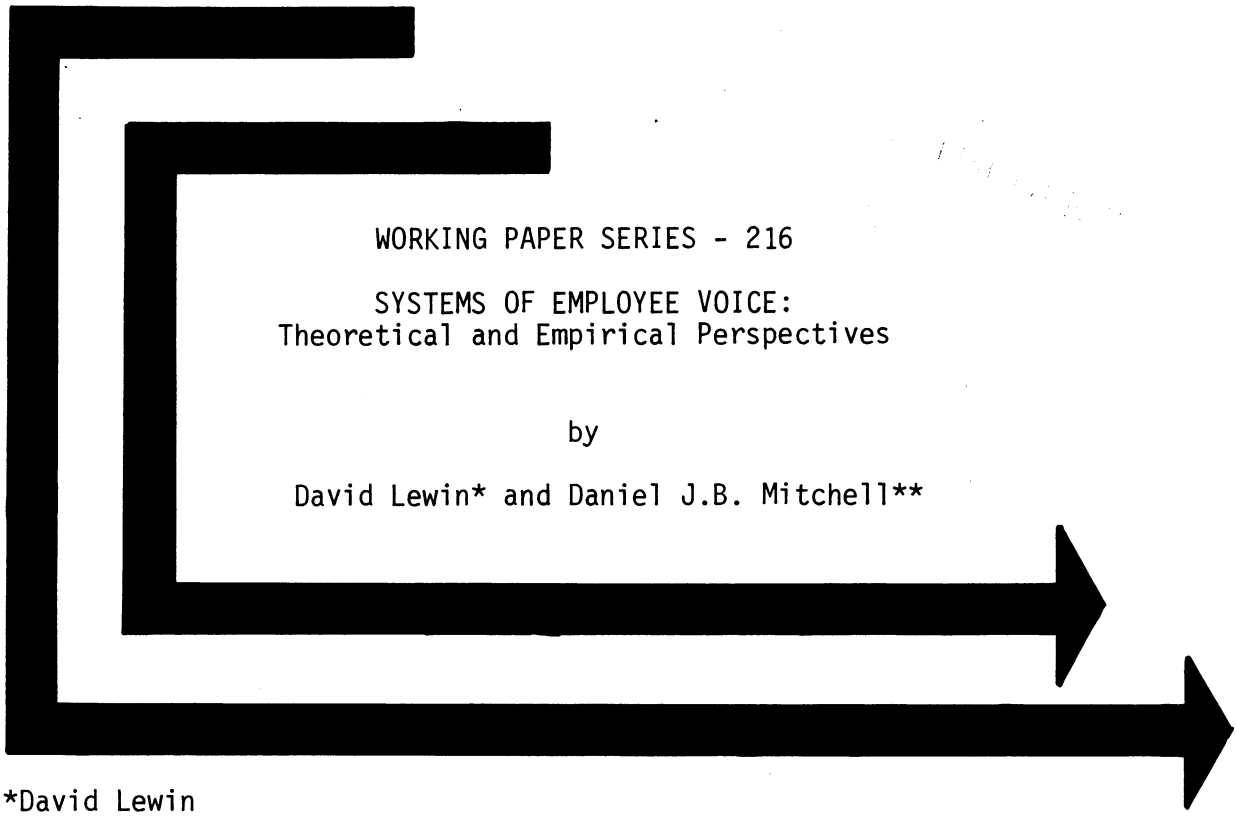

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SYSTEMS OF EMPLOYEE VOICE:
Theoretical and Empirical Perspectives

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SYSTEMS OF EMPLOYEE VOICE:
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The concept of "voice" in the employment relationship is grounded in the exit-voice-loyalty model originally formulated by Hirschman (1970). Hirschman sought to explain why some consumers, who are dissatisfied with a firm's product, will "stay and fight" rather than switch to the product of another firm. Consumer switching behavior is, of course, consistent with the basic analytical assumptions underlying microeconomic theory. So Hirschman focused on the exceptional or against-the-grain behavior of certain consumers. From his conceptual formulation of the relationship between the consumer and the producer, it is possible to derive the proposition that it is the more "loyal" consumer who is likely to exercise voice or to protest against the producer.

I. Voice Applied to the Labor Market

The major application of the exit-voice-loyalty framework to the labor market has been to union-management relations. This approach was most clearly reflected in the work of Freeman and Medoff (1984). In brief, their interindustry research treated unionism as a proxy for employee voice and concluded that unionism (voice) lowered employee quit rates (exit). Additionally, it was found to raise employee job tenure (experience), enhance employer investment in human capital, and increase employee productivity.

Other research, conducted at the inter- and intrafirm levels of analysis in both unionized and nonunion settings, is now available using the exit/voice framework. It concludes that employee use of voice - via the filing of written grievances and

complaints - is positively associated with voluntary and involuntary turnover, and negatively associated with (measured) job performance, intrafirm mobility, and work attendance (Lewin and Peterson, 1988; Lewin, 1987; Lewin, 1992b). Apart from their different empirical findings, these research streams are also notable for their failure explicitly to address the loyalty construct in Hirschman's model (though see Boroff, 1990; Boroff, 1991; Boroff and Lewin, 1991; Lewin, Boroff, and Ng, 1992).

II. A Wider View of Voice

This paper, and the symposium which follows, focuses centrally on the uses of voice in the labor market. But the scope of analysis is widened beyond unionism and (unionized or nonunion) grievance procedures. We begin by focusing on mandated voice systems, such as European works councils and codetermination, move on to consider "voluntary" voice systems in both unionized and nonunion settings, and later address the absence of such systems from portions of the labor market.

We also examine the market itself as a protector of employee voice and consider implicit contracts, wrongful-termination cases, intellectual property rights, and the influence of employment law and labor law on employee voice. Included here are selected macroeconomic influences on employee voice, including unemployment and the status of the business cycle. Throughout the paper, we integrate perspectives on employee voice offered by the authors of four papers included in the symposium (Aaron, 1992; Bain, 1992; Kleiner, 1992; McCabe, 1992).

III. Mandated Works Councils

The first type of mandated voice system considered here is the works council, which prevails in certain Western European nations - for example, Austria, Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, the Netherlands, and Norway (Bain, 1992; Dworkin and Lee, 1991). Works councils typically exist at the corporate, divisional, and plant/facility levels of an enterprise, and their members are elected. This form of worker representation usually covers a wide range of occupations within an enterprise, sometimes including first-line supervisors and middle-management personnel.

As Bain (1992) notes, there is wide variation in the legal status and organizational structure of European works councils as well as in their roles and the scope of issues taken up by them. Usually a works council is legally independent of both the union and the employer. In some case, all employees are represented in one works council, while in other cases there may separate councils for blue and white-collar workers.

Works councils universally have rights to information, usually have rights to consultation, and occasionally have rights to joint decision-making. Thus, French works councils have purely consultative rights within enterprises (though they must be supplied with information about wages, working conditions, and employment prospects). German works councils jointly decide such issues as job evaluation, overtime, work breaks, holiday schedules, recruitment, selection, dismissal, training, and workplace safety with employers. Works councils are widely consulted about though rarely hold joint decision-making rights

over business acquisitions and divestitures, plant closings, and plant relocations.

In terms of their economic consequences, Bain (1992) observes that because works councils take up a wider range of issues than are usually taken up by unions through collective bargaining, the former may have stronger impacts on the firm's long-run elasticity of demand and may structure more efficient "contracts" than those that emerge from collective bargaining. However, and as he also notes, there is a dearth of quantitative studies of works councils, so that the actual effects of works councils on labor demand and employer-employee contract efficiency are largely unknown. Those quantitative studies which do exist seem to lead to an overall conclusion that works councils have some of the "monopoly face" effects but few of the "collective voice" effects typically associated with (U.S.) unions (Freeman and Medoff, 1984).

To illustrate, Svejnar (1982) reports relative wage impacts of between five and seven percent for German works councils, a finding which roughly squares with that reported more recently by Blumenthal (1986). The productivity effects of German works councils have been reported to be significantly negative by Fitzroy and Kraft (1985) and modestly negative by Schnabel (1991). Effects of works councils on employee quit rates are insignificant, according to Kraft (1986), and slightly positive, according to Wilson and Peel (1991). Finally, works councils have been reported significantly to reduce company profitability (Fitzroy and Kraft, 1985), but also modestly to reduce employee absenteeism (Wilson and Peel, 1991).

On balance, this research provides little evidence to support the claim that collective voice in the form of works councils yields economic efficiencies, and there is some evidence to the contrary. However, the evidence says little about the extent to which industrial democracy in European enterprises has been affected by works councils. If such democracy is measured in part by the scope of issues taken up by works councils or by their qualitative effects on certain areas of human resource/personnel management - for example, transfers, work assignments, dismissals, and working conditions - then available evidence suggests that works councils, in particular, German and Swedish works councils, have had positive effects on these aspects of the employment relationship (Bain, 1983, 1992; IDE, 1979).

IV. Mandated Codetermination

A second type of mandated voice system is codetermination, which refers to the representation of employees on company managing boards or boards of directors. As with works councils, codetermination is common in European nations and is specifically mandated by law for business enterprises above a limited size cutoff in Austria, Denmark, Germany, Ireland, Luxembourg, the Netherlands, Norway, Sweden, and Spain (Bain, 1992; Dworkin and Lee, 1991). The structure of codetermination arrangements and the basis for electing employee directors vary considerably among European nations.

Seldom is there an equal number of employee and management representatives on a board of directors. However German coal and

steel companies do have such a parity arrangement. Elsewhere in Germany, employees make up one-third of the board of directors, an arrangement which also prevails in several other European countries.

Unlike elections for works council representatives in which all employees are eligible to vote, employee directors are often selected by unions, as, for example, in Sweden, Luxembourg, and Germany (and, in the rare case where voluntary codetermination exists, in the United States). Bain (1992) observes that codetermination provides workers with the type of business information that permits them to make "long-term strategic decisions." However, the extent to which such decision-making actually occurs depends in part on employee directors' technical training, acceptance by other board members, and dual (and perhaps split) loyalties to employer and employee organizations - dimensions along which there is considerable variation among European nations (Bain, 1992; Stern, 1988).

Empirical evidence about the economic effects of codetermination is similar to that concerning works councils, with perhaps slightly more support adduced for the collective voice "face" of codetermination. Svejnar (1981) reports relative wage effects of about six percent for German codetermination, but Benelli et. al. (1987) found little evidence of a shift of economic returns from capital to labor under German codetermination, and Jones and Pliskin (1987) found little effect of British codetermination on employee bonuses. Jones (1987) reports modest productivity increases under codetermination in Britain, as do Cable and Fitzroy (1980) for Germany. However

Svejnar (1982) finds no discernible effects of codetermination on the productivity of German enterprises. As to the extent to which codetermination achieves industrial democracy for workers, this is perhaps more doubtful than in the case of work councils. For example, Hobson and Dworkin (1986) report that German workers place little value on "labor directors" and relatively more value on works councils.

Kassalow (1989) showed how employee representatives on the boards of German companies can be kept off important subcommittees and otherwise bypassed on important decisions. And, in a recent study of (voluntary) codetermination in 14 U.S. firms, Hammer et. al. (1991) report that "worker constituents believed that their board representatives fell short both in protecting workers' interests and in communicating with them about board decisions" (p. 677).

In sum, the available empirical evidence suggests that it is one thing to mandate voice - in this instance in the form of codetermination - but quite another thing to mandate <u>effective</u> voice, at least as judged by workers who are "represented" by their peers on company boards of directors.

V. Mandated Systems of Job Security and Labor Tribunals

A third type of mandated voice system is legislated protection against dismissal from the job. Such worker protection/employee rights legislation is common in Western Europe, with the relevant laws also typically requiring that the terms and conditions of an individual's employment be written and supplied to the employee by the employer. European nations with

one or another version of such laws in place include Belgium, France, Ireland, Italy, Luxembourg, Portugal, and the United Kingdom (Dworkin and Lee, 1991). Typically, legislation that protects workers from dismissal specifies the conditions under which dismissal can occur, identifies the procedures that must be employed in dismissal cases, and often requires the use of third-party tribunals to hear and rule on dismissal cases.

In some countries, such as Great Britain, legislation treats dismissal for economic reasons (termed "redundancy" in Britain, "layoffs" and "reductions in force" in the United States) differently from dismissal for disciplinary reasons (termed "discharge for cause" in the United States). Where disciplinary dismissal is the issue, hearings are often conducted to determine if the discharge was "unjust" or "unfair." A study of Britain's experience under that nation's unjust dismissal statute found that a minority of dismissed employees actually enter claims, a minority of claimants win relief, and a minority of "successful" claimants win reinstatement (Dickens, et. al., 1984). Indeed, over the ten-year period ending in 1981, about 70 percent of all unjust termination claims filed under British law were dismissed by industrial tribunals, and the majority of non-dismissed claims never reached the tribunal hearing stage.

Dickens et. al. (1984) point out that one effect of British law has been to spur the development by firms of more formal procedures to handle matters of discipline and discharge. In this regard, it should also be noted that the main opposition to the continuance of Britain's unjust dismissal law comes from small firms and their associations, which have occasionally been

successful in persuading the British government to weaken legislative protections against unjust dismissal. For small firms, the establishment of formal, bureaucratic personnel procedures is potentially more costly than for larger enterprises.

The United States is one of the few developed nations of the world without generalized employee rights legislation or narrower unjust dismissal legislation. However, there has been no shortage of proposals for the enactment of such laws (see, for example, Summers, 1976; Peck, 1979; Stieber, 1983). Indeed, Krueger (1991) offers an evolutionary theory of unjust dismissal legislation which proposes that employer groups, responding to the threat of large and variable damage awards imposed by the judicial system, eventually will support unjust dismissal legislation. Such legislation, he reasons, will allow firms to define property rights in jobs more clearly, reduce uncertainty, and limit employer liability. In short, he sees a parallel between the evolution of employer support in the early 20th century for workers' compensation laws and a similar evolution of unjust dismissal legislation.

So far, only one U.S. state (Montana) has enacted such legislation, despite the prediction. But as both Krueger (1991) and Aaron (1992) make clear, common law decisions in unjust dismissal cases reached by courts in various U.S. states (notably California, New Jersey, and New York) have substantially eroded the long-prevailing employment-at-will doctrine. Continued erosion may yet generate a base of employer support for new defining legislation.

Aaron (1992) observes that American court decisions limiting employment-at-will are based on one (or more) of three doctrines. First, there is the public policy exception, forbidding discharge for the performance of an act protected by public policy (such as serving on a jury), or for the refusal to engage in conduct condemned by public policy (such as committing perjury). Second, there is the implicit-contract exception, forbidding discharge of employees contrary to promises of employment contained in personnel manuals or orally made by employers to their employees. Third, there is the implied covenant of good faith and fair dealing exception, requiring employers to treat employees in a fair and reasonable manner and closely approaching the principle that employees may be terminated only for "just cause." This last principle has long been an important element in arbitration pursuant to union grievance procedures. Thus, despite the considerable shrinkage of union membership in the 1980s, union voice principles continue to influence the nonunion sector.

Aaron (1992) goes on to review a draft Uniform Employment Termination Act prepared by the National conference of Commissioners on Uniform State Laws. A key provision of this draft law specifies that "an employer may not terminate the employment of an employee without good cause." The main procedure proposed for handling complaints of unjust dismissal is arbitration. Under the draft act, both employers and employees could file a complaint and could demand arbitration to determine whether good cause for termination exists. This draft statute is aimed at state legislatures. In that respect it is consistent with the tendency in recent years for state governments to be

more active than the federal government of the U.S. in regulating the employment relationship. Apart from unjust discharge, examples of recent state regulation include employee drug testing, employee AIDS testing, the use of polygraph testing, and the privacy of - and access to - personnel file information. Nevertheless, one may question the level of government toward which the proposed Uniform Employment Termination Act and related initiatives will be directed.

If experience in this area does turn out to parallel that of workers' compensation, then unjust dismissal legislation will indeed be thrashed out at the level of, and perhaps enacted by, state legislatures. If, on the other hand, experience turns out to parallel that of union-management relations in the 1930s, then initiatives to enact unjust dismissal legislation will be directed toward the federal government. It is even possible that future legislative initiatives in the area of unjust dismissal will parallel the U.S. experience with unemployment compensation, equal employment opportunity, or occupational safety, programs in which there is a mix of federal and state responsibility.

In any case, the type of unjust dismissal legislative protection discussed by Aaron (1992) seems, at best, to provide only a modest shift in this type of voice in the employment relationship. Under the proposed Uniform Employment Termination Act, the burden of proof rests with the employee, a situation largely similar to the present circumstance in current judicial proceedings on wrongful termination cases. However, if the Uniform Employment Termination Act or similar proposed legislation is enacted by state governments or the federal

government, it will provide an explicit, if limited, form of voice in the employment relationship. In that sense, unjust dismissal legislation may be viewed together with works council and codetermination legislation as mandated systems of explicit employee voice. Such systems contrast markedly with voluntary voice systems, which are taken up next.

VI. Voluntary Voice Systems Under Collective Bargaining

The best-known voluntary system of employee voice in the U.S. is collective bargaining between a group of unionized employees and a company's management. Such collective voice is said to be "voluntary" because employees choose whether or not to be represented by a union. If they choose to be so represented, then representatives of the employees and employer engage in negotiations to determine if a collective-bargaining agreement will be reached and what terms it will contain - once again, a voluntary, though joint, decision. When such agreements are reached between unions and companies, they almost always contain a formal grievance procedure, which is the mechanism through which individual employees can file complaints about - or challenge management actions concerning - terms and conditions of employment which are covered by the agreement. Though this entire process is often referred to as the "standard bargaining" model, it should be noted that it combines elements of collective voice - the negotiation of an explicit contract - with elements of individual voice - the establishment of a procedure to handle individual grievances.

There is substantial debate among economists about the

effects of unionized grievance procedures (or, more precisely, grievance activity) on firm performance. On the one hand, as Kleiner (1992) notes, grievance procedures appear to be significantly negatively associated with employee turnover. Following a Freeman-Medoff (1984) type argument, this result appears to be one link in the chain of union voice-induced enhancements of firm-level human capital and productivity. More generally, grievance procedures may be conceived as providing or signaling certain information to management, which is then used more closely to monitor and manage the workplace. (Kleiner, 1992) In short, this line of reasoning suggests that institutionalized employee voice in the form of grievance procedures potentially enhances firm performance.

On the other hand, several studies of grievance activity in unionized manufacturing establishments reach an opposite conclusion. To illustrate, Ichniowski (1986) found a strong negative relationship between grievance rates and monthly tons of paper produced in nine paper mills over the 1976-82 period. Katz, Kochan, and Gobeille (1983) and Katz, Kochan, and Weber (1985) found strong negative relationships between grievance rates and plant performance measures in two sets of General Motors automobile assembly plants during the 1970s. Finally, Norsworthy and Zabala (1985) found that the rate of grievance activity was significantly negatively associated with total factor productivity and significantly positively associated with unit production costs in the U.S. automobile industry over the 1959-76 period.

One explanation for these findings is that a "displacement

effect" occurs such that time normally devoted to production is devoted to grievance filing, processing, and resolution. However, the magnitude of the productivity losses reported in the aforementioned studies appears to be too large to be accounted for solely by the displacement effect (Ichniowski and Lewin, 1987). Further complicating the task of sorting out the independent effects of grievance procedures on establishment or firm performance is the case of the unionized aerospace firm examined by Kleiner (1992). In that case, the lowest levels of unit labor costs were associated with a "moderate" (i.e., nonzero) level of grievance activity.

Recent theoretical treatments by industrial relations scholars suggest a trade-off approach. They argue that union and management decisions to adopt (or not adopt) grievance procedures should be viewed as wage alternatives. That is, grievance procedures may be traded off for wages, benefits, or other conditions of employment (Ichniowski and Lewin, 1987; Cappelli and Chauvin, 1991).

In any case, little of the aforementioned research directly considers the question of whether, and to what extent, grievance procedures provide an effective voice mechanism or, more fundamentally, industrial democracy, to unionized workers. The vast bulk of economic and industrial relations research on this topic focuses on the effects of unionized grievance procedures on measures of establishment and firm performance. Often, as in the research of Freeman and Medoff (1984), the mere existence of grievance procedures is taken to mean that voice is present in the employment relationship. It is labor law scholars, rather

than economists, most directly address the effective voice/industrial democracy aspect of grievance procedures. In this regard, Aaron (1992) concludes that unionized grievance procedures featuring independent representation of employees and arbitration as the terminal step of the procedure constitute the "best evidence" of effective voice in the employment relationship.

Going beyond procedural justice dimensions to consider the distributive justice dimensions of grievance procedures Lewin and Peterson (1988) examined selected post-grievance settlement outcomes for large samples of unionized grievance filers and nonfilers in several different industry settings. They found that grievance filing was significantly positively related to post-grievance settlement turnover rates (both voluntary and involuntary), and negatively related to job performance ratings, promotion rates and work attendance rates. (See also Lewin, 1992a; Peterson and Lewin, 1991). Moreover, similar findings were reported in comparisons of the same selected post-grievance settlement outcomes as between samples of supervisors of grievance filers and supervisors of nonfilers.

If this evidence is taken to mean that grievance filers and their supervisors suffer reprisals for being involved in grievance activity, then the putative effective voice-industrial democracy attributes of unionized grievance procedures is called into question. Reprisals for exercise of voice will inevitably tend to repress the effective use of voice in the employment relationship.

VII. Voluntary Voice Through Nonunion Grievance Systems

A less well known, but apparently growing, voluntary system of employee voice is the nonunion grievance procedure. In the United States, it appears that about one of every two large publicly-held nonunion businesses has a formal grievance or grievance-like procedure in place for at least one major occupational group (Delaney, Lewin, and Ichniowski, 1989). Moreover, the incidence of such procedures is even greater for the nonunion portion of so-called double-breasted businesses (Ichniowski, Delaney, and Lewin, 1989). Unlike grievance machinery under standard collective bargaining, nonunion grievance procedures are voluntarily put into place by employers.

Why do some nonunion businesses adopt grievance (or grievance-like) procedures? One reason is to preserve the nonunion status of their workforces. Support for this conclusion comes from such case examples as the Northrop Corporation, which adopted its nonunion grievance procedure in 1946 following two separate union representation elections which the company "won" by small margins (Litrell, 1982), and from Federal Express, which openly describes its Guaranteed Fair Treatment procedure as a viable alternative to unionism (Westin and Salisbury, 1980). Other, more systematic evidence derived from multivariate analyses of large scale surveys of nonunion businesses also supports this conclusion (Freedman, 1985; Fiorito, Lowman, and Nelson, 1987).

But union avoidance hardly provides a complete rationale for the presence of nonunion grievance procedures. Kleiner (1992) shows how applications of the concept of transactions costs

provide a justification for employer-provided voice to employees through "an enforceable grievance procedure even without unions" (also see Williamson, 1975). Kleiner illustrates this application with the example of "cheap talk" among production workers. Such talk contains information which is potentially useful for improving the production process, and the firm seeks to obtain the benefits of this information by adopting and institutionalizing a grievance procedure-type voice mechanism.

However, if this example and the conceptual basis for it are sound and generalizable, then why haven't most or all nonunion firms adopted this type of employee voice mechanism? Kleiner (1992) offers three responses to this question. First, the cost of a nonunion grievance procedure may outweigh the benefits (perhaps a tautology). Second, a nonunion grievance procedure is an "innovative" human resource management technology which is yet to be discovered by nonunion firms in general (but presumably will be so discovered). Third, managers are under pressure not to relinquish the control that providing "real" voice to workers seemingly requires.

For the last of these arguments to be valid, it would have to be shown that contemporary managers are under more control-retention pressures than their predecessors (and the work of Bendix, 1956, and Jacoby, 1985, casts doubt on this idea). Alternatively, it would have to be demonstrated that the managers of nonunion firms without grievance procedures are under more control-retention pressures than the managers of nonunion firms with grievance procedures. In any case, it should also be noted that a compensating wage differential framework of analysis leads

to the proposition that nonunion firms with and without grievance procedures can exist simultaneously (Ichniowski and Lewin, 1988; Cappelli and Chauvin, 1991). That is, nonunion firms which choose not to have grievance machinery could compensate employees for this missing voice element through higher wages.

Yet another rationale for the emergence of a newer nonstandard model of individual employee voice in the nonunion firm is offered by McCabe (1992). He contends that a combination of challenges to established authority have spurred the adoption of grievance procedures (and participative management mechanisms) by large nonunion companies. These challenges were/are reflected in the student movement (campus unrest) of the 1960s, the women's movement of the 1970s, and public-opinion surveys showing that large proportions of the U.S. population believe that economic and political power is "unjustly" concentrated among managers of large business institutions. Empirically, it does appear that, other things equal, the larger the nonunion company the more likely it is to have a grievance procedure (Ichniowski and Lewin, 1987; Delaney, Lewin, and Ichniowski, 1989). However, it is also possible to place these ostensible social forces into a generalized demand-supply framework for the purpose of explaining the existence and incidence of nonunion grievance procedures (see, for example, Cappelli, 1991).

McCabe (1992) also calls attention to the varied characteristics of grievance procedures in nonunion settings. Unlike unionized grievance procedures, which virtually always include third-party arbitration (as the terminal step), some nonunion grievance procedures rely instead on ombudsmen. Others

incorporate mediation or rely for final opinions on top executives. But still others do provide for arbitration to resolve grievances. This last arrangement is unusual, according to McCabe (1992), who reports that only six of the 78 nonunion companies (8%) that he studied in the 1980s "provided for arbitration of grievances." A higher estimate is reported by Delaney, Lewin and Ichniowski (1989), who found that about 20% of some 180 nonunion companies with grievance procedures in place in 1987 provided for arbitration (usually as the terminal step).

Whichever of these estimates is more valid, it is clear that the very large majority of nonunion grievance procedures do not provide for third-party arbitration. Instead ultimate decision-making responsibility for grievance resolution rests with management. For Aaron (1992) and some other legal scholars (Weiler, 1990), this characteristic of nonunion grievance procedures is <u>per se</u> evidence of the sharply limited ability of such mechanisms to provide effective individual voice (and perhaps also industrial democracy) to nonunion employees.

As with research on unionized grievance procedures, some scholars have sought to go beyond the procedural justice dimensions of nonunion grievance procedures to examine the distributive justice outcomes associated with the use of such procedures (Lewin, 1992a). To illustrate, Lewin (1987; 1992b) examined selected post-grievance settlement outcomes for samples of grievance filers and nonfilers in several nonunion firms, and found that grievance filing was significantly negatively related to job performance ratings, promotion rates, and work attendance rates, and significantly positively related to both voluntary and

involuntary turnover rates. In addition, comparable findings emerged from comparisons of post-grievance settlement outcomes between supervisors of grievance filers and supervisors of nonfilers. None of these findings were mitigated by the presence of arbitration as the final step of the nonunion grievance procedure.

These studies strongly suggest that the use of individual employee voice is positively rather negatively related to employee exit from the nonunion firm. Again, the issue of reprisal is raised by these findings. If so, the implication is that even use of an outside third party cannot protect employees from such reprisal. But there is a loyalty side of grievance filing to consider.

Boroff and Lewin (1991) analyzed survey responses from employees and managers of a large nonunion mail and package delivery business which maintains a formal, multistep grievance procedure (a procedure which most managerial personnel of the firm are also eligible to use). Confining their analysis to respondents who indicated that they had been subject to unfair workplace treatment, these researchers found that employee exercise of voice via grievance filing was consistently and significantly positively associated with employees' intent to leave the firm. Additionally, a six-item construct of employee loyalty to the firm was consistently and significantly negatively associated with employee grievance filing.

In other words, the more loyal the employee was to the firm, the less likely he/she was to file a written grievance; such an employee can perhaps be said to suffer in silence. Additionally,

employees who actually filed grievances were more likely to intend to leave the firm than employees who did not file grievances. Thus, these grievance filers can perhaps be said to have (mentally) prepared themselves to leave the firm, and to have registered this intent by filing written grievances (Lewin, Boroff, and Ng, 1992).

All of these findings are contrary to the exit-voice-loyalty propositions derived by Hirschman (1970), and to the empirical findings of Freeman and Medoff (1984), based on studies of unionized grievance procedures. More fundamentally, these findings call into question the putative effective voice (and perhaps also the industrial democracy) attributes of nonunion grievance procedures.

In spite of their many differences, both unionized and nonunion grievance procedures represent forms of voluntary explicit contracts between employers and employees which are intended to legitimize and activate voice in the employment relationship. These procedures may be thought of as systems of dispute resolution within the internal labor markets of firms. However, not all firms maintain such systems, and the reasons for this absence of voice mechanisms from some firms are taken up next.

VIII. The Option of No Voice System

Firms without explicit voice systems tend to be small, operate in highly seasonal product markets, and/or have intentionally high turnover type internal labor markets. Is there any reason to expect that small firms would be less likely

to provide a voice channel for employees? In fact, there are several.

Firm size has been shown to be significantly associated with a variety of human resource management-employee relations-labor characteristics. For example, wages and fringe benefits vary positively with firm size. (Brown and Medoff, 1989; Allen and Clark, 1987) This association may be due to several factors. First, there may be a desire of larger firms to employer higher-quality workers (a human-capital explanation). Second, larger firms may have a need to offset a relatively more impersonal work atmosphere and more alienating jobs (a compensating wage differential explanation).

Third, large, hierarchical firms may have more complex worker monitoring requirements and need to pay a premium to ensure adequate performance (an efficiency wage explanation). Fourth, and finally, firm size is positively associated with unionization. In short, pay premiums, mobility-restricting benefits, the need to invest in employees, and unions are all associated with firm size. Thus, it should not be surprising that it is the larger firms which are most likely to provide a voice mechanism. Size is a proxy for many characteristics that might be associated with voice. (Levine, 1991) And, conversely, it is the smaller enterprise which is least likely to offer a voice option.

It is possible, however, that the formal offering of a voice system - while readily measurable - obscures the actual degree of voice offered. In smaller firms, the cost of communication and transactions may be relatively low. Relationships between

supervisor and subordinate may be informal and personal. In other words, voice may exist in small firms, but not in the form of explicit arrangements.

Firms with highly seasonal demands for their products and services may be unsuited for formal voice systems. Employment will swing markedly over the year, regularly interrupting the employment relationship. Thus, in nonunion construction, explicit voice mechanisms are quite rare. (Delaney, Lewin, and Ichniowski, 1989) It is often the case that industries which are highly seasonal also have relatively small employers: construction, tourist services, agriculture, etc.

One of the more notable human resource management developments in recent years is the shrinking of "core" workforces and the expansion of "peripheral" employment. (Osterman, 1988) The core workforce consists of regular, full-time employees, often with long tenure, who are covered by benefit plans, wage progression, and are offered training, development, and promotion opportunities. In contrast, peripheral workers are often temporary, contracted, vendored, part-time, and/or otherwise contingent. Firms with such workers are unlikely to offer them access to explicit voice systems. And generally firms with high rates of employee turnover and intermittent employment attachments are likely to see little point in establishing and operating voice mechanisms.

IX. The Market as a Protector of Employee Rights and Conditions

"Voice" as used in this paper has had two aspects. One meaning is simply an information system operated for the benefit

of employers. Devices ranging from suggestion systems to quality circles fall into this category. Voice as information to the firm is based on the idea that perfect information is not available to employers, especially about workplace processes. Employees, who are closer to the production system, may possess information about those processes which can be tapped through appropriate devices.

Such employee-held information is, in effect, a potential input to production and the employer has economic incentives to obtain it. But the benefit to the employee for providing the information is largely limited to whatever rewards may be formally linked to the information process, e.g., bonuses for valuable suggestions. In theory, market forces - largely stemming from the product market - will induce employers to create information-gathering systems where appropriate.

i. The Optimum Employment Contract

A second meaning of voice is as a benefit to employees. Employees with complaints about workplace conditions have a means to ventilate their frustrations and, possibly, to correct the problems. Grievance machinery and employee attitude surveys are examples of such voice. Economists tend to argue that the labor market will provide incentives for optimum contracts between employers and employees which determine the appropriate mix of wage and nonwage benefits. Included here are questions of expenditures on wages versus expenditures on pensions and insurance, monetary compensation versus non-monetary conditions of work, and the mix of voice versus other non-monetary workplace

conditions.

In this view, if a marginal dollar expenditure on benefits and conditions is more valuable to employees than a marginal dollar spent on wages, then the ratio of spending on benefits and conditions versus wages will rise. Government sometimes tilts (distorts?) this labor market incentive through the tax code by providing tax subsidies to certain kinds of benefits. Such subsidies make the proportion of total compensation going to, say, health insurance higher than it otherwise would be. But these impacts illustrate the market mechanism at work. Benefits and costs are still being weighed by employers; the government has simply put its thumb on the pension and insurance side of the scale.

ii. Exit versus Voice: A Simple Economic Perspective

As noted earlier, Freeman and Medoff (1984) use the exit-voice framework as a central element of their analysis. In their view, employees have two choices if dissatisfied with workplace circumstances. The voice choice - which is the basic market option - is to quit (exit) and find another job, presumably one more to their liking. The alternative is to remain and exercise voice. In the Freeman-Medoff analysis, unionized employees are more likely than nonunion employees to use or to possess voice. Their voice is expressed through formal grievances and arbitration, but also through bargaining and through other informal processes associated with union-management relationships.

Whether in union or nonunion settings, exit and voice are

usefully viewed as substitutes. But, paradoxically, for nonunion employees, whatever voice mechanisms they have are seen by economists as the byproduct of the exit option. That is, if employees have preferences (for whatever reasons) for having voice mechanisms available on the job, then there is an incentive for employers to provide a voice option. Dissatisfied employees may otherwise quit and impose turnover costs on employers. To retain them, as noted above, a compensating wage differential would have to be paid which might be more expensive than providing employees with a formal voice system.

In short, if it is cheaper to provide voice than to pay higher wages - so the argument goes - employers will do so. From this perspective, there is no need for public policies artificially to provide incentives for, or to mandate implementation of, voice machinery. There is no need for European-style works councils or codetermination of the type described by Bain (1992). Government-mandated arbitration of grievances (as with foreign labor courts or the recent Montana state law) is also unnecessary. Mandated nonunion representation plans, as recently proposed by Paul Weiler (1990), have no place if the labor market is fulfilling its role. But as will be seen below, this argument depends heavily on the existence of labor markets in which demand and supply are balanced, i.e., in which market clearing is normally present.

iii. The Legal Approach to the Market as Regulator

As Aaron notes, the at-will doctrine of employment has been a longstanding feature of American labor law. The at-will

doctrine is based on the premise that the labor market is a sufficient and appropriate regulatory mechanism. Since the labor market is viewed as a place where - at the margin - employer and employee bargaining strength are equally matched, the doctrine applies symmetrically to both. Employees are free to quit their jobs for any reason or no reason. And employers can terminate employees at will.

To many, particularly non-economists, the symmetry will seem to be yet another sorry example of Anatole France's observation that "the law, in its majestic equality, forbids all men to sleep under bridges, to beg in the streets, and to steal bread - the rich as well as the poor." (quoted in Evans, 1978, p. 363) To the economist, however, the issue is alternatives. Economics, especially traditional microeconomics, has tended to assume that the labor market features a broad array of alternative job opportunities.

Thus, if employees have complaints about workplace circumstances, under the at-will doctrine the employer may appropriately respond, "If you don't like it here, find another job." And if opportunities are abundant in the outside labor market - as they are assumed to be in a clearing labor market - the response is not only legal but fair. Although the at-will doctrine arose in the common law, legislated public policy did not contradict its provision of exit as the only solution for disgruntled employees until the 1930s, a period not noted for job opportunities.

In 1935, the Wagner Act provided employees with a significant voice alternative. Effectively, it said to employees

that if you don't like your workplace circumstance, you can either quit (exit) or join a union and bargain (voice). At the same time, it banned company-sponsored employee representation plans (company unions) as an alternative form of voice. In effect, the framers of the Wagner Act were skeptical of sole reliance on the labor market (exit) to provide appropriate workplace conditions. But they were sure that employer-initiated voice mechanisms would be shams, as Aaron (1992) points out.

iv. Implicit Contracts and Voice

The notion of relying on quits as a labor market regulator assumes ready mobility on the part of employees and employment mechanisms within firms which facilitate - or at least do not impede - such flows. During the 1970s and 1980s, however, economists developed the concept of implicit contracts in the labor market to explain the empirical phenomenon of long-term employer-employee attachments. (Kleiner, 1992) Long-term attachments seem contrary to the notion of easy labor mobility and potentially threaten the notion of the labor market as a regulator of employment conditions.

One strand of the implicit contracting literature - associated with Arthur Okun (1981) - emphasizes costs related to hiring (such as recruitment, screening, and training). Such costs create an incentive for employers to reduce turnover; employers do so by providing "fair" workplace conditions and long-term career ladders. Since fairness is subjective, there may be an incentive for both employer and employee to agree to a voice mechanism, such as a grievance procedure, to adjudicate

fairness in particular situations.

Note that this version of implicit contracting is still a market, quit-driven model. As such, it seems to save the idea of the labor market as a regulator of the employer-employee relationship. The contract is implicit (unwritten) presumably because the market impels its enforcement whether written or not. Okun referred to the substitution of the "invisible handshake" between employer and employee for Adam Smith's "invisible hand," but the handshake was as much a market mechanism as the hand. In contrast, contracts that compel someone to do something they would not otherwise do need to be explicit so that they can be enforced by outside legal authorities or some third party interpreter. Union contracts - where bargaining power forces employers to offer above-market pay and benefits - fall into that category. So do contracts designed to prevent employees who quit from taking with them company secrets, clients, or from setting up rival businesses.

X. How Good a Protector is the Market in Practice?

The notion that the threat to quit is a sufficient incentive to regulate workplace conditions and to obviate the need for a voice mechanism has been questioned. Consider the following excerpt from the preamble of the already-cited Wagner Act of 1935:

> "The <u>inequality of bargaining power</u> between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the

> purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries." (Italics added)

Put simply, labor-market conditions in 1935 were not seen by Congress as a benign balance of supply and demand. Instead, power was seen as concentrated on the employer side of the market. Unions - which the Act encouraged - were to be a balancing employee voice device.

Similarly, the enactment of laws requiring works councils and codetermination and providing for labor courts to adjudicate discharges suggests that European legislators also have been skeptical of the labor market as a regulatory device. All of these systems of providing for voice assume exit is not a sufficient remedy. What justification is there for such an assumption?

XI. Macro Aspects of Exit versus Voice

The exit solution for workplace dissatisfaction assumes that labor markets clear in a meaningful sense of that word. It is important to stress "meaningful" because some economic theorists have taken to stretching the definition of labor-market clearing to encompass even mass unemployment. Rather than debate the theoretical niceties, it is best to put forward a common-sense definition of labor-market clearing. Specifically, if job seekers willing to accept the going rate of pay can readily find employment, the labor market is clearing. If finding employment at the going wage entails very long searches, or if no vacancies can be found even after long searches, clearing is not present.

Under the latter circumstances, the existence of an excess supply of labor makes the prospect of quitting to find alternative work unattractive to employees. The exit mechanism then fails as a regulatory device.

i. Failure to Clear and the Business Cycle

Until 1981, the U.S. Bureau of Labor Statistics collected data on monthly quit rates in manufacturing. As Figure 1 shows, quits do respond to general unemployment in the expected way. Quit rates tend to rise when unemployment falls and vice versa. The attractiveness of quitting as a remedy for workplace dissatisfaction varies, in short, with the outside alternatives. Passage of the Wagner Act, with its preamble asserting an imbalance of bargaining power in favor of employers, must be viewed in the context of the Great Depression. In 1935, the notion that employees who were dissatisfied should simply quit their jobs and find other work must have seemed ludicrous.

It might be noted that the lack of labor-market clearing is not simply a phenomenon of excess labor supply in recession or depression. In some periods when unemployment is low, labor shortages (excess demand) arise. Shortages arose during World War II and the Korean War, both periods of wage control. But they also developed in the late 1960s and - in some areas - in the late 1980s when no controls existed. (Mitchell, 1989)

In labor-shortage periods, employers become more sensitive to employee needs than usual. They may, for example, provide transportation to work, relax hiring standards, and in other way accommodate the needs, proclivities, and skills of the available

workforce. The exit mechanism thus becomes a super-regulatory device. Historically, for example, the growth of the personnel function - seen as a means of injecting fairness - within American firms was particularly associated with the labor shortages of World War I. (Jacoby, 1985)

ii. Macro Remedies?

American employers have not been keen on mandated voice devices, as are often found in Europe. Indeed, American multinationals have been active in the European Community in opposing extension and enhancement of existing codetermination mechanisms. But at home, voice mechanisms within the legal system have been arising in ways employers find difficult to challenge and oppose.

The new voice channels have developed in the form of erosion of the at-will doctrine in state courts and accompanying wrongful-discharge suits, as Aaron (1992) discusses. Other forums such as equal employment opportunity machinery and workers' compensation tribunals have been found by attorneys to be potential sites for indirect litigation of employee grievances. And there are proposals in several states along with lines of the one already passed in Montana for mandatory arbitration of discharges. In part, these new channels reflect the decline of the Wagner Act's preferred voice channel, collective bargaining, in the private sector.

Since all of these new channels are distasteful to management, it might be asked whether some improvement in macroeconomic performance could elevate the use of exit and

discourage the search for new voice channels through the legal system. Full employment as a public policy issue was developed by early Keynesians in the 1940s. It was reflected in the passage of the Employment Act of 1946 (from whose title the word "full" was dropped). (Bailey, 1950) However, enthusiasm for full employment as a macroeconomic goal peaked in the 1960s.

In the late 1970s, there were still important pockets of support for full employment. For example, the Humphrey-Hawkins Act of 1978 designated full-employment goals. But within a year President Carter deferred such goals as inflationary. Thus, inflation and stagflation of the 1970s and the shift to the right in national politics in the 1980s pushed the idea of using macro policy to achieve full employment off the agenda.

Perhaps the full-employment goal needs to be reconsidered and resurrected, especially by those who fear the widening of legal employee voice remedies and the general drift toward more government intervention and mandation in the labor market. The pressure for voice will increase to the extent that exit is not seen by employees as a viable alternative. Yet there is evidence that even at relatively low unemployment levels, many workers will be reluctant to change jobs.

The results of worker displacement surveys carried out by the U.S. Bureau of Labor Statistics during the 1980s are pertinent to this reluctance. These studies showed that many who were displaced from their jobs in the 1980s due to plant closings and other dislocations had difficulty in finding new jobs. But even among those who <u>did</u> find new employment, pay was notably reduced by the experience.

Of those full-time workers displaced during the early to mid 1980s, about 30% suffered reductions in nominal pay of more than 20%. (In real terms, of course, the pay erosion was still greater). Improved business-cycle conditions reduced this fraction to about a fourth by the late 1980s. Yet throughout the entire period, over 40% of the displaced suffered some loss in nominal pay.

The data suggest that a significant group in the workforce would not be anxious to quit in response to workplace dissatisfaction unless unemployment were brought down to extremely low levels, characterized by earlier wartime periods. Thus, while a more stable economy which achieves a relatively low unemployment rate is for many reasons an attractive proposition, there would still be in such an economy considerable pressure for employee voice. For exit to be a more viable option, remedies must be sought at the micro level.

XII. Micro Aspects of Exit versus Voice

Table 2 shows the association of low rates of employee turnover with various other characteristics in a sample of large American businesses. This sample - previously cited - was originally gathered by a group of Columbia University researchers using a detailed questionnaire and COMPUSTAT records. (Delaney, Lewin, and Ichniowski, 1989) Businesses reported their employee turnover rates and the sample in Table 2 was split at the median between "high turnover" and "low turnover" respondents. Low turnover is clearly linked with higher pay, a factor which would be expected to discourage quits, and richer benefit packages.

Benefits also tend to be turnover retardants because they are not fully portable.

For example, pension plans typically have vesting provisions excluding short-service employees. Moreover, those plans of the defined-benefit variety provide their biggest payoffs to long-service, career workers. Employer-provided health insurance plans often exclude pre-existing illnesses from coverage. Thus, workers with health problems (or whose covered dependents have health problems) face a potential penalty for quitting.

Businesses with low turnover (and low-turnover characteristics) are more likely to have grievance procedures and to have formal arbitration as part of those procedures. That is, where exit is less of an option, voice is more likely to be provided. This finding is expected and is in line with implicit contracting theory. However, the finding does not by itself prove that such implicit contracts are optimal for firms in the 1990s, even if they were in the past.

i. Changing Economic Structure

It is important to note that the elaborate benefit structures that are found, especially in larger firms, are heavily influenced by the tax code, not "natural" market forces. Tax subsidies to benefits fell into place in the 1940s and 1950s, a time of relative economic stability in the American economy. Economic conditions have changed since then, thanks to international competition and volatile exchange rates, deregulation, technological developments, and corporate and financial restructuring. But benefit structures based on the

assumption of career work attachments have continued. (Mitchell, 1990)

Although wage structures linked to seniority and other employment policies (apart from benefits) are not subsidized by the tax code, they may also have been rendered nonoptimal for firms by the changing economy. Yet, because institutions are slow to change, these structures and policies persist. Symptoms of the erosion of the career model of employment abound.

One, which has already been mentioned, is the growth of usage of contingent workers - such as temporaries - by firms to keep new employees from entering "regular" employment contracts. (Abraham, 1990; Belous, 1989) Another has been the move by firms to buy employees out of the career model by offering severance pay and other enhanced early retirement packages. Still a third has been overt pullbacks from past commitments to employees by firms through termination of pension plans, reduction of retiree health benefits, and by policy shifts away from concepts of job security.

ii. Exit-Oriented Policies at the Micro Level

If in fact employees will be expected to change jobs (exit) more often, voluntarily and involuntarily, in the future, then a variety of public policy options can be suggested. These include:

-Changes in the tax code to foster benefit portability. Reforms in this direction are beginning to occur in Europe. (Mitchell and Rojot, 1991)

-Greater encouragement to employees to provide social welfare for themselves through devices such as IRA accounts. Britain has already moved to introduce such

incentives. (Mitchell and Rojot, 1991)

-Provision of useful job skills and retraining services through the educational system. There has been much rhetoric surrounding this objective during the past decade. Perhaps action will be taken in the coming years.

-Subsidies to employers who provide training and retraining for soon-to-be displaced employees. Modest programs have come and gone in this area since the 1960s.

-Encouragement to profit sharing and related flexible pay systems to help stabilize the economy and reduce the boom/bust cycle. (Weitzman, 1984) Again, Britain has introduced reforms in this sphere.

Changes in human resource policies within firms are also advisable if long-term security is no longer an option. These include:

-Development of explicit contracts with employees specifying employment duration.

-Greater linkage of pay to performance rather than seniority.

-Use of fast-vesting, defined-contribution pensions rather than defined-benefit plans.

-Opportunities for employees to enhance their skills and job marketability.

-Advance notice of layoffs and plant closings beyond the 60-day legal requirement. Available evidence suggests that advance notice does help reduce unemployment after displacement. (Podgursky and Swaim, 1987)

-Use of outplacement services

All of these are micro-level mechanisms for making job mobility easier. What is needed is a combination of improved macroeconomic performance (a return to full employment as a goal of economic policy), more attention to micro policies to facilitate adjustment to economic change, and shifts to human resource practices within firms which facilitate mobility and

avoid promises to employees which cannot be fulfilled. In the absence of such changes, American employers can expect to find employee voice inreasingly expressed through political channels and litigation.

XIII. Conclusions

Interest in employee voice has been growing. But many perspectives have been applied to the issue. Research has been both empirical and theoretical. In the symposium that follows, a variety of viewpoints and perspectives are presented. The four chosen - economic, legal, human resource management, and international - do not exhaust the alternative approaches. However, the coverage is broad enough to give the reader a general survey of this emerging field. As internal firm practice develops and as public policy evolves, we believe the symposium will stand as a significant contribution to the ongoing debate.

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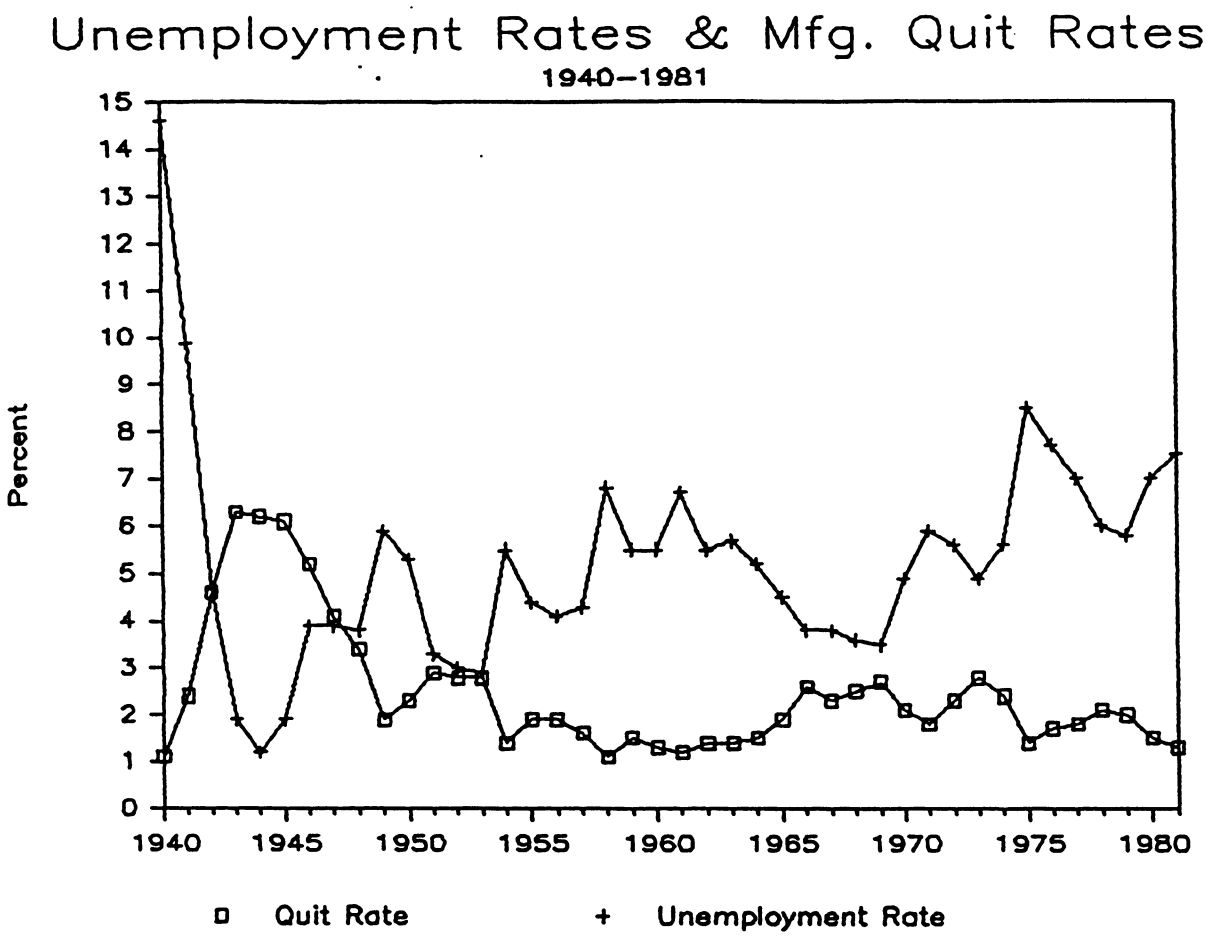
Figure 1



Source: U.S. Bureau of Labor Statistics

Table 1: Proportion of Re-Employed Full-Time Workers Experiencing Wage Loss Due to Displacement(a)

	Displaced 1979-83; Pay as of Jan. 1984	Displaced 1981-85; Pay as of Jan. 1986	Displaced 1983-88; Pay as of Jan. 1989	Displaced 1985-89; Pay as of Jan. 1990
New Wage:				
20% or more below previous pay level	30.4%	30.0%	30.3%	25.1%
Below previous pay level but within 20%	15.6	14.0	13.7	18.1
Total	46.0%	44.0%	44.1%	43.2%
Mean Rate of Unemployment	8.0%	8.3%	6.7%	5.9%

(a) Data refer to persons with 3 years or more of tenure who left or los a job during the period indicated due to plant closings or moves, slack work, or the abolishment of their position or shifts.

Source: U.S. Bureau of Labor Statistics, Displaced Workers, 1979-83, bulletin 2240 (Washington: GPO, 1985), p. 13; Displaced Workers, 1981-85, bulletin 2289 (Washington: GPO, 1987), p. 9; press release USDL: 88-611, December 9, 1988; press release USDL: 90-364, July 17, 1990.

Table 2: Per-Capita Pay and Benefits and Incidence of Grievance Procedures in Firms with High and Low Rates of Employee Turnover: 1987

	Per-Capita Annual Pay	Per-Capita Benefits	Percent with Formal Grievance Procedures
High-Turnover Firms (n=181)	$15,638(a)	$4,126(a)	28%(b)
Low-Turnover Firms (n=180)	$22,814(a)	$8,061(a)	63%(b)

(a) Difference between high- and low-turnover firms significant at 5% level using chi-square test.
(b) Difference between high- and low-turnover firms significant at 1% level using chi-square test.

Source: Derived from data presented in John Thomas Delaney, David Lewin, and Casey Ichniowski, Human Resource Policies and Practices in American Firms, BLMR No. 137 (Washington: U.S. Dept. of Labor, Bureau of Labor-Management Relations and Cooperative Programs, 1989).