

Negotiating Productivity: Issues to consider during workplace dialogue & collective bargaining

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Why should productivity matter to TUs and Employers?

- Improves efficiency, brings down costs of production, Improves competitiveness of the company & increases Value Added (wealth created by factory);
- Higher productivity creates conditions for job security & company capacity to pay higher real wages;
...BUT -
- Higher productivity is necessary but not sufficient to secure increased real wages or secure jobs – supportive management policy, collective bargaining and unions' bargaining capacity matters too.

- **Need to understand difference between price of labour and cost of labour?** (& similarly between rate of electricity & cost of electricity, price of material and cost of material, etc.) Example:

Rate/Price of electricity	No of Units Consumed	Total Bill/Total Cost
\$5 per unit	100	\$500
\$6 per unit		???

- Price of labour (wage rates) can go up but cost of labour (wage costs) need not go up – it depends on what happens to productivity; Productivity in production or service process create the capacities to improve wages and working conditions without increasing or with minimal costs for the company;

Before setting productivity targets in the enterprise: Issue to consider

- Work intensity differs from worker to worker, from dept. to dept.; some workers put in 5-6 hours of effective working time, some work for 7-8 hours - When a target is set for, say 20% higher production –
 - workers working for less hours have no problem but those who already put in 8 hours at work, their workload may increase intolerably; can create IR conflicts;
 - On what basis is 20% productivity increase target set? How does one know if it is possible to achieve or not?
- ☞ Need for work study & line balancing - to bring down overloaded workers while bringing up under loaded workers.

Before new productivity targets are set or productivity linked wage agreement is signed, management and Union should agree on:

- **Work Study** – systematic examination of the methods & time taken for carrying out activities at work so as to improve use of resources (human, machine, material) & set up performance standards
 - Involves: methods study (to eliminate the unnecessary movements to cut down ineffective time) and work measurement (to determine the time for a qualified worker to complete a specific job);
 - joint participation of union & management required in this process

Note: Not only labour but also machine & methods productivity needs to be looked into.

- Without doing work study, organization will not know ‘ineffective time’ and it will be seen as ‘usual phenomenon’, ‘built in process’ about which nothing much can be done;
- Purpose of the work study must be known to all workers, otherwise lack of cooperation will affect its results;

Aim of the Work study should be to -

- Know the time taken currently to complete task/produce the output – at each work station;
- Reduce ineffective time spent by workers in doing things due to poor design, layout of the workplace or material handling practices;
- Stop wasteful use of resources (improve workforce engagement time, machine utilisation, reduce rejection & rework, address causes of absenteeism, down time, etc.)
- Contribute to industrial safety by identifying hazardous work and developing safer methods;
- Cut down the time for performing certain activities after introducing systems & methods improvement & line balancing (improving work distribution & deployment of labour);

Work study should include not only time at work but also period required to recover from fatigue. Performance standards should be based on average worker performance;

Typical make up of the operational time

Total Time of operation under existing conditions



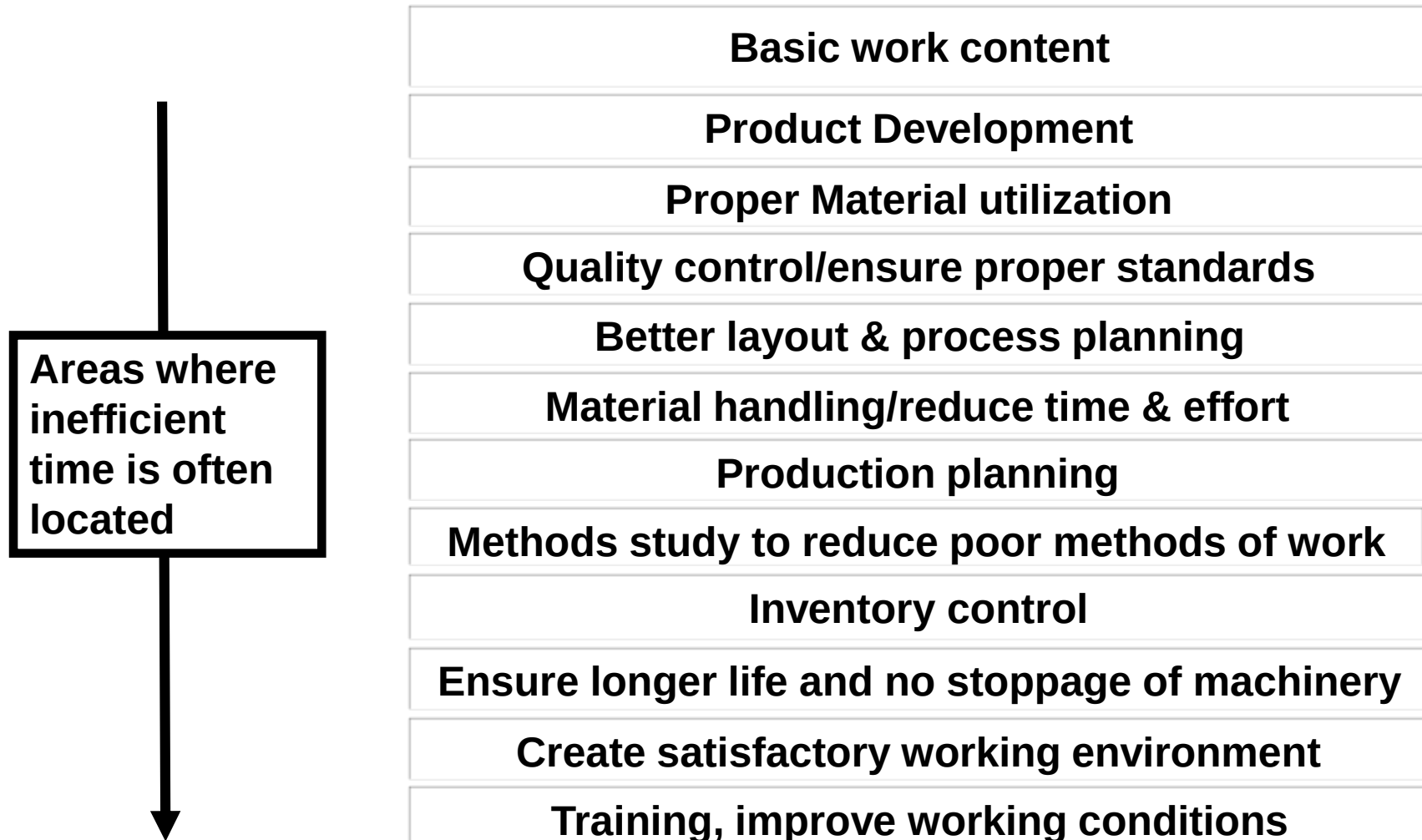
Basic work content:
(Minimum time required to perform/produce one output)

Basic content added by poor product design or material Utilization

Work content added by inefficient methods of manufacture or operation
+ Poor material handling
+ Poor quality standards
+ Poor inventory

Inefficient time due to human contribution Like: Absenteeism, bad workmanship, Accidents, etc

Where Managements and Unions should look to reduce ineffective time?



Improving Productivity – issues TU and Management need to agree on

- Work study & line balancing – joint union-management exercise & decision making;
- Negotiate and agree on working time in a shift, taking into account rest period, lunch, time off for personal needs, fatigue, hazardous jobs, down time & material handling time;
- Down time: disturbance in production/work cycle due to material not available, machine break down, etc. – maintain records of this as it affects achievement of productivity targets and performance linked payments;
- Sharing in the gains from productivity – share in value added, company performance allowance;
- **Commitment of the top management to share relevant information & invest in changes needed for improving & sustaining productivity;**

Importance of understanding cost structure in improving productivity (Example) 10

- Example: To address, company's financial crisis, Management proposed to TU: either we cut wages by 20% or reduce workforce by 20%. How will you respond to resolve the issue?

Cost structure as per the company balance sheet:

Material Cost 78% Energy Cost 10%

Admn. Cost 4% Labour Cost..... 8%

- Reducing wages or employment by 20%, leads to only 1.6% savings (20% of 8%) BUT targeting saving in material & energy costs by 10% will give 8.8% cost savings. This requires improving productivity; And if successful, then not only jobs will be saved but company may even be able to give wage rise in near future;
- Knowing costs and cost structure of the Company is important for deciding strategy and plan for improving productivity in a company; data on these should be shared by management;

- At least two ways employees can be rewarded financially for helping to improve productivity:
 - Performance linked Wage component - monthly payment based on fulfilment of monthly production targets or other criteria for performance (ex. Defect free production, minimizing waste, saving energy, etc)
 - Company performance bonus – annual payment based on share in additional value added;

Information needed to discuss and share in better company performance

- Company plans for Additional Investment (in machinery, technology, capacity improvement – supports increase in productivity)
- Current cost structure and actual costs (these include material costs, energy costs, transportation, marketing/sales costs, labour costs, admin costs, etc;
- Value added (in the current year) [$VA = \text{TOTAL INCOME} - \text{NON FACTOR EXPENDITURE}$] – when productivity improves, it is reflected higher value added normally;
- Employees Share in V.A. (this is total employee costs – actual and in percentage)
- Capital Share in V.A. (whatever is not employee share, goes to capital share – actual and percentage)
- RETURN ON CAPITAL (%) - this is share of capital in value added as percentage of total capital invested in the year);

Management practices that help to improve competitiveness & productivity of a company

- **Social dialogue and Communication with Workers:** Arrangements for communicating information & management policies with employees and know employee expectations;
- **Having policies that address employees needs** (new employees? Older employees?) – Employees need not only fair compensation policies but also individual growth, skills, recognition of experience, promotions policy, flexibility at work, fair & effective grievance handling system, etc.);
- **Compensation system** that rewards defect free work (Ex. linking quality control to the employee performance and payments);
- **Rewarding team work/Department**, rather than individuals;
- **Progressive managements share information** – relevant information – so that employees can form informed opinions of company situation and decisions of management;

Concluding Remarks:

- Enterprise productivity depends on a number of factors - Labour productivity does not depend only on labour – it is influenced by a number of other inputs (ex. capital invested, machines & technology, capacity utilisation, methods & systems at work, and human resource policies);
- Adopting productivity as a factor in bargaining (such as for performance based wages component) requires also top management commitment to invest to modernise or extend the capital stock to raise productivity, training and ‘co-determination’ at the workplace.
- Productive and competitive business requires employees committed to company goals; this require moving employee relations from ‘conflict and control’ to ‘trust & collaboration’ focused;
- Training is necessary but it may not solve the problem. For change to happen, parties need to change their behaviour - build work ethic in the company, productivity will be an outcome - Management should be a role model for the workers;