

Enterprise Bargaining: Making Australia Competitive

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Abstract

The Australian economy has increasingly come under the influence of international factors. This has placed greater pressures on Australian businesses to be more competitive. This requires changes in both management and union practices, and changes in the institutional arrangements in which industrial relations are conducted. The paper argues the case for the general movement to enterprise bargaining. This will necessitate a major overhauling of bargaining structures and of trade union and employer association structures and practices. The award restructuring brought about by National Wage Case decisions provides but a preliminary step in the movement to an enterprise focus which will be critical to internationally competitive industries.

1. Introduction

When the Hawke Government floated the \$A in December 1983 and removed the exchange controls that still then applied to capital movements in and out of Australia it let loose a variety of forces which were destined to have a profound effect on the workings of the Australian economy. One obvious and early effect of those decisions was the revolution that took place in Australia's financial sector including the entry of foreign banks. This in turn saw significant financial innovation, a deepening of Australia's capital markets and, despite some imprudence, the much more efficient provision of finance to business and consumers.

The most profound change wrought by the floating of the \$A was the extent to which it opened the Australian economy to international influence.

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This occurred in two main ways. First, the lifting of the exchange controls removed all restrictions on Australian investment abroad. In the seven years since, Australian corporate investment abroad has totalled almost \$50 billion. The bulk of this has been invested directly in business enterprises abroad, exposing Australian management to different and often best practice across the full spectrum of managerial issues. Indirectly, therefore, the floating of the \$A has had, and will continue to have, a profound effect on Australian management, on its horizons, and on its international orientation. One important by-product is closer attention to the way we manage the people resources in our businesses. Not surprisingly, our national approach to industrial relations has come under increasing scrutiny by businesses and growing pressure to change.

Increased competitive pressures have been the other important effect of the December 1983 decision. With the value of the \$A henceforth subject to daily market pressures, our entire economic performance was brought under much closer scrutiny by world financial markets and world investors. This brought new disciplines on government and the private sector alike. Pressures impact on government because the exchange rate can react more rapidly and decisively to shocks (such as large swings in the terms of trade) and because foreign perceptions of domestic economic management can now feed quickly into capital flows, exchange and interest rates. The penalties for not having appropriate policies for changed circumstances became larger and more rapidly felt. This development has speeded the pace of change in policy settings in some areas - the major adjustment to fiscal policy by the Commonwealth Government from the mid 1980s to a significant extent reflected this new discipline.

The increased disciplines on the private sector - or perhaps the enterprise sector of the economy, including public trading enterprises - arise in a variety of ways, some quicker than others. The tradeables sector of the economy is directly and quickly subject to movements in the exchange rate. Public enterprises and the non-tradeable sector are also being put under more pressure to perform as the economy becomes more outward in orientation. Management horizons and commitment have come under pressure across the board, while employees and unions now stand in more immediate competition with their peers in competitor countries.

These pressures, in turn, are beginning to flow back onto many of our institutions. Our universities, for example, are being put under increased pressure to perform. Increased scrutiny, and in some States major changes, are also afoot in our technical education system and school system.

Within firms, especially those more directly trade exposed, all aspects of business are coming under scrutiny. Matching competitors' technology has

increased in importance. The place of research and development in competitive strategies is being re-evaluated, as is international market development and management development.

The realisation is growing and spreading too, that it is not enough to have the best technology or the best marketing brains to compete successfully. More and more firms are realising that the management of people is critical to competitive success. This spreading realisation as observed earlier, is the true source of the pressure for labour market reform.

This paper takes up the issue of labour market reform against that background. It argues that:

- * set in the wider global context, the opening up of the Australian economy is pushing us inexorably in the direction of enterprise bargaining;
- * a major overhaul of bargaining structures, both employer and union, are essential to true labour market reform and to Australia's long term competitiveness; and
- * award restructuring is but a very preliminary step toward the sort of enterprise bargaining Australia needs in the longer term.

2. The Political Environment

To a significant extent, the fact that pressures for labour market change have an economic source is acknowledged by most with a direct involvement in the issues. Certainly individual enterprises and, increasingly, employer associations are sensitive to the new competitive imperative. Real wage restraint is one manifestation of increased economic realism on the part of the trade union movement. The Industrial Relations Commission has responded by searching for ways in which the wage system can be made more responsive, as has the Commonwealth Government.

It would be my contention, however, that while there is a shared understanding of the new competitive challenge to Australia, there is as yet no real common ground on what the full implications might be for the labour market. Further, political considerations remain a major stumbling block to reform. I accept that enterprise bargaining has been placed firmly on the agenda of public debate. I accept that within the present industrial relations framework a small minority of enterprises are seeking and achieving more freedom at the enterprise level. Those relatively few breakthroughs, of course, are often cited as evidence that enterprises have all the flexibility they need at present. All that is required is that individual enterprises make flexibility more of a

priority and fight harder to achieve it. That, I believe, would be a fair characterisation of the current position of union leadership and senior government ministers.

The Business Council's approach to industrial relations reform has been one of evolution rather than revolution and in that sense there has been a willingness to "give the system a chance to adjust" in the near term prior to seeking major changes to the industrial relations system itself. The Council was a strong advocate of a positive approach by business to the second tier wage round and subsequently the structural efficiency principle (award restructuring). It has also been an advocate of the use of Section 115 of the *Industrial Relations Act* providing for Certified Agreements, and Council member companies have been among those pioneering use of the Section.

One of the problems business has faced in assessing how far the government (and the ACTU) might see these developments leading in the enterprise direction has been the extent to which the issues became politicised along party lines in the run up to the 1990 federal election. In their attempts to portray the Coalition parties' industrial relations policy as a recipe for industrial relations chaos, government and ACTU speakers came perilously close to portraying enterprise bargaining as unacceptable *per se*. It is not yet clear to what extent that was political rhetoric. However, as pointed out in the final section of this paper, there is an inherent conflict between true enterprise bargaining and maintenance of the national union/award structure in its present form. It remains to be seen to what extent over time, the government (and ACTU) will be prepared to move in favour of more enterprise bargaining. Major shifts in government and union attitude have occurred in recent years, even where there has been initial public rejection. Although an evolutionary approach is supported, it should be recognised that more and more enterprises are being frustrated in their workplace reform under award restructuring; a frustration made worse by the politicisation of the public sector debate.

I make this point because this clash of politics and economics is critical. As is argued later, a resurgence of Australian manufacturing requires, *inter alia*, a major shift in the focus of our industrial relations system toward the enterprise. This enterprise freedom, I predict, will more and more become, and should be, a non-negotiable pre-condition by business for major investments ("brownfield" and well as "greenfield") in Australia for export into the global marketplace. I believe Australian business owes such a tough minded approach to its shareholders to protect the future competitiveness of their investments. Such a tough-minded approach is also essential to produce rising living standards for Australians as a whole. A fundamental objective is to make the economic cake larger, and to make it grow more rapidly by allowing for greater enterprise freedom in employee relations.

As that new business mentality takes hold the choice for the Australian trade union movement will be as follows:

- * is it going to embrace the enterprise direction and seek a positive future role for itself at enterprise level? Some unions clearly are positioning themselves to do this. A devolution of power away from the centre - of the ACTU and of individual unions - will be part and parcel of this as will major change in the structure of unions and significant fragmentation of the current suffocating grid of national awards;
- * or will the union movement cling tightly to the current award system with significant restrictions on enterprise flexibility. This will maximise power and influence in the short term, but will see the progressive relocation offshore of Australian owned manufacturing capability and continued long term decline in the trade union movement.

3. The Global Marketplace and Labour Market Reform

The first section of this paper briefly canvassed the more competitive environment in which most Australians now find themselves. To fully understand the implications of this for our industrial relations system, we need to explore the nature of the global market itself. One enlightening discussion of the nature of the global marketplace was recently presented to the National Business Summit on Debt by Mr Kenichi Ohmae, the Managing Director of McKinsey and Company in Japan (Ohmae, 1990, Chapter 5).

Ohmae argues that the world marketplace is concentrated in what he describes as the interlinked economies within the OECD - particularly Japan, North America and Western Europe. The eight hundred or so million people who live in the OECD produce and spend 75 per cent of the annual income of the world, a significant proportion of which is discretionary spending. The rapidly growing economies of North East Asia should probably also be added. Information, individuals, investment and, in the main, goods move freely across the national borders of these interlinked economies. Technology, corporate strategies and the now virtually complete integration of the world's financial markets are all combining to reinforce this "globalisation" of the market for goods and services¹.

The process is having many implications for national governments and, according to Ohmae, is rendering many traditional policy approaches redundant. On the basis of the Japanese experience, he argues that attempts at

financial regulation today merely drive transactions offshore and that trade flows have become highly resistant to exchange rate variations. The fundamental point for the purpose of this paper about enterprise bargaining, however, is that this global marketplace is dominated by customers with substantial discretion about what they wish to purchase and on whom modern communications bestow virtually perfect knowledge of the choices available to them. With exceptions at the margin, they are free to choose from goods made anywhere in the world. As such, they are in a position to demand new and better products, high quality, timeliness, good after sales service and so on.

This is the concept of the global marketplace that we in Australia must have in mind as we debate the question of labour relations for the 1990s. Our own market which is part of the global market is increasingly like that. A walk through any Australian department store reveals a wide array of goods from all over the world. Just as we are increasingly able to buy from anywhere in the world, so are our counterparts in the rest of the world. Like us, they want the best. Thus economic success depends on an ability to compete for this market, even on our own patch. Australians must think increasingly of the world as the marketplace if we are going to win our share of future world trade.

In a sense the "global market" is a way of thinking as much as a geographic or technological phenomenon. Accepting its existence is to accept that future economic success depends on an ability to win sufficient market share against all-comers. It also means that unless we can do that, we will not stay in the race with the leading countries.

This is a new challenge for many of us in Australia. As Professor Frederick Hilmer has pointed out (Hilmer, 1989, p. 16):

In Australia, because of the importance to us of commodities like wool, wheat and minerals, we still think of international economic competition in terms of trade wars. Much of our energy and political capital is spent trying to improve the access of our farmers to markets in other countries.

With so much of our present wealth and standard of living built on those traditional competitive strengths it is, of course, highly desirable that a good deal of our political energy is devoted to market access questions. And in the future our competitive strength in agriculture and resources will see us remain a major supplier to the interlinked economies. In that sense, provided we maintain those competitive strengths, we will be indirectly plugged into Ohmae's global market.

The inescapable fact Australia has to face, however, is that food and raw materials are a shrinking percentage of that market and this trend will continue (Pappas Cater Evans and Koop, 1989). This leads Hilmer to warn, "... while we continue to fight trade wars that are international in scope, the new and ultimately more telling battles are between enterprises, not countries," (Hilmer, 1989, p. 16). It is not "business as usual" for Australia if we want to stay in the race. We have not before tackled the global market (outside resources and primary products). And to do so we are going to have to adapt some of our institutional framework in a fundamental way - rather than tinker at the margin.

4. The Importance of Enterprise

There are two fundamental propositions underlying the advocacy for reform of our industrial relations system to provide the scope for enterprise bargaining. The first is that if Australia is to stop its slide down the international ladder we have to find ways to participate more fully and succeed in the global marketplace. The second is that we will not do that as a country, although national access to markets remains important. We will not do it as individual industries. If we succeed, it will be because a sufficient number of enterprises succeed either as exporters, import competitors or both.

The first proposition is widely accepted and has been well explained by others in recent times (Garnaut, 1989; Hughes, 1989; Pappas et al, 1989). The second is still not fully understood nor accepted.

That the enterprise is the key economic unit of the future has been argued in Australia by Hilmer (1989)² and by the Business Industrial Relations Study Commission established in 1987 by the Business Council of Australia³. The argument was put by the Study Commission, starting from the proposition that our vision as Australians should include the aim of succeeding in a the customer-driven global market described above, as follows:

The answer lies in three inescapable truths that we as Australians must come to recognize and accept if we are going to succeed in the world marketplace in which we now find ourselves. The first truth is that only customers can underwrite the expansion of economic activity and employment in Australia. Employers cannot, unless the products and services of their enterprises keep meeting customers' needs. Unions cannot, since they can be no more or less effective in this regard than the enterprises in which their members work. And neither can governments, except in the short term. The experiment with broader protection to nurture 'infant' industries is now widely regarded as having been a failure. And the last five

years have shown that boosting domestic demand is not enough in itself to guarantee economic growth. Ultimately, therefore, Australia's economic future depends on Australian enterprises winning a sufficient share of customer demand both here and abroad.

The second truth has to do with what makes customers keep buying. Customers want the choice of goods and services from the best range that can be provided from anywhere in the world. Despite all appeals to 'buy Australian' in Australia or 'buy American' in the United States, in an open economy the hip pocket nerve reigns, as trade balances show⁴. Unless Australian businesses can compete at home with imported cars, electronics, films, services and holidays, our dollars will flow offshore. And unless our businesses can compete on foreign territory for foreign customers with the best in the world, our exports will dry up. In today's global markets, customers make global choices.

The question then arises: what kind of business unit is going to be best able to win in the game of global customer choices? The answer is the third truth: the business unit that can best provide competitive global choice to customers will be that of the enterprise. In the early days of industrialisation, businesses tended to combine similar sets of skills in similar ways. The old weaving mills used similar machinery and similar skills to make standard products. Choice of any kind, and particularly global choice, was only for the very rich. It made sense for firms to think of themselves as part of an 'industry'. To some extent, success came from identification with an industry. Similarly, for employees: with standard skills in demand, their economic strength was enhanced by identification with a craft or occupation. The early structure of trade unions was no accident.

Today consumers want to choose from more than twenty versions of Toyotas, a myriad of types of personal computers, or a range of vastly different breads. A firm that wants to succeed in this world has to be able to offer customers distinctive choices. It will tend to develop distinctive ways of doing business. It will combine skills in unique combinations. It will seek to establish a competitive edge in cost, quality, service, design and so on. In other words, it will build its success as an enterprise - as a unit of definable human, technological and financial resources adding value to a product or service that customers want to buy.

The enterprise is the right economic unit for winning in competitive markets because it is able to shape itself to the needs of those markets. The great strength of enterprises is that their shape and

composition is constantly changing. When consumers' tastes change or technology improves or costs vary, activities are grouped or regrouped, added or deleted, contracted or expanded. Reorganisation of the process of creating goods and services is a continuing part of successfully serving changing customer needs. Industries are likely to be far too cumbersome and slow moving to do this well. Some firms will be the same. A well defined enterprise is the business unit that is going to do this best.

In the great global battles - Apple versus IBM, Coke versus Pepsi, Bond Brewing versus Fosters, Australian Wool Growers versus Dupont Synthetics, Honda versus General Motors, McDonalds versus Burger King, Caterpillar versus Komatsu - the winner is not defined by country, industry or craft. The winner is the enterprise or set of enterprises best able to compete in world markets. IBM is successful in large computers because it is IBM, not because it is headquartered in the United States or because it is part of the computer industry. There are many indifferent performers in the United States, and the large computer industry has seen more casualties than survivors. Nor is IBM successful because of a craft or crafts. It brings together and develops skills in design, selling and customer service, for example, but its key skills - those on which its success is based - have little to do with trades or crafts traditionally defined. The same is true of Pacific Dunlop, Ikea and Sony. These firms are successful because of factors specific to them, not because of the nationality of their headquarters, or their industries, or the crafts and trades that support their activities. Their success comes from their ability to discern and satisfy customers' needs better than their competitors. (BCA, 1989, pp3-4)

Before going to those changes it is useful to digress at this point to put some definition on what is meant by the term "enterprise". This is important both to individual businesses and in the context of enterprise bargaining. It is important to businesses because it will impact on the way they organise themselves structurally and managerially. It is important in the bargaining context because enterprise agreements are contractual relationships and a clearly defined bargaining unit is necessary from the employer side as well as the employee side.

The Industrial Relations Study Commission defined an enterprise as

a unit with a set of definable human, technological and financial resources to add value to a product or service that is sold to custom-

ers. Value is added by a combination of creating, making, selling, distributing and servicing activities. Enterprises come in all shapes and sizes.

They may be independent units such as single businesses. They may be in one location, or multiple locations. Enterprises can be private or public and may, if public, provide output to the community below cost or without charge.

In practical terms, just what comprises an enterprise is a matter for judgement in every individual case. It should be the unit which management (perhaps in consultation with employers or enterprise focussed union representatives) believes comprises the most logical and effective grouping of activities for meeting the needs of customers, for bargaining and other management purposes. In small to medium businesses that might be the whole business. In BHP it might be the Steel Division, or even part of the Steel Division. As larger complex firms move into enterprise bargaining they may find that their existing organizational and legal structures already fit logically with the concept of the enterprise. In other cases they may decide that they do not, and that change in organizational or legal structure is required. Either way, the issue, while very important for individual businesses to get right, should not be in itself an impediment to the practical application of enterprise bargaining.

4. Australia and the Global Marketplace

To many of us the global marketplace still seems remote and unlikely to touch our lives and our jobs to any great extent. This is an erroneous view. Whether we know it or not, the global marketplace is going to affect all of us over the next decade. To some, of course, it is already a reality. For instance, our primary and resource sectors have sold the great bulk of their output into the global marketplace for decades. For our resources companies, competing globally as enterprises is part of their thinking now. But even they are also likely to be put under greater pressure by their customers in the years ahead as they - the steel producers and other direct users of many our resources - feel pressure in turn from final manufacturers competing to satisfy the increasingly powerful final consumers around the world. So even our resource companies and primary producers face continually rising standards of quality of product, timeliness of delivery and reliability.

More broadly, many Australian firms have also become internationalised over the last decade. The President of the Business Council recently outlined three "waves" of internationalisation that are occurring in Australian business (Wills, 1989). First the expansion by Australian firms into other markets

such as the United States and Europe, where their management skills and technology have enabled them to get a foothold in larger markets overseas. These firms, such as Boral, James Hardie, Mayne Nickless and many more too numerous to mention, have come to be termed "multi-domestics". The process has enriched Australia, not just in income terms, but also in broadening and lifting management skills and horizons.

The second wave is represented by companies like Pacific Dunlop who have built major businesses in North America, Asia and elsewhere producing in foreign countries for the global marketplace. This wave has been closer to the traditional multi-national concept. Again Australia can only be enriched by the income, management and international marketing skills which flow from such investment abroad.

The third wave, which is still embryonic, is that involving Australian firms building capacity in Australia for the global marketplace - whether to beat out imports or to expand our export base. This is the wave which will most enrich Australia - our income, our skills and the jobs available for our children. But it is obviously the hardest for us to achieve outside those areas where our traditional competitive strengths lie. It is not going to be achieved unless we can provide our enterprises with an environment in which they can be competitive. That is, an environment in which their productivity costs, quality and reliability match the competition⁵.

This requirement is obvious in the traded good sector. Fortunately, more and more Australian firms are clearly making or considering the changes necessary to match the competition. As protection is lowered the very existence of many firms, as well as Australia's future living standards, depends on those firms accepting the challenge and being provided with the environment to succeed against world competition.

But, of course, in the long run the challenge does not stop with enterprises directly involved in export or import competition. World class standards in those firms is a necessary, but not sufficient condition for success. Their suppliers and sub-suppliers must also aim for world competitive performance if trading firms are to succeed in the long run. In most fields, the quality of final products is heavily dependent on the quality of suppliers inputs. Increasingly, the same is true of timeliness and speed of product development. More and more suppliers and sub-suppliers are realising that if the firm at the top of the production chain falters their own existence will be threatened.

Much the same disciplines are inescapable for enterprises in the transport, construction and infrastructure sectors of the economy. They too have a direct responsibility for and, ultimately, a direct stake in supporting our trading enterprises with world class performances of their own. The same can be said of general government activities.

So we are all caught up in the global marketplace, some of us more directly than others. Clearly no economy is made up completely of world competitive enterprises. Our vision for the future should be to build a competitive economy as the necessary foundation for a fair, compassionate and cohesive society. That means, in turn, providing all our enterprises with the incentive and opportunity to be world competitive. Particularly given our foreign debt burden, this should be a guiding principle in policy formulation including in the area of industrial relations.

5. The Link with Employee Relations

The successful economies of the 1990s and beyond are going to be those host to strong, globally competitive enterprises. Of course, a large number of factors will determine whether enough Australian enterprises are going to be competitive. Some are beyond the control of individual enterprises, such as research and development, competitive strategy and international marketing skills.

A critical ingredient to enterprise success is employee relations. The connection lies in the nature of success in today's global marketplace. It is no longer enough to match or better the lowest cost competitors. That merely gets you into today's competitive race. Enterprises also need to produce distinctive, better designed, higher quality, more reliable products than their competitors.

Success on these terms is possible only if management and employees are both committed to the success of the enterprise and identify that success with their own fulfilment and economic security. Quality, reliability, service and timeliness all require high levels of co-operation and team spirit. In other words, they require good employee relations. Unfortunately there are still too few such enterprises in Australia. To correct that, as is argued below, we need change within firms and to key aspects of our industrial relations regulations.

What needs to change in employee relations

The largest and most enterprise focussed research and analysis of what needs to change in employee relations to make Australian enterprise world class performers has been undertaken recently by the Industrial Relations Study Commission. Research conducted by the Study Commission suggested that an enterprise approach to employee relations could yield average increases in the productivity of labour and capital in the order of 25 per cent (BCA, 1989, 8). On the basis of extensive case study research, the largest and most comprehensive workplace survey yet undertaken in Australia and

extensive consultation, the Commission found that Australian enterprises could improve their employee relations and performance in four main areas. These are

- * enterprises must become better at constantly adjusting work methods and patterns to the needs of customers, to the technologies available and to the skills of employees. The Study Commission's research found that many Australian enterprises fall down because they follow what are often rigid and outmoded patterns of work. In a global marketplace where speed and timing are increasingly important, this incapacity quickly to change will prove increasingly costly unless we can overcome it. There can be many reasons for slowness but the fragmented bargaining structures within enterprises (multiple unions) was found to be a major impediment to change and to better work methods and patterns;
- * work in Australian enterprises needs to reflect a greater degree of common purpose and caring. As already mentioned, the factors on which competitive battles are fought today depend increasingly on commitment and teamwork;
- * orderly amicable settlement of disputes must become a way of life in our enterprises. Not only is Australia's relatively high (though better) level of disputation costly, but major productivity improvement opportunities exist if enterprises can better channel differences in the workplace into more positive outcomes;
- * remuneration must reflect more enterprise specific factors so that a competitive and productive culture is encouraged. The Study Commission found that relatively few Australian enterprises have tried to utilise any performance related component in pay and benefits to improve commitment to the enterprise and efforts. Managers say it is too hard in the present system. The risk of flow-on is too high. Yet employees overwhelmingly want to see performance reflected to some extent in pay (NSSS, 1989).

There are essentially three levers we can pull on to bring these improvements into our employee relations. Continued opening up of the economy to create a competitive environment may be the most important reform of all. Competitive pressure creates very persuasive incentives for both managers and employees to seek out workplace improvements.

Management practice is clearly another major area of reform. Surveys suggest that an awareness of the costs of poor employee relations is greatest at the top of our enterprises (BCA 1989, Part 11). A major task for top

management, therefore, is to spread that awareness within our enterprises and to build the commitment to bring about improvement.

The third lever is the regulatory environment in which employee relations are conducted in enterprises and it is on this that the rest of this paper concentrates. The four employee relations objectives outlined above point to the priorities for regulatory reform as those necessary to rationalise present union coverage in our workplaces and to make it easier for enterprises to enter into agreements with their employees/union based more on the circumstances relevant to particular enterprises.

6. Reform starts with Bargaining Structures

The key to true labour market reform lies in our bargaining structures. What do we mean by the term 'bargaining structures'? In management ranks, in many small businesses, and even in larger businesses not covered by unions, bargaining occurs between the business and individual employees. Bargains struck will tend to reflect the interests of both. The presence of trade unions shifts the bargaining unit for employees from the individual to a collective basis. Whether the bargaining process is still able to be conducted in the context of the needs of individual enterprises and their employees then comes down to two factors: first, the form trade unions take; and second, the institutional framework in which the bargaining process occurs.

In Japan, for example, where trade unions are structured around enterprises they have close identification with the enterprise and the bargaining process reflects that. Where unions are structured along industry lines and enterprise or workplace representatives have a significant degree of autonomy, much the same result may be achievable. The system of 'local' branches of unions in the United States is a case in point. Enterprise representatives also enjoy a significant degree of autonomy in the large industry based trade unions in Sweden, West Germany and some other European countries. In all of those circumstances the bargaining process tends to focus around enterprises and is more responsible to local needs and conditions.

The problem in Australia is that, encouraged by the *Conciliation and Arbitration Act*, our trade unions have developed around crafts or occupations as their natural bargaining unit, rather than the industries or enterprises in which their members work. Again encouraged by the Act, employers too have formed geographic and industry based associations for bargaining purposes. The multi-employer award system, in turn, reflects this combination of unions and employer associations. This combination of unions and multi-employer awards in Australia has shifted the bargaining unit for most terms and conditions of employment away from the enterprise level. The focus on

the award and even national level distinguishes Australian bargaining structures from those of most other industrialised societies.

A major survey of about 340 workplaces conducted by the Business Council's Industrial Relations Study Commission has provided some of the first empirical data available on the structure of trade unions in our workplaces. The most important finding of the workplace survey is the fragmented structure of bargaining units in our medium to large workplaces. On the one hand, the survey showed a clear relationship between workplace size and the number of trade unions present in each workplace (Table 1). The average number of unions per workplace was five.

Table 1: Number of trade unions by workplace size

Workplace	Mean
Less than 50 employees	1.5
50-99 employees	2.2
100-199 employees	3.4
200-499 employees	4.9
500-999 employees	6.2
1,000-1,999 employees	7.9
2000 or more	10.9

The Survey also revealed the extent to which the dominant unions are craft and occupational (rather than industrial) in character with wide coverage across the economy. As can be seen from Table 2, two unions were represented in more than 50 per cent of all workplaces. But only two of the top 12 covered an average of more than a third of non-managerial employees in each workplace. As Paul Kelly has noted, this "is the worst possible structure, one where unions have spoiling potential but little incentive to think in enterprise terms" (*The Australian*, 9/8/89).

Our major unions also cross many different industry lines. To produce Table 3 respondent workplaces were classified into nine industry sectors, using the Australian Bureau of Statistics' Australian Standard Industrial Classifications (ASIC), with the manufacturing sector broken down into its 10 ASIC sub-sectors, giving a potential maximum score of 18 industry sectors. As Table 3 shows, most of the large unions are spread across most industry sectors.

Table 2: Union Representation (Major Unions)

	No of Plants	% of Plants	Membership per plant		
			Average	Median (a)	Average Coverage (b)
Amalgamated Metal Workers' Union (AMWU)	211	65	78	29	16.1
Electrical Trades Union (ETU)	176	55	36	12	7.1
Federated Clerks' Union (FCU)	125	39	35	17	11.9
Federated Engine Drivers and Firemen's Association (FEDFA)	88	27	39	18	9.2
Australian Workers' Union (AWU)	83	26	150	101	53.3
Federated Ironworkers' Association (FIA)	76	24	219	29	33.9
Transport Workers' Union (TWU)	68	21	49	20	20.3
Federated Storemen and Packers' Union (FSPU)	63	20	37	21	25.2
Australasian Society of Engineers (ASE)	62	19	56	11	14.1
Building Workers' Industrial Union (BWIU)	57	18	56	8	12.5
Association of Draughting, Supervisory and Technical Employees (ADSTE)	45	14	49	22	5.2
Plumbers and Gasfitters Employees' Union (PGEU)	41	13	12	5	5.4

(a) The median number is the middle observation of each union. The median number is below the average number in all cases, because each of the unions has some large concentration of workers.

(b) The average proportion of employees within each plant represented by each union where the union is present.

Table 3: Multi-Industry Unions

Represented in Number of Sectors	Unions
18	FCU
17	ETU
16	AMWU
15	FIA, FSPU
14	FEDFA, FMWU
13	TWU, ASE, BWIU
12	AWU, PGEU
11	ADSTE, FLAIEU

6. Implications of Fragmented Bargaining Structures

The foregoing information means that for the first time we are able to see the complex web of structures represented in our trade union movement. This web has a number of effects which have been spelled out in detail by both the Industrial Relations Study Commission (BCA, 1989, Ch 4) and the OECD (1990, pp. 62-63). The OECD summarised the effects on productivity as follows:

Labour productivity has been affected through over-manning, poor work organisation, unnecessary loss of machine time, high maintenance costs, time lost over demarcation disputes and/or heavy time loss by management in industrial relations matters. Capital productivity may also have been reduced by constraints on the number of hours a plant can be economically operated as a result of restrictive award conditions. The skill base of the economy has suffered. The complexity of the system, combined with the protection afforded by tariffs, may have induced the choice of smaller scale plants aimed specifically at servicing the Australian market rather than large scale internationally competitive production. The speed of adaptation to new market conditions has been slowed. Larger firms have been most affected by these problems. As they are concentrated in the traded goods sectors such as mining and manufacturing, progress in widening the export base and competing with imports may also have been curtailed.

The other effect is on the wage fixation process in Australia. To understand this fully it is necessary to look at how the award system, which dominates wage fixing in Australia, mirrors the structure of the bargaining units. Table 4 shows the pattern.

Table 4: Mean number of awards and unions by plant size

Plant Size	Federal awards	State awards	All awards	No of unions (mean)
Less than 50	0.8	1.2	2.0	1.5
50-99	1.5	1.0	2.4	2.2
100-199	1.6	1.6	3.3	3.4
200-499	1.8	2.4	4.3	4.9
500-999	2.3	2.6	4.9	6.2
1,000-1,999	3.3	3.4	6.8	7.9
2,000 or more	4.2	2.0	5.7	10.9

What the table shows is that while there tends to be somewhat fewer awards than unions in our medium to large workplaces, the pattern and structure is similar. That is because awards tend to be based on the employee bargaining units rather than the industry or enterprise in which the employees actually work.

What we have is a pattern of union and award coverage which:

- * maximises the transmission of wage pressures between unions - because several unions and awards are found in most medium/larger workplaces;
- * maximises the transmission within unions between enterprises and across industries; and
- * has made uniformity of outcomes necessary as a way of keeping the peace and keeping wage pressures under control.

In summary then, reforming our bargaining structures which would produce major national dividends in terms of improved productivity and in more flexible, less inflation prone wage determination. It was for both those reasons that the Industrial Relations Study Commission suggested that we should set ourselves a national objective of no more than one bargaining unit in all our workplaces. Whether that one union were an enterprise union or a reasonably autonomous branch of a larger, probably industry, union is not something that is sensible or necessary to prescribe in advance. Given where we are starting from, the latter is the more likely outcome in our medium to large workplaces. The key objective should be one per workplace with a much stronger workplace focus than now. The closer we can get to achieving that, the more three things will follow to improve our productivity performance and reduce our propensity to wage inflation.

- * there will be fewer unions and awards per workplace facilitating better work organisation and greater capacity to change;
- * fewer enterprises and industries will be covered by each award, thus loosening the wage transmission propensity of the present system;
- * more workplace-oriented unions will put more weight on how their enterprises were doing and less on what their peers in the next suburb are being paid, contributing to greater enterprise commitment, common purpose and enterprise competitiveness.

Amalgamations of Limited Help

The amalgamation plans of the trade union movement will not adequately address the bargaining unit and award problems. A comparison of the major unions shown in Table 2 with amalgamations proposed or in prospect shows, at most, a reduction in the number of the unions shown from 12 to nine. But even more importantly, the amalgamating unions only occur together in a minority of individual workplaces so the average would still be close to five per workplace (BCA, 1989, p. 87). The result will be little or no easing of the wage transmission qualities of present bargaining structures and little or no direct contribution to enterprise flexibility and competitiveness.

At its 1989 Congress the ACTU recognized this and adopted new policies for trying to deal with workplace rationalisation (ACTU, 1989). The problem with even this approach is that it continues to presume that union rationalisation at the workplace is a process that can be left exclusively to trade unions. Employers, who put up the capital, will need and are entitled to a role, as are employees. In fact, it stands to reason that employers and employees are going to be much better placed to make judgements about the "best" union structure and representation in individual workplaces.

In addition to amalgamations and the new ACTU policy, what is needed is recognition of the need for a workplace rationalisation process. Section 118 of the *Industrial Relations Act* is a step in the right direction, in that it empowers the Commission to rewrite union rules and hence ask some to vacate particular workplaces. However the section does not seem capable of supporting the widespread reform which is necessary. What is needed is a process which complements both the existing amalgamation provisions and Section 118. The key elements of such a process would be:

- * a new object in the Act to encourage union representation in workplaces more consistent with the effective operation of enterprises which would signal to the Industrial Relations Commission the change agent role it can play in this area;
- * an amended s118 of the *Industrial Relations Act*, enabling employees and employers as well as unions to apply to the Industrial Relations Commission for rationalisation of union coverage in individual workplaces;
- * the Commission being empowered to assist the parties to reach agreement on new coverage through negotiation and conciliation; and
- * the Commission being empowered, where an agreed solution cannot be found, to order a secret ballot of employees, thereby letting them speak on the desirability of rationalisation.

The basic aim would be to bring about maximum change by negotiation and conciliation with the secret ballot provisions being available only as a last resort. The important difference from the situation currently prevailing under Section 118 of the *Industrial Relations Act* is that negotiation and conciliation would take place against a last resort voting process. The effect would be to ensure that negotiations about coverage change would be taken more seriously in the presence of this "credible threat", encouraging a substantial degree of rationalisation by negotiation.

7. Enterprise Agreements

The other main reform priority is the provision of a better enterprise alternative to the multi-employer awards which, as noted, largely reflect craft or occupational based bargaining practices of unions and employer associations.

There are three questions to consider here:

- * what sort of enterprise agreements are going to be needed for international competitiveness?
- * how can these be made compatible with overall wage and cost stability?
- * and, what are the next steps to be taken to move us toward those agreements?

The Medium Term Objective

By providing the new option of Certified Agreements, the 1988 *Industrial Relations Act* has gone some way to providing an option for firms seeking the enterprise alternative. While this part of the 1988 Act was a step in the right direction, the current legislative provisions seem unlikely to provide the complete answer.

One of the aims of going the enterprise direction should be the kindling of the concept of relationships at work being the subject of firm commitments which, while reviewed periodically, have to be honoured during their term. The current S115 makes exit from Certified Agreements too easy during their agreed term. A simple change which would build the sense of commitment would be to provide for a minimum term, to be breached only in the most exceptional circumstances.

Another potential deficiency is the availability of Certified Agreements on a multi-employer basis. Because they can encompass terms and conditions outside National Wage guidelines there is a concern that Certified Agreements could become the source of wage pressures. The obvious way to

minimise that risk would be to make Certified Agreements available only to single employers.

Certified Agreements are also subject to very substantial scrutiny by the Commission. Given current bargaining structures this is understandable in the short run. To pave the way for less scrutiny we need, therefore, to focus on changes to union and award coverage and bargaining patterns, those features of our system that give rise to the caution exercised to date, and on developing a package of changes to be implemented over time that would enable the government to improve significantly on the flexibility currently offered by Certified Agreements. The objective should be within say, five years to have reached the stage where agreements are considered to be in the public interest if they meet certain minimum tests - essentially that they are voluntarily entered into and contain appropriate dispute settling procedures.

Union coverage has already been discussed. Award coverage and bargaining patterns also need to shift from a craft and multi-industry basis to a truer, narrower industry or company basis. This will require change to the existing coverage of the most influential multi-industry awards including metals, clerks, warehousing and transport and consideration of the processes to be followed in bringing about the necessary change.

Employer Bargaining Units

Where do employer bargaining preferences fit into all this? In terms of the pressures on employer bargaining the Study Commission summarised the situation as follows:

Increasingly, Australian employees are torn between two opposing forces in considering what is the best bargaining unit for them. On the one hand, employers historically have been encouraged under the conciliation and arbitration system to form themselves into registered associations for bargaining purposes. This provided a unified voice in bargaining over national award conditions with national bargaining units of employees. As well as providing a certain degree of collective strength, it also ensured relatively uniform labour costs and other terms and conditions of employment.

In more recent times, on the other hand, the opening up of the economy and general competitive pressures have had two consequences. First, more and more companies have devolved management authority away from the centre as a means of coping more effectively with rapidly changing markets and technologies. Whole

layers of management have been removed and enterprises reorganised into small, autonomous cost and profit centres. As this has happened, managers have found increasingly that not having control over the bargaining of the terms and conditions of employment - a major cost item - is incompatible with this new management style. A strong trend within companies, therefore, is to decentralise responsibility for industrial relations to line management and to utilise industrial relations experts as a resource to line management.

In part, this is being driven from the top. Ninety-five percent of chief executives surveyed in the Workplace Survey 'agreed' or 'strongly agreed' with this direction, and 80 per cent stated that their company was currently extending industrial relations functions for line managers. Seventy-two per cent were providing formal training for line managers in industrial relations and human resource skills. However, it is also, perhaps predominantly in many companies, being driven from the bottom as managers shouldered with more accountability demand more responsibility for employee relations.

Employer bargaining units thus are being reshaped within enterprises. In the context of the award system, there are, of course, limits to the extent that bargaining units within enterprises can be reshaped without a reassessment of traditional bargaining relationships outside the enterprise. This is happening too. Enterprises increasingly are seeking to bargain directly through enterprise-based rather than multi-employer awards.

In other words, the competitive forces reshaping enterprise bargaining units are steadily displacing the traditional multi-employer approach, at least in large organisations (BCA, 1989, pp. 44-45).

The Study Commission's report also presented research by Rimmer on the extent of enterprise awards currently in existence (BCA, 1989, Part 3). He found that while there are nearly two thousand private sector single employer awards, only a small minority of those provided for a distinctive code of employment conditions tailored to assist particular enterprises. Most were more or less mirror images of parent industry or occupational awards with slight enterprise focus. The Study Commission also estimated that probably

no more than 10 per cent of award employees would be covered by those two thousand enterprise awards.

In other words, while enterprise awards have been growing in number, and will almost certainly accelerate (as will Certified Agreements), the fact is that employers still overwhelmingly bargain on a collective basis. The spread of enterprise bargaining will, of course, be limited while this continues. A major issue for employers in the future, therefore, is going to be whether they review these bargaining arrangements and the roles they come to expect of employer associations.

A Transition Process

Reforming bargaining structures is not going to be achieved overnight, but reform cannot wait until it is completed. What we need to do in the meantime is set ourselves some industrial relations reform objectives now which will contribute to increased competitiveness in the short run and take us toward a more enterprise focussed system in the longer run. These should be:

- * to make the best fist we can of the award restructuring exercise which is now underway and, hence, is the focus of attention in many workplaces right now;
- * to make one union per workplace a national goal now, recognizing it cannot be achieved overnight;
- * to make it a goal to put more enterprise flexibility into the system by providing for two streams of regulation - the existing award stream for those who want to stay in it and an agreements stream for those who want to be world-class firms or who are keen to have a crack at world markets;
- * to bury some of our past differences and agree on a set of sensible dispute settling and compliance rules.

Recent developments show how strongly the enterprise bargaining idea has caught on. Both the ACTU and the Government are now acknowledging the importance of enterprise bargaining. The debate should now shift to the overall policy framework within which enterprise bargaining operates.

In the context of the two stream approach the Business Council is seeking to encourage, the management of any potential interaction between certified agreements and mainstream multi-employer awards is obviously a crucial requirement. Acceptance of two basic propositions, either through the emergence of common interest or through acceptance of decisions of the Commission, is a prerequisite to that. These basic propositions are:

- * first, that leading edge enterprises trying to compete in the global market must have more flexibility than is available under the multi-employer award system;
- * second, that the issue is not centralisation versus wage chaos but one of successfully managing greater diversity in the industrial relations system.

Provided those propositions are accepted the management process over the next few years might unfold along the following lines:

- * wages policy will continue to manage the potential interaction between those (probably the majority) enterprises continuing to stay within the existing award system and those choosing the second stream;
- * it will probably need to involve, for a time, a wage ceiling as a control mechanism, on overall wage outcomes in the mainstream. The continued requirement for wage increases to be negotiated in exchange for improved performance, will eventually allow the ceiling to be dropped;
- * efforts should be made to rearrange mainstream awards along industry lines;
- * company awards and certified agreements should be encouraged as a second stream;
- * particularly where executed on a single employer, single union basis there should be provision for outcomes at variance with the ceiling on the mainstream provided the necessary productivity improvement is achieved as part of the bargain;
- * to facilitate the quarantining of the second stream, the Commission might consider the establishment of a special 'enterprise panel' to handle such cases; with
- * second stream awards and agreements having real fixed lives with effective dispute settling procedures built in.

8. Accord Mark VI

How well does Accord Mark VI meet these transitional requirements? My reading of it suggests that it falls down in at least two main areas. First, by return to across the board wage increases it appears to weaken the link between wage increases and performance.

It also seeks to define enterprise bargaining as basically a marginal add-on to the existing award system, rather than as a new alternative form of organising relationships at work. Table 5 summarises the difference between the enterprise bargaining envisaged in Accord Mark VI and that envisaged by the Business Council.

Table 5: ACTU/Accord and BCA Enterprise Bargaining Models

ACTU Two Tier	BCA Two Stream	
General Increases	Awards	Certified Agreements
<ul style="list-style-type: none"> • Price related • Multi-employer awards • Simultaneous, uniform wage increases • No or weak bargaining link • 'No extra claims' modified 	Ceiling Bargaining Variable increases Variable timing 'No extra claims' stays	Complete Alternative No Ceiling Bargaining covers whole relationship Scrutiny by IRC Fixed term
Enterprise Bargaining <ul style="list-style-type: none"> • Add on • Related to enterprise productivity/profit • Guidelines unspecified 		

What the Accord Mark VI seems to have in mind is some more systematic over-award bargaining. It is a two-tier approach in which there will be only marginal opportunities to restructure workplaces along the lines required and which will encourage the unfortunate culture that the major part of wage increases has no relationship to productivity.

For businesses interested in enterprise bargaining, the major difference is that whereas the Business Council's approach would lead to a single round of bargaining affecting the enterprise and resulting in one comprehensive agreement covering the enterprise, the ACTU's approach involves at least two rounds of bargaining (national and enterprise level, and more depending on whether a single bargaining unit can be established at the enterprise level) and more than one agreement affecting the enterprise, perhaps as many enterprise agreements as there are awards.

It is hard to see that the ACTU approach can take us very far toward the creation of world competitive enterprises.

It may be that for some enterprises the above award bargaining on an enterprise basis would be a useful practical first step towards enterprise bargaining. If that were available then, of course, the opportunity should be taken. But there will also be many companies for whom the Business Council's approach is the more suitable. They should not be prevented from taking that approach. A critical test of the Government's commitment to enterprise bargaining in 1990, therefore, will be whether it is prepared to move to a position of active encouragement of two streams.

9. Conclusion

In this paper I have tried to suggest that labour market reform must start with comprehension of the global marketplace and the competitive discipline that imposes on us if we want to share in the growth of that marketplace and hold our place among the top nations of the world. I have argued that we must think of labour market reform in terms of what is going to be required to succeed in the global market. That is going to require new management approaches and acceptance by both business and unions of more competition in our markets for goods and services. It is also going to require thinking of relationships at work as predominantly about mutual interests and the creation of wealth for the benefit of all. And for that thinking to bear fruit I have suggested some priority reforms to the current industrial relations system - union rationalisation and much greater scope for enterprise agreements.

The table in the previous section illustrates the clash between the old and the new in Australian labour relations. On the one hand more and more Australian employers are looking to international competitiveness and see an enterprise focus as a key component in achieving that to the benefit of both their employers as well as their shareholders. For this sort of leading edge firm exploitation is not on the agenda.

On the other hand, for the trade union movement the existing award system is seen as a source of protection for the industrially weak and a source of political power for the movement as a whole. As I indicated earlier, I believe our trade union movement faces a choice. If it clings to the present system to preserve political power it will contribute to its own long term demise. If it clings to the present system because of its belief that it is necessary to protect the weak, and in the process continues to hold back the best firms, the result will be the same. At the very best it must contemplate changes that bring to an end the levelling down.

Some major issues also face employers, particularly in relation to bargaining patterns. The extent of enterprise flexibility possible in the future is going to be directly related to the extent to which present bargaining structures are changing. Changing union structures is part of what is required. But employ-

ers too, must look to the continued relevance of their own bargaining structures.

Footnotes

- 1 Portraying the "global market" in this way is not intended to imply that the remaining 80 per cent of the world's population is insignificant to us or that we and other developed countries do not have deep obligations to assist them to lift their living standards. Australian enterprises will also find many trading opportunities in those countries, particularly those closer to home. In that sense the "global market" is truly the world as a whole. The point is, however, that if we have visions of competing globally we have to start from the proposition that the market is ultimately shaped by customers with wide choices, both in respect of what they buy and from whom they buy it.
- 2 Of course the proposition is not confined to Australia and has been argued extensively elsewhere for some time. See as one of many overseas examples Kochan, Katz and McKersie, 1986.
- 3 The Commission was chaired by Mr Frederick Hilmer, then the Managing Director of McKinsey and Co in Australia and now the new Director of the Australian Graduate School of Management. Members were Mr David Macfarlane, Managing Director of James Hardie Industries Ltd, Professor John Rose, Director, Melbourne Graduate School of Management and the author.
- 4 Ohmae refers to consumers around the world as protectionist when they vote, but free traders when they shop (Ohmae 1989, Chapter 5).
- 5 In terms of living standards this is the only relevant meaning of competitiveness. Competitiveness achieved by lowering the exchange rate is usually a mirage as we have found out over the last five years. One of the characteristics of banana republics is that they try to maintain competitiveness by lowering their exchange rates.

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