



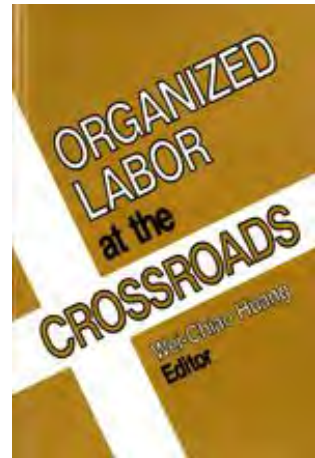
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## Bargaining Realities: Responding to a Changing World

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# **Bargaining Realities**

## **Responding to a Changing World**

Sharon P. Smith  
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As unions in the United States begin their second century, it has become increasingly obvious that they are in a stage of continuing and sharp decline in numbers and in overall influence. The decline, though not limited to the private sector, has been concentrated there. Union penetration of the private labor market (as measured by percent represented) reached a peak in 1953 and has now declined to the levels of nearly 50 years ago.<sup>1</sup> At the same time, the industries in which unions remain concentrated have been under pressure from a combination of forces: technology has changed the nature of work; deregulation has changed the ways many of these firms do business; and competition from abroad and from nonunion domestic firms has increased pressure on prices.

In response, collective bargaining has sometimes been observed to have moved in new directions as “unions and companies were groping to find ways to accommodate traditional union roles to very new economic patterns. . . . Could the parties convert their skill at dividing up the goodies to equally effective methods for combating the losses?”<sup>2</sup> The bargaining that occurs in these circumstances has often been termed “concession bargaining.” To use such a label, however, ignores the fact that unions, management, and stockholders all share in the outcome as firms respond to outside forces. Given this shared fate, it becomes clear that unions and management must choose between working jointly to meet the challenges of outside forces or fighting to maintain the status quo and in doing so accelerate their own decline.<sup>3</sup>

Nowhere have these changes been more dramatic and concentrated than in the telecommunications industry. This industry was long at the forefront of technological change in the workplace: where technology

changes the nature of work but “technological blur” often makes it difficult to distinguish between the functions performed by the worker and those performed by the machine. For example, with the introduction of LMOS/MLT (loop maintenance operations system/mechanized loop testing), a high-skill technical job has been transformed into a largely clerical job because the technical tasks that had been performed by the worker are now performed by the machine with which the worker interacts. Moreover, in the 1980s, deregulation has changed the way firms do business in this industry and has subjected them to competitive pressures they have never experienced before.<sup>4</sup> Thus, a detailed examination of the recent bargaining in one part of the telecommunications industry—AT&T—can provide insight into how both sides of the bargaining table in any industry should respond to change.

The basic reality of 1986 bargaining was that the world had changed for both AT&T and its unions. A series of judicial and regulatory decisions since the beginning of the decade had transformed the company into a very different employer from that which bargained its last contract in August 1983. As a result of these institutional changes, the 1986 contract was the first between parties with 40 years of bargaining history. The issues that were resolved—wages, benefits, employment security, working practices—had been addressed in previous bargainings, but the answers were different because of the institutional changes and because of company and union activities that took place between 1984 and 1986.<sup>5</sup>

### **Institutional Background**

AT&T began operations on January 1, 1984 as a divested company with approximately 260,000 occupational (nonmanagement) employees, of whom 90 percent were represented by unions. The principal unions were the Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers (IBEW). There were also a number of smaller unions representing, in total, about 5 percent of the employees. Since 1974, bargaining between the Bell System and these unions had traditionally been carried on through a two-tier structure: national bargaining covered issues of universal application such

as wage and benefit improvements, and local bargaining covered issues of regional or unit application generally referred to as working practices. The relationship between the company and these unions was generally excellent, as it had been characterized over recent years by an openness and a growing commitment to participation among the different parties.

The principal structural developments that influenced bargaining both individually and interactively were: the Amended New Entities Agreements (AMOA, effective in 1980, amended in 1982, and terminated in 1987); Computer Inquiry II; and the Consent Decree.<sup>6</sup> The Amended New Entities Agreements applied to reassignments of represented employees made in connection with any corporate reorganization. They assured that no employee would lose representation status or the provisions of the then-existing collective bargaining agreements. In addition, the Agreements extended a number of assurances concerning employees' wages, benefits, credited service, and location.

Computer Inquiry II, issued in April 1980 as the Federal Communications Commission's (FCC's) final decision in its second Computer Inquiry, represented the FCC's acknowledgment that the advance of technology had muted the distinction between data processing (computers) and data transmission (telephones). Instead, the FCC drew a new distinction between "basic services," which would remain subject to regulation under the Communications Act of 1934, and "enhanced services," which would be open to all competitors. Accordingly, in keeping with this new distinction, AT&T was permitted to sell customer premises equipment and enhanced telecommunications services under the terms of this decision only through a subsidiary that was fully separated from the regulated businesses providing "basic services." The FCC made a ruling lifting this requirement in September 1985.

Prior to 1984, AT&T was the largest nonfinancial corporation in the world and the dominant firm in three separate, though interrelated, industries: the manufacture of telephone equipment, local telephone service, and long distance telephone service. In 1974, the U.S. Justice Department filed a criminal antitrust suit against AT&T, charging it with monopolization and conspiracy. After six years in discovery, the

suit went to trial in 1981. On January 8, 1982, AT&T and the Justice Department announced a Consent Decree to settle the suit out of court. Under the Consent Decree, the former Bell System was split into AT&T and seven Regional Holding Companies, which, in turn, encompassed 22 Bell Operating Companies (BOCs). In exchange for AT&T's divesting itself of the operating companies, the antitrust suit was nullified and major markets were deregulated. The fundamental principle guiding the assignment of personnel in divestiture was that people would follow their work. Represented employees were afforded the protections of the AMOA. Therefore, when assigned, they carried with them their representation status and contracts.

### **Early Bargaining Efforts**

Early in 1984, shortly after divestiture and while still in the first contract year of the 1983 agreement, it became apparent that both AT&T and the BOCs had too many employees and too high costs for their new operating environments. At the same time, it was clear that AT&T's "business" had changed far more than the BOC's. In essence, the BOCs had kept the business they had before divestiture and that business was not cyclically sensitive. AT&T, in contrast, was a new company which faced an enormous integration problem. It had changed from a small, staff-oriented entity to a large company, heavily concentrated in manufacturing, but rapidly entering large, new ventures as well. Moreover, most of AT&T's business was highly sensitive to cyclical economic developments. In particular, AT&T was now facing domestic and foreign competition in its traditional business while simultaneously attempting to enter new businesses that were also highly competitive and in which market conditions were changing rapidly.

Accordingly, late in the spring, AT&T began discussions with its two principal unions intended to reduce costs by recasting their 1983 collective bargaining agreements. There followed the first educational meetings with selected leaders of both unions to bring them to an understanding of the changes divestiture had brought to the business—in terms of both the financial requirements and the standards of business performance that would be necessary for this new business to succeed.

The company sought to transform the second and third contract anniversary increases, due in August of each year and consisting of cost-of-living adjustments (COLA) and bargained-for increases, into one-time issuances of stock. The "one-time" aspect of the payment would reduce the subsequent cost impact of the increases and the stockowner aspect was thought to provide a special incentive to improve operating performance. However, this early bargaining effort went nowhere. The principal reason was one of timing: the proposed change was introduced too close to the August 1984 payment date for the unions to build consensus for the ratification needed to rewrite the collective bargaining agreements.

Consequently, early in 1985 and well before the August 1985 payment date, the company began discussions with the unions under the auspices of the Common Interest Forum (CIF) aimed not at amending the 1983 agreements but actually terminating them early and bargaining new three-year agreements. The intention was to negotiate agreements that would slow the growth in labor costs and change the contract date from that held in common with the divested companies. (The CIF had been established in the 1983 agreements as a vehicle with a threefold mission: to communicate and discuss business developments of mutual interest; to discuss and review jointly "innovative approaches to enhance the competitiveness of the Company and improve employment security;" and to avoid unnecessary disputes by cooperatively addressing changes in the environment.)

The problem here was twofold. The Company had recognized that divestiture had totally changed the business environment from one in which many markets were guaranteed and costs were covered and returns assured as long as the commissions agreed to set rates appropriately to one in which there were many competitors, prices of products and services were market driven and not set to cover both costs and a specified rate of return. Therefore, in order to change its behavior accordingly, the Company was attempting to slow the long-term rise in costs. The second problem was to separate AT&T from the BOCs in all future bargaining; bargaining had been common since 1974 but, with business environments now dramatically different, an overt separation of bargaining process and timing appeared appropriate.

The CIF discussions began with a full-scale educational program for the leaders of both unions to bring them to a better understanding of the emerging nature of the business. This was clearly in the spirit of the CIF contract language: that information would be shared and solutions sought in a fully participative fashion. Indeed, the information presented to the unions was sufficiently sensitive and detailed to give the union leaders insider status under the provisions of the Securities and Exchange Act.

The theme of these discussions was the need to extend the participative relationship between company and unions by putting into place a more competitive cost structure that would promote profitability for the company, generate jobs, and generally insure employment security. Specifically, the company sought to abandon its past practice of bargaining for regular annual improvements in basic compensation and remove wages from the bargaining arena. Instead, consistent with the participative approach, the company proposed to replace regular bargained wage increases with profit sharing, thus making compensation contingent on firm performance. The lump sum nature of profit sharing would also reduce the subsequent cost impact of the compensation increase. At the same time, the company directly addressed the union's concerns over employment security with the offer of a job bank that would guarantee a job offer to any union-represented worker with at least five years of service who would otherwise be without a job.

Ultimately, this attempt at early bargaining, like the 1984 attempt, was to no avail. In the course of the discussions, it became clear that internal division in the CWA precluded the termination of the existing agreement. (The company practice in this special bargaining was, as in past ordinary bargaining, to seek agreement first with its major union, the CWA, and to make no agreements otherwise with the IBEW or any other smaller unions.) It became evident that the changes embodied in this contract were too dramatic and potentially controversial to be endorsed publicly by the membership of the union.

## Changing the Contract Date

By fall 1985, there were no more savings to be made by moving bargaining up, as the second anniversary and final contractual increase had already been granted. Nevertheless, an earlier contract date than August 1986 continued to have merit from the company's perspective for two principal reasons: (1) it would put AT&T's bargaining before the BOC's and thereby remove pressure to conform with their pattern; and (2) it would ease the ratification process in union locals containing both AT&T and BOC employees if there were no side-by-side comparisons of different contracts. (This would be the first time that such employees, who, in some instances, were still co-located, would not receive the same wage treatment.)

Meanwhile, logistical problems began to emerge for the IBEW: the simultaneous bargaining of AT&T and BOC contracts would require key bargainers to be in multiple locations at the same time. Discussions begun late in 1985 suggested that the idea of moving the contract date up was attractive to all concerned. Thus, all parties agreed to terminate the contract on May 31, 1986 rather than August 9, 1986, as originally specified.

## Issues in the 1986 Bargaining

### *Company Perspective*

The basic company concern in 1986 bargaining remained the same as it had been in the abortive attempts to bargain early: the need to strengthen the company's competitive position. With divestiture, AT&T had entered fast-paced, competitive, and largely nonrepresented markets, saddled with a high cost structure, inflexible job designs, and outmoded work practices inherited from its days as a regulated monopoly. The company had specific objectives in several areas.

The number one objective was to obtain a minimum economic settlement. At the outset, the company had clearly indicated to both unions that it would not seek to cut wages or obtain similar concessions in benefit areas but, rather, would attempt to slow the rate of increase in compensation.



In preparation for bargaining, the company had made a comprehensive analysis of its employees' relative wage position. This study confirmed that AT&T's wages were consistently and substantially above the market for comparable jobs (both in local labor markets and among product/service market competitors). This advantageous wage position had not happened overnight, but rather had developed gradually over the previous dozen years due in large part to a rich COLA clause. Indeed, COLA accounted for over two-thirds of the total wage increase during the period.

A specific objective, then, was to start to move AT&T's wages closer to the market by bargaining a pattern of wage increases substantially below the market norm. The company commissioned detailed forecasts of expected increases in wage rates to estimate the parameters for bargained increases that would still allow the market to outpace it. These forecasts clearly suggested that progress could be made only if COLA were either paid lump sum or eliminated from the contract. The company recognized, however, that it had taken years to create the wage advantage for AT&T workers and that it would also take years to move them back closer to the market.

Minimizing the size of the contractual wage increases was only one of several company bargaining objectives designed to put into place a more competitive cost structure. It was equally important that key workforces, namely, technical maintenance and installation, be restructured to align their skills and wage rates with those of AT&T's competitors in this service market. In particular, the company proposed to stratify this top technical force into three skill levels, job titles, and corresponding wage schedules to align more closely with the practice of competitors than did AT&T's traditional single-title organization. Analogous changes for AT&T's factories included the consolidation of manufacturing job grades to reduce costly movement of personnel and the elimination of the wage incentive payment system as an expensive and inappropriate wage adder in high-technology manufacturing.

Detailed analysis had confirmed that the employees' advantageous wage position was compounded by a rich benefit package. Therefore, the company's aim in bargaining was to make minimal improvements—small pension increases and the introduction of a 401(k) plan—only if

the wage settlement was satisfactory. At the same time, the company wished to continue to extend health care cost containment measures and, in addition, make some major moves similar to those already implemented for management which were primarily designed to control utilization.

The company recognized that in order to reach agreement with the unions it would have to address satisfactorily the question of employment security. At the same time, it was essential that this be done without guarantees of employment or any commitments to make firm job offers when employment is terminated by layoff. Although such an offer had been made during the 1985 CIF discussions, it was no longer a point for discussion.

The AMOA had assured that employees brought their contracts with them to new organizations. This meant that an individual entity could have 22 separate contracts and, in fact, could have employees working side-by-side with different contracts. Accordingly, a key company objective in 1986 bargaining was to consolidate the provisions of multiple operating company contracts into one comprehensive contract for each bargaining unit.

An equally important company objective was the replacement of restrictive contracting-out language in the 1983 Contract with language better suited to a competitive environment.

### ***Union Perspective***

Meanwhile, developments within the company during the previous three years, particularly the announcement in August 1985 of a major downsizing amounting to 16,500 represented employees, as well as events in other collective bargaining situations, had intensified union concerns for their members' prospective compensation and employment security. The unions had specific objectives in several areas.

The unions were strongly committed to maintaining the form and size of wage increases they had bargained in previous contracts. Indeed, both unions indicated that they would seek to enhance the COLA portion of the increase by improving the payout ratio, a move that would help support the same percent rise in wages in the face of the recent quiescence in inflation. More importantly, the CWA took a strong public

stand against concessions, two-tier arrangements, and lump sum applications, arguing that this contract would mark a turning point not only for their own union but also for the American labor movement by reversing the recent trend toward settlements containing such provisions.

The whole issue of employment security was of paramount concern to the unions. The union objective in bargaining was to enhance existing programs, such as the existing income protection programs for surplus employees who terminate voluntarily, as well as to break new ground in this area. The CWA, in particular, indicated that it would seek to expand the job bank concept that had been offered in the abortive CIF discussions into a lifetime employment guarantee for employees with at least two years of service. In addition, a key CWA goal was the establishment of a company-funded, jointly administered, training/retraining fund, in clear recognition that the only form of employment security that can be sustained over the long term is one which combines a series of different jobs with the training needed to perform them.

Another union objective was to obtain some improvement, principally in pension benefits and in the introduction of a 401(k) plan, and to resist any shifting of health care costs from the company to employees. The thrust in the pension area appeared to reflect a union conviction that their members had lost ground in pension benefits due to the plan's being changed in 1980 from a final dollar to a dollar per month basis.

### **Progress of Bargaining**

Early in 1986, the company's set of issues and the unions' set of issues were exchanged and became the subjects of private discussions at various levels. The normal give-and-take of public meetings and private discussions proceeded on schedule. The company was following past bargaining practice of making no agreement until it had settled with the CWA. As the final day approached, however, thought was given to the possibility that settlement could be reached with the IBEW and not the CWA.

As the midnight deadline drew closer, private discussions focused on the size of the wage package, contracting, and minor issues that did

not appear to stand in the way of a settlement.<sup>7</sup> The wage difference between company and union positions was small—an amount, in fact, that would not have produced a strike in previous bargainings between the two parties. Nevertheless, agreement on wages was not reached with the CWA and a 26-day strike resulted.<sup>8</sup> Agreement was reached on time with the IBEW and on the same terms that had been offered to the CWA.

### Strike

Beginning with the decision to settle with the IBEW, through the time that the CWA strike was settled, the company's behavior was very different from its predivestiture bargaining conduct. All of the company's actions had their origin in its determination to behave as a company in the competitive arena rather than in a regulated environment, shielded from market forces. This was manifested in three key decisions: (1) the decision to make a final offer and to settle on this even if full agreement with all parties was not possible; (2) the decision to engage in an aggressive public relations campaign to present this package directly to the striking workers; and (3) the decision to hire people off the street to replace striking operators, not to break the union but rather to maintain customer service.

Once the company had acted on the first decision, it was imperative to adhere to this as the only possible offer—to emphasize its will to stand on its position and to avoid embarrassing the parties already in agreement. Meanwhile, the company's decision to wage an aggressive public relations campaign became an essential tactic in the effort to bring about agreement among all parties. The company adopted the philosophy of going public on its final offer, based in large part on its concern that the terms of that offer were clouded with the misinformation circulating during the weekend the strike began.

The IBEW resolve to stand by its acceptance of the company's offer also provided support to the points in this final offer. On June 10, the leaders of the Telephone Coordinating Council (representing a mixture of clerical and technical workers) recommended ratification to their

members (whose ballot vote would be completed by July 5). Then, on June 15, the members of the EM-3 (which is the manufacturing unit of the IBEW and meets in convention to vote on an agreement) ratified the contract.

When agreement was finally reached between the company and the CWA, it was on essentially the same terms as the final offer. The differences, which were incorporated in the IBEW agreement, were essentially of an informational nature and reflected the clarification discussions that had been conducted since the strike began. There were three principal changes: (1) the inclusion of the COLA language into the agreement, though the provisions were still inapplicable; (2) some additional protections to employees affected by job-structure changes; and (3) some changes in the language on contracting.

### **Reasons for the CWA Strike**

To some extent, the failure to settle was a risk that was heightened when each party agreed to negotiate early. With the AT&T contract as front-runner to all the BOC negotiations, the settlement reached, which many analysts had thought would be a floor for all the negotiations in the former Bell System, became a ceiling for all the BOC settlements to follow.<sup>9</sup>

At the most basic level, it appears that the strike reflected a union miscalculation of company resolve on the wage issue. It is true that company bargaining behavior preinvestiture would, in fact, cast some doubt on its willingness to take such a position and stand by it. Nevertheless, there had been efforts for more than two years to bring the union to an understanding of the changes in the company's operating environment and the fact that cutting costs would help enhance overall business performance of the company, which would help preserve jobs. Despite the lengthy discussions and briefings, despite bringing the union into insider status, each side ultimately failed to understand the other's position. The strike, then, became the ultimate means for each side to reach such an understanding.<sup>10</sup>

The bargaining that took place from divestiture through the 1986 contract negotiations, viewed in its entirety, demonstrates that adjusting to a changing environment can be a slow and painful process of learning and compromise. Fischer has suggested that success in this area is best achieved through the full cooperation and participation of management and labor.

Unions should review their 50-year history. The pre-1980 labor relations patterns represent a labor concession to the most basic of management demands—the unbridled right to manage. Unions did not succeed in seriously eroding the right of management to decide and to direct. . . . Now, when many management forces seek to concede some of what they previously rejected, unions are usually found protesting. . . . Managers are not embracing worker involvement as a result of an ideological conversion, but are merely responding to new urgencies, new economic pressures, the broader and more potent options of consumers.<sup>11</sup>

Although this process has not always been smooth for AT&T and the CWA and IBEW, progress has been achieved. Together they have moved to reshape the company to fit its new competitive environment while simultaneously addressing the employment needs of the workers in this more uncertain world. Further progress will best be achieved when all parties recognize that even when interests are in intrinsic conflict, problems can best be solved to the mutual satisfaction of all through a participative and collaborative approach, and when all parties share in the responsibility of the decision and the rewards that result.

## NOTES

\*This paper represents the opinions of the author and not necessarily those of AT&T. Responsibility for any errors lies with the author.

1. Leo Troy, "The Rise and Fall of American Trade Unions: The Labor Movement from FDR to RR," in *Unions in Transition Entering the Second Century*, edited by Seymour Martin Lipset (San Francisco: ICS Press, 1986), p. 83.

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2. Ben Fischer, "Concession Bargaining," *Labor Law Journal* (August 1984), reprinted in Industrial Relations Research Association, *Proceedings of the 1984 Spring Meeting* (May 2-4, 1984, Cleveland, Ohio), edited by Barbara D. Dennis, p. 513.

3. For further discussion of this point, see Ben Fischer, "Discussion" Industrial Relations Research Association, *Proceedings of the Thirty-Ninth Annual Meeting* (December 28-30, 1986, New Orleans), edited by Barbara D. Dennis, pp. 138-140.

4. For further analysis of the influence of these changes on labor relations in the telecommunications industry, see Wallace Hendricks, "Telecommunications," in *Collective Bargaining in American Industries*, edited by David B. Lipsky and Clifford Dorn (Lexington, MA: D.C. Heath, forthcoming).

5. See Peter Cappelli and Charles Perry, "Bargaining in Telecommunications After Divestiture," in Industrial Relations Research Association, *Proceedings of the Thirty-Ninth Annual Meeting* (December 28-30, 1986, New Orleans), edited by Barbara D. Dennis, pp. 191-200, for a brief review of bargaining in the Bell System from the late 1970s to date.

6. For further discussion of the history of events that led to the Consent Decree and to Computer Inquiry II, see Leonard A. Schlesinger, Davis Dyer, Thomas N. Clough, and Diane Landau, *Chronicles of Corporate Change: Management Lessons from AT&T and Its Offspring* (Lexington, MA: D.C. Heath, 1987).

7. See Bureau of National Affairs, *Employee Relations Weekly* (Washington, D.C.: December 15, 1986), pp. 1551-1552, for a summary of the differing views on the causes of the strike as debated by AT&T's vice president of labor relations and CWA's president.

8. The strike was estimated to have reduced corporate net income in the second quarter by \$140 million, with the annual effect estimated at \$96 million. See AT&T Annual Report 1986, p. 30, for the report of these estimates.

9. Cappelli and Perry, p. 194.

10. Indeed, Morton Bahr, president of the CWA, observed in a debate on the strike (see the article referenced in fn. 7 above) that AT&T's actions during the strike "demonstrated to the membership much better than we could have done that they were working for a different company in a different industry than before the divestiture."

11. Fischer, "Discussion," pp. 138-140.