Warren, management gave him cost figures showing that assembly jobs could be competitive at \$6 per hour. "The FAO was my idea," he says. "It was either that or our work force would shrink to 3,000 to 4,000 people." Adds a Packard manager: "Mike saw a lot of people already working for the minimum wage. Moving those jobs to Mexico didn't make sense when they

while reducing labor costs. They include:

□ **New plants.** With unemployment in the Warren-Youngstown area still hovering near 17%, both sides think the company will have no trouble hiring people to work for only \$4.50 an hour. Packard plans to open new plants for the FAO employees so they will not have to work side by side at identical jobs with assemblers who make \$9 to \$9.50 per hour. Each plant will be limited to 200 to 250 workers, and the company and Local 717 will make the work environment as participative as possible. If the agreement is ratified, Packard likely will open the first FAO plant by next spring.

□ **Job security.** About 6,765, or 80%, of Local 717's membership now has "lifetime" job security under a special pilot program negotiated with GM last year by the UAW and the IUE. This means they cannot be laid off permanently, which is defined as six weeks or longer. Under the FAO, the remaining 2,175 "unprotect-