

## THE EFFECT OF KNOWLEDGE ECONOMY ON THE MANAGEMENT AND LABOR RELATIONS

JIN Xue-jun(金雪军), YU Jin-jin (余津津)

(*College of Economics, Zhejiang University, Hangzhou 310027, China*)

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**Abstract:** With the emergence of Knowledge Economy and its penetration into every aspect of society, many industrial functions have been changing, including management and labor relations. In this paper, the author first presents a system view of management and labor relations under Knowledge Economy, and then based on it, elaborates on effect of Knowledge Economy on them, using the case of HP as demonstration. In the end, conclusion is made that new dynamic equilibration will develop, depending upon the dynamic power contrast of the above two subjects under dynamic changing circumstances of Knowledge Economy.

**Key words:** Knowledge Economy, management and labor relations

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### INTRODUCTION

To begin a discussion on management and labor relations requires an in-depth inquiry into the many factors that affect the relationship. At first glance, this field may appear to be relatively transparent; although there are actually numerous factors affecting the relationship. Therefore, unlike some other cases, management and labor relations, have no generally accepted theory or model to base the study, because study in this area can be approached in several different ways.

Generally speaking, there are two extreme situations in the management and labor relationship: complete opposition and complete cooperation. And the common situation between them is the clash of the interests and power conflict between management and labor. The kind of management and labor relationship is decided by the outcome of negotiations, one of the key factors deciding management and labor relations. (Fossum, 1995). The more (less) powerful labor is in the negotiation, the more (less) benefits it will gain for itself. The more (less) interests of labor accord (conflict) with those of management, the more the situation inclines to cooperation(opposition). Serious enough conflict of interests and power will doubtless bring about labor

movement against management(Mills, 1994).

In recent years, with the emergence of Knowledge Economy and its penetration into every part of the society at every level, not only the interests and negotiation power of labor and those of the management but also other factors affecting industrial relations have been changing greatly day by day. This requires that the old system view be expanded. As labor-management relations become more divergent, it is important for any model of the process to be expanded in order to reflect the new environment in which interactions take place. A more realistic model of industrial relations should recognize the active role played by management in shaping industrial relations as opposed to the traditional view, which sees management as "reactionist", responding to union pressures. The new model should also recognize the different levels of decision making that occur within business, and their independent effects on industrial relations outcome.

The author has created a new system view within which the effect of the Knowledge Economy can be more easily seen. The structure of this view allows the numerous factors at work within this relationship to be clearly identified. The factors have been divided into both micro and macro classifications in order to show their origin. And the role of the government can be put into the macro classifications. So different

from the famous John Dunlop model (Allen, 1988), the subsystem of this system focuses on the two directly related parts of the relationships: management and labor (Fig. 1).

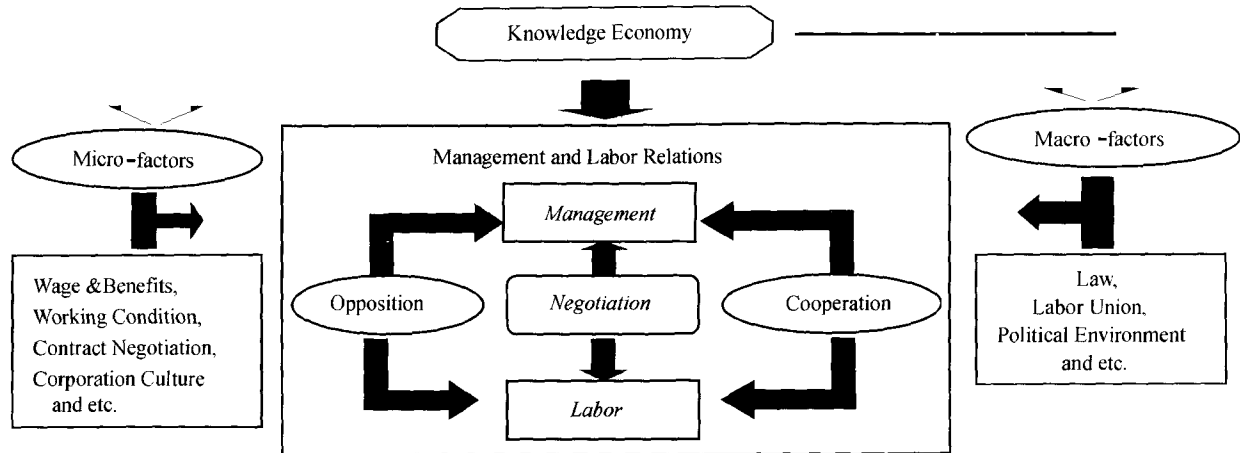


Fig. 1 Simplified system view of management and labor relations under knowledge economy

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Knowledge, innovation and creativity are keys to success with the globalization of the Knowledge Economy in the new millennium. The winners in today's knowledge-based economy will be companies that consistently leverage and increase their intellectual capital (knowledge of an organization's workforce, documented processes, methodologies, patents, guidelines, and software). These forms of intellectual capital are often loosely defined and fragmented across the organization, making it difficult to locate the needed knowledge and expertise, identify organizational knowledge gaps, and maintain vital competencies and know-how as employees leave the organization. In this environment, knowledge exerts important influence on the management and labor relations by affecting the micro and macro factors that underlay the labor-management relations system and the interests and the negotiation power of management and labor. The effect of Knowledge Economy on the management-labor relations can be listed as follows.

1. The first effect is that the new information technology has been facilitating changes in organizational structures, business process, even the nature, way and location of work. This has re-

sulted in less management by command and supervision and in more emphasis on cooperation, information sharing and communication and in a more participant approach to managing employees. Flatter organizations, virtual enterprises, virtual offices and reengineering of process are the cases in point.

2. The second effect is the increased transparency of the labor-management relations system because of the law under new circumstances. In the field of employment relations one can expect an increase in the scope and coverage of the legal rights of employees, a continued redefinition of durable and uniform working relationships between labor and management. With the accumulation of knowledge and progress of society, labor relations laws actually impact the management and union behavior more than before. The U.S. is at the high end of the transparency trend, as revealed by its laws, such as the Fair Labor Standards Act, the National Labor Relations Act, the Occupational Safety and Health Act, the Labor Management Relations Act, etc which impact both management and labor. However, it is quite different in China, where companies in business tend more to consulting the labor code or their expert lawyers. They will have to get a better feel for the institutions on the ground and the power, for example, of labor unions, which will not be reflected in the codes.

3. The third effect is that all businesses are becoming more dependent on one key factor of production: the super-skilled employee (Zhao, 1999). The role of key individuals has been greatly enhanced by the growth of large knowledge-based enterprises that service global market through extensive use of modern distribution and communication channels. In this environment, an incremental level of skill can be efficiently levered so as to have a major economic impact on a company's profitability. Due to this, the employees have stronger negotiation power with employers and can gain higher salary, more benefits and better working conditions.

4. The fourth effect is that labor unions are changing their roles. Workers have always felt a need to gain power through collectivization in order to negotiate their rights. (Fossum, 1995) This helps to equalize the relationship between themselves and their managers. It is uncertain how the role of the labor union will be affected by the Knowledge Economy. As the labor force in general becomes more skilled, the power of the labor union may increase, but may also decrease, because the employees will have even power to negotiate on their own. During the cold war, political considerations sometimes dominated or influenced union activities, attitudes and their role (Silva, 1998). Now, unions are gradually focusing more on the working conditions and interests of their members. And at the same time, the influence of unions is decreasing. In the United States, trade unions now represent no more than 10 percent of workers working in private firms. Members and non-members who are covered by collective bargaining are about the same percentage. In Canada, the range is from 25% to 30% of private sector workers, is declining, but at much slower rate than that in the United States.

5. The fifth effect is that cooperation, trust and loyalty are highly regarded in corporation culture, especially in knowledgeable enterprises say, virtual enterprises. Accordingly, good labor relations appear to involve a wider mixture of human characteristics and open communications that build mutual respect and loyalty, as summarized below (Silva, 1998).

**Attitude:** A cooperative, friendly attitude is evidence that the employer is interested in his employees and their success. It shows that to the

employee the employer is a person he can get along with. He's more apt to ask questions before he acts on his own if the boss's attitude encourages it.

**Expectations:** Letting employees know what they are expected to do, and not to do, is very important to them, especially when jobs are to be done in a certain way or at a certain time. In some cases, it may be helpful to explain "why" the specifics of what is to be done are important. It is better to over communicate expectations than to assume the employee knows.

**Supervision:** Supervision needs to be tailored to the employee. During the early stages of the relations, it is advisable to visit the employee and get his opinion how much supervision he wants or needs. As he is able to assume more responsibility, direct supervision can be reduced.

**Recognition:** When the employee has done a good job, let him know. Expressing gratitude or giving sincere praise may be as important as greater pay.

6. The sixth effect is that on the wage pattern. Evaluation of performance becomes more and more difficult because brain-based work is mostly intangible and unquantifiable. There is no precise standard or systems that can quantitatively evaluate work performance, which has become a factor causing inharmonious relations between management and labor. A rating of the employee's performance on a regular basis is a good communication tool. A rating form listing the factors on which an employee is being evaluated lets him know how he is being evaluated. The rating factors might include timeliness, avoiding waste, safety, job skill, care of equipment, willingness, honesty, pride, in the high quality of his work, efficiency, reliability, or other factors pertinent to his job. Probably no more than three ratings are needed, e.g. excellent, good and fair. The rating should be done on a regular basis, such as quarterly or semi-annually and reviewed with the employee. The review with the employee should be candid and stress his performance rather than his personal characteristics.

7. The seventh effect is the inducement of the mutual benefits for knowledgeable management and knowledgeable labor. In new Knowledge Economy, more and more employees work for the managers and expect to realize self-im-

provement at the same time. The significance of knowledge to employees is not only more power in negotiations with management, but they can actively cooperate with the management, enjoy trust, freedom of creation, feelings of satisfaction and success, acknowledgement by others, etc. And the self-development and self-advancement of the educated labor can be achieved in coordination with management. On the other hand, promising businesses can create, cultivate, and stimulate the vigor of intellectual capital. So there is a tendency that the benefits of management and labor will merge to a certain degree.

8. The eighth effect is that more and more companies conduct Knowledge Management program and set up Information Systems as the essential tool. According to Knowledge Management Research Report by KPMG Consulting Co., one of the world's famous consulting companies, we know that the rate of sampled companies conducting KM program increased from 43% in 1998 to 67% in 2000. And the table below shows us the percentage of the information systems (IS) set up inside the investigated companies, showing that KM technologies have been widely implemented.

**Table 1** Survey of information system inside companies by Bi Ma-wei Consultants, 2000\*

Kinds of information system	Percentage (1998)	Percentage (2000)
Internet	90%	93%
Intranet	66%	78%
Document management system	63%	61%
Groupware	49%	43%
Decision Support	38%	49%
Data warehousing/mining	36%	63%
Extranet	16%	38%
Artificial intelligence	—	22%

\* <http://www.kpmg.com/#>

## CASE STUDY

Hewlett-Packard Corporation is a large, successful company with over \$31 billion in early 1995 revenues. The fast annual revenue growth of approximately 30% from such a large base have astounded observers. The company competes in many markets, including computers and

peripheral equipment, test and measurement devices, electronic components, and medical devices. It has 110,000 and over 400 branches around the world (Thomas, 1996). As representative of the IT industry, Hewlett-Packard Corporation's success lies in its harmonious industrial relationships based on RHR (Road of Human Resource), which is made up of the ideas and strategies as follows: trust and freedom, respect, acknowledgement and participation, insurance and individual problem settlement, profit and responsibility share, mutual communication and help between management and labor, target-oriented management, decentralized organizational structure (Lu, 2000). Hewlett-Packard Corporation is a good example of how Knowledge Economy affects the industrial relations inside the company.

### HP has a relaxed, open corporation culture

All employees, including the CEO, call each other by first names directly, and work in open cubicles. Many employees are technically oriented engineers who enjoy learning and sharing their knowledge. The company is perceived as being benevolent to its employees, and its fast growth has obviated the need for major layoffs. All employees participate in a profit sharing program.

### HP is known for its decentralized organizational structure and mode of operations.

This means, in HP, business units that perform well have a very high degree of autonomy. There is little organized sharing of information, resources, or employees across units. HP managers feel that the strong business-specific focus brought by decentralization is a key factor in the firm's recent success. It is common, however, for employees to move from one business unit to another; this mobility makes possible some degree of informal knowledge transfer within HP.

### HP creates web of inclusion in enterprises

As for a human-centered relationship between management and labor, the web of inclusion plays a role as running base of successful enterprise, which differs a lot from the obsolete management-labor relations. There is no hierarchy, no boundary, no limits of self-improvement and no obstacle to information in the web of inclusion, so labor can easily contact management

and take part in the decision making in their enterprise. The employees share the profit and responsibility of the company and they devote themselves to their work. They can truly own the enterprise and themselves. In fact the development and utilization of IT contribute greatly to the establishment of the web of inclusion (Thomas, 1996).

## CONCLUSIONS

As Prof. Peter Drucker predicted, the knowledge-based economy will be the future economy for mankind. Knowledge, as the creation and valuable wealth of mankind, is also influencing ourselves: our thoughts, our lives, our society, and our political and economic systems. Nowadays, Knowledge Economy has already been affecting many industries function even though this phenomenon is only in its beginning stages. Industries have already adapted and increased the level of knowledge to stay competitive. Although it is obvious that the Knowledge Economy will have far reaching effects on the relationship between management and labor, it is not scientific to draw conclusion on what kind of management-labor relation will be like in the future, More cooperation? Or increased opposition? We know is that all the factor affecting labor-management relations, affecting labor's and

management's interests, demands, power distribution in society, and negotiation power inside or outside the companies, etc which are changing in the new circumstances. Knowledge Economy will result in new dynamic equilibrium between management and labor. While some effects are already visible, the full impact of the changing Knowledge Economy on management and labor relations is still developing.

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