

MOCK LABOR RELATIONS AND A GROUP RAWLSIAN EXPERIMENT

William Davis, University of North Carolina at Charlotte
Louis Amato, University of North Carolina at Charlotte
Christie Amato, University of North Carolina at Charlotte

ABSTRACT

Recent contributions to the contract negotiations literature suggest that ultimate contract success is determined by whether the settlement fosters a positive relationship between the parties. Given the adversarial nature of the conventional negotiation process, obtaining an optimal outcome may be difficult. An alternative to the adversarial process is found in the work of Rawls who argues that a just outcome is most likely obtained when individuals choose from behind a veil of ignorance, a situation in which participants negotiate without knowing their future position. The purpose of this research is to test the value of negotiation from behind a veil of ignorance.

Students from Industrial Relations classes conducted mock labor negotiations that determined a significant portion of their grade. Veil of ignorance contracts (students received either management or labor terms) are compared to conventional adversarial negotiations. Main conclusions include a propensity for veil of ignorance negotiations to yield generous pay and health benefits but fewer vacation days as compared to conventional contracts. Students from the veil of ignorance groups emphasized fairness as a learning outcome, while students engaged in conventional negotiations emphasized the realism of the process.

INTRODUCTION

The success of contract negotiations between labor and management extends beyond the signing of a contract. As observed by Holly, Jennings, and Wolters, one criterion for measuring the success of a contract is whether the settlement contributes to a positive relationship between the two parties that fosters its effective implementation on a day-to-day basis (Holly, Jennings, and Wolters, 2001). However, the adversarial nature of negotiations makes obtaining an optimal solution sometimes difficult. Salary and benefit negotiations are generally distributive in nature, yielding a win-lose situation (Walton & McKersie 1965). In the case of wages, for example, one side's gain comes at the expense of the other side. Labor's salary gains come as a result of increased labor costs for management. When issues are distributive, negotiators perceive their interests to be in opposition and behave in a more individualistic rather than in a cooperative manner (Carnevale and Pruitt 1992); sometimes leading to negotiation breakdowns and/or difficulties in successfully implementing a contract once it is signed. Promoting mutually beneficial negotiations in situations where outcomes are perceived to be win-lose offers significant challenges for both management and labor.

Empirical research suggests that trust fosters cooperative negotiations in which negotiators seek to maximize the positive outcomes for both sides through candid discussions of preferences (Pruitt et al. 1983; Ben-Yoav and Pruitt 1984). In fact, Friedman (1992, p. 435) observed that trust is "one factor that is consistently most important" in producing mutual benefit bargaining. Trust supports cooperative negotiators who, according to O'Connor and Carnevale (1997, p.), "develop insights necessary to identify tradeoffs and to craft mutually beneficial outcomes." These insights may challenge a "fixed pie" assumption characteristic of distributive negotiations leading to new opportunities for joint gain. Labor, for example, may be willing to trade salary increases for job security or other benefits that would be less costly for management. Reaching this place of trust may be difficult even for seasoned negotiators.

An alternative to adversarial negotiations is to determine outcomes based upon impartial preferences. Vickrey (1945 and 1960) and Harsanyi (1953 and 1955) both argue that social welfare is maximized when choices are made with an equal probability of being placed in the position of any member of society. Perhaps the best-known work regarding outcomes based upon impartial preferences is John Rawls', *A Theory of Justice* (1971). Rawls' argues that when choosing from behind a "veil of ignorance", individuals will prefer a society in which any change is to the advantage of the least advantaged member. Rawls' description of the rules for a fair society has been widely cited by scholars from fields as diverse as economics and philosophy. The basis for Rawls' theory is that risk averse individuals, fearing that they may occupy the lowest station, will support redistribution programs that favor the least well off.

The concept of impartial preferences provides a stage for developing trust and building mutually beneficial outcomes in labor negotiations. Participants operating from an "original position" behind a veil of ignorance, negotiate without knowing their own future position. By operating in their own self-interest to assure a beneficial outcome regardless of their future status, negotiators arrive at fair distributions. Members of labor and management negotiating teams, for example, not knowing whether they will retain their current positions or will switch roles, choose impartial preferences that lead to fair distributions of company resources between labor and management rather than preferences that lead to some advantage at the expense of the other side.

Although the philosophical aspects of Rawls' work has found acceptance, most analysts conclude that his ideas are not operationally valid. This lack of operational validity leads critics to question the usefulness of Rawls' ideas as a guiding principle for resolving conflicts. The purpose of this research is to test the value of the "original position" behind the veil of ignorance in a controlled negotiation environment to ascertain its value in producing mutually beneficial labor agreements. Students in an Industrial Relations class participated in mock labor negotiations that determined a significant portion of their final grade in the course. The control groups conducted their negotiations employing standard adversarial management

and labor strategies. Alternatively, treatment groups conducted negotiations from behind a "veil of ignorance" without knowing a priori whether their individual prospects would be governed by the terms awarded to management or to labor.

This research employs a treatment design to investigate the impact on contract outcomes of imposing a "veil of ignorance" on the mock labor negotiations of students in an industrial relations class. Since imposing the condition that a member of an actual labor negotiations team would be assigned to labor or management after the negotiations are completed is unrealistic, this research uses a treatment design to simulate this contrived situation. Ball (1998) documents the usefulness of experiments to test hypotheses that cannot be directly tested with field data. Differences between contracts negotiated using traditional management and labor teams are compared to contracts in which labor and management teams must negotiate lacking specific knowledge regarding the ex post application of contract terms.

METHODOLOGY

During the last week of classes of an Industrial Relations class taught at the University of North Carolina at Charlotte, students are required to negotiate a mock labor/management contract as outlined in Labor Relations (Sloane and Whitney, 1997). During the Fall semester 2000, twelve student teams of three or four students each were divided into six labor and six management teams, allowing for the negotiation of six separate contracts. Three of the six labor-management negotiations utilized traditional adversarial situations. The remaining three negotiations were conducted from behind a "veil of ignorance," with these students being graded on the performance of the labor negotiators or management negotiators, determined at random, after completion of the negotiations. The three traditional negotiation teams serve as the control groups, while the three teams operating behind a "veil of ignorance" serve as treatment groups.

The initial analysis compares differences in outcomes when contracts are negotiated by conventional adversarial labor/ management groups versus

contracts negotiated by labor/ management groups shielded by a "veil of ignorance." Second, the results of surveys completed by students in both the treatment and control groups are evaluated. Students in the treatment group responded to all seven of the following questions, while students in the control group responded only to questions 1-3 and 7. The questions were as follows:

1.	Which team were you originally assigned to? () labor () management
2.	What was your objective in the negotiations? Explain.
3.	Do you think that your particular negotiations produced a contract that was fair? Explain why or why not.
4.	Do you believe that a conventional adversarial negotiation would have produced an agreement that was more or less fair? Explain.
5.	Was your negotiation, given its classroom nature and also the uncertainty of which team you would end up on realistic? Explain.
6.	Do you believe that a negotiation process such as the one you just experienced with uncertainty could be applied to real-world situations? Explain why or why not.
7.	What did you learn from this experience? Explain.

Students in all twelve negotiations were instructed to produce a contract based on six to eight issues from the Sloane and Witney exercise. The most commonly selected issues included length of contract, wage increases, cost-of-living adjustments, paid lunch periods, number of paid holidays, number of paid vacation days, health insurance benefits, whether or not a union member would serve on the board of directors, supplementary unemployment benefits, and retraining programs for laid-off workers. At the end of the negotiating sessions, each labor/management group submitted a signed contract or indicated there was to be a strike. All teams in both the control and treatment groups successfully negotiated a contract.

The results are presented in Tables 1 - 2. In Table 1 below, differences in the negotiated contracts are specified. The results are broken

down into two groups. The middle column contains outcomes of three contracts negotiated in the conventional, adversarial fashion, while the right column addresses the outcomes from the treatment teams negotiating behind a veil of ignorance.

Table 1: Comparison of Outcomes from Three Conventional Versus Three "Veil of Ignorance" Contracts		
Issue	Conventional	Veil of Ignorance
Average length of contract for 3 groups	4.7 years	2 years
Average wage increase of 3 groups over length of contract	6.2 percent	11.3 percent
Change in health care cost	Major increases in costs to workers via co-payments and deductibles	Very minor or no increase in costs to workers
Paid vacations	Major increase in number of paid vacation days	Minor increase in number of paid vacation days
Paid holidays	Little or no change	Little or no change

These findings suggest that conventional negotiations result in very different outcomes from contracts negotiated by teams from the treatment group who operated under a "veil of ignorance." The length of contract illustrates a major difference. Management generally prefers a longer length of contract that guarantees a workforce for a longer period of time, thus reducing the cost of additional negotiations. For the conventional negotiations, the length of contract was 4.67 years, while the "veil of ignorance" teams yielded an average two-year contract. Management on the conventional teams in the control group pushed harder and achieved longer contracts than management teams from the treatment group (e.g. "veil of ignorance" teams).

With respect to average pay increases, conventional negotiations resulted in approximately half the average pay raise (6.2 percent) of the treatment group negotiations (11.3 percent)-suggesting that all participants under the "veil of ignorance" wanted to guarantee themselves a large pay raise, regardless of the terms they received at the end of the exercise. Additionally, there were major differences between the two groups with respect to health insurance. Reflecting the soaring cost of health insurance, the conventional negotiators raised the cost of health insurance to employees considerably through co-payments and deductibles, while the treatment group negotiators did not raise the cost of health insurance at all or raised costs by a very nominal amount. The outcomes suggest that both labor and management wanted to guarantee low-cost health care for themselves, regardless of their positions (management or labor) at the end of the exercise.

In the case of paid vacation days, the conventional negotiators increased paid vacation days considerably, while the treatment group negotiators barely increased the number of vacation days. Different outcomes between the conventional and "veil of ignorance" negotiations are somewhat difficult to quantify because increased vacation time in the different contracts varied according to seniority. Contracts differed as to the timing of additional vacation days, depending on seniority at time periods such as 1 year, 2 years, 5 years, 10 years, 15 years, and 20 years. Apparently the union groups behind the "veil of ignorance" did not feel additional vacation days were particularly important and were willing to trade these for more important concerns in the areas of wages and health care. On the other hand, the labor teams in the control group negotiated considerably more liberal paid vacation days. This finding suggests that the union negotiators in the conventional negotiations succeeded in extracting a major concession from management although they were unable to gain major concessions on wages and health care.

Management teams in the control group may have been willing to trade less expensive vacation days for concessions in more expensive items such as wages and health care. The change in the number of paid holidays for both groups remained about the same, with no major differences between the two groups. It could be that the union groups in both the conventional

and "veil of ignorance" groups did not view increases in holidays as terribly important.

Table 2 below provides a comparison of the survey questions answered by the treatment ("veil of ignorance") and control (conventional negotiation) groups.

Table 2: Summary of Questionnaire Results				
Objective of negotiation	Treatment Group (n=16)		Control Group (n=15)	
	Management	Labor	Management	Labor
Benefit Labor	0 (0.00)	4 (50.00)	0 (0.00)	2 (28.57)
Benefit Management	2 (25.00)	0 (0.00)	4 (50.00)	0 (0.00)
Benefit Both	6 (75.00)	4 (50.00)	4 (50.00)	5 (71.43)
Produced a fair contract?				
Yes	7 (87.50)	7 (87.50)	7 (87.50)	7 (100.00)
No	1 (12.50)	1 (12.50)	1 (12.50)	0 (0.00)
How are negotiations fair?				
Outcomes are fair	4 (50.00)	6 (85.71)	1 (12.50)	3 (42.86)
Actions are fair	3 (37.50)	0 (0.00)	7 (87.50)	4 (57.14)
Negotiators are fair	1 (12.50)	1 (14.29)	0 (0.00)	0 (0.00)
Were negotiations realistic?				

Table 2: Summary of Questionnaire Results

Objective of negotiation	Treatment Group (n=16)		Control Group (n=15)	
	Management	Labor	Management	Labor
Yes	1 (12.50)	3 (37.50)	5 (62.50)	6 (85.71)
No	4 (50.00)	4 (50.00)	2 (25.00)	0 (0.00)
Somewhat	3 (37.5)	1 (12.50)	1 (12.50)	1 (14.29)
What was learned?				
Incorporating fairness/compromise	1 (12.50)	4 (50.00)	0 (0.00)	0 (0.00)
Labor negotiations are difficult	3 (37.50)	1 (12.50)	3 (37.50)	2 (28.57)
Negotiating skills	3 (37.50)	1 (12.50)	2 (25.00)	5 (71.43)
How to deal with power	0 (0.00)	2 (25.00)	1 (12.50)	0 (0.00)
Other	1 (12.5)	0 (0.00)	2 (25.00)	0 (0.00)

A comparison of these responses reveals some interesting and somewhat surprising results. First, teams in both the control and treatment groups appear pleased with the negotiations. Team members either suggested that the contract benefited their side of the negotiation or that it benefited both sides. No team member viewed the contract as primarily benefiting the other side. Thus, it is not surprising that both the treatment and control groups believed that the mock negotiations produced a fair contract. More than eighty-seven percent of the teams reported that outcomes (64.3%), negotiating activities (21.4%) or negotiators (14.3%) were fair. When considering the responses of the treatment group teams,

71.4 percent of the student members thought that the Rawls' procedure produced contracts that were fairer than those that would have been produced by conventional adversarial negotiations. The primary reasons cited for the higher degree of fairness were less cooperation in traditional negotiating activities (40%), uncertainty as to the team's final position made this procedure more fair (30%), and the advantage of individual team skills would produce a less fair result in the traditional model (20%).

While treatment group teams believed the group Rawls method produced fairer results, they were less likely to believe that the process is either realistic or applicable to the real world. Students finding the process contrived mentioned that the negotiations were unrealistic because there was more compromise than would be found in a real negotiation (12.5%), the advantage of being fair was unrealistic (25%), the uncertainty of ending team membership was unrealistic (37.5%), and that teams were less demanding (25%). Similarly, these students believed that this methodology would not work in the real world because negotiators would not agree to the uncertainty (44.4%) and because negotiators had a commitment to their own position (44.4%).

The mock labor negotiations lead to several learning outcomes. While five of the sixteen treatment groups mentioned learning to incorporate fairness and compromise, none of the members of the control group mentioned learning fairness and compromise as outcomes of the negotiations. The difficulty of labor negotiations and negotiating skills were two learning outcomes mentioned by both management and labor in both the experimental and control groups. In summary, it appears that students from the control group learned more about the negotiation process and negotiating skills, while the learning outcomes from treatment group members were focused on the importance of fairness and compromise.

CONCLUSION

The purpose of this research project was to compare the outcome of mock labor negotiations conducted under a "veil of ignorance" to conventional adversarial negotiations. Important findings relate to differences in the final contract terms as well as to differences in student perceptions of learning outcomes.

Contracts negotiated from behind a veil of ignorance contained more generous pay and health benefits as compared to the terms of conventional negotiations, but the veil of ignorance contracts provided fewer paid vacation days. It appears that student team members operating under a veil of ignorance wanted to ensure that they would receive adequate pay and health benefits regardless of their ex-post position (labor or management), but accepted fewer paid vacations in order to protect the firm's profit position. Moreover, contracts negotiated from behind the veil of ignorance were shorter in duration as compared to those obtained using conventional adversarial negotiations. Ordinarily, labor prefers shorter contracts in order to reduce the risk that terms will become unfavorable during the life of the contract, while management's preference is for longer contract terms to insure a stable labor force. It appears that the greater uncertainty imposed by the veil of ignorance increased the appeal of shorter contracts among both labor and management negotiators.

Student surveys of learning outcomes suggest that students who negotiated from behind the veil of ignorance learned a great deal about the importance of fairness and compromise, but found little relevance of the exercise in terms of real world negotiations. Alternatively, students operating under conventional adversarial negotiations considered the exercise to be valuable for learning negotiation processes and for developing negotiating skills, but expressed relatively little learning in the areas of fairness and compromise. An interesting extension of this study would be to devise shorter exercises that offer opportunities to experience labor negotiations from both the veil of ignorance and adversarial perspectives. Experiencing the negotiation process from these two very different perspectives may offer students unique

insights into the importance that initial ground rules play in determining outcomes.

REFERENCES

- Ball, S. B. (1998). Research, teaching and practice in experimental economics: A progress report and review. *Southern Economic Journal*, 64(3), 772-779.
- Ben-Yoav, O. & D.G. Pruitt. (1984). Accountability to constituents: A two-edged sword. *Organizational Behavior and Human Performance*, 34, 285-295.
- Carnevale, P. J. & D. G. Pruitt. (1992). Negotiation and mediation. *Annual Review of Psychology*, 43, 531-582.
- Friedman, R.A. (1992). From theory to practice: Critical choices for mutual gains training. *Negotiation Journal*, 8(2), 91-98.
- Friedman, R.A. (1993). Bringing mutual gains to labor negotiations: The role of trust, understanding and control. *Human Resource Management*, 32(4), 435-459.
- Harsanyi, J.C. (1953). Cardinal utility in welfare economics and in the theory of risk taking. *Journal of Political Economy*, LXI, 434-435.
- Harsanyi, J.C. (1955). Cardinal welfare, individual ethics, and interpersonal comparisons of utility. *Journal of Political Economy*, LXIII, 309-321.
- Holley, W.H. Jr., K. M. Jennings & R. S. Wolters. (2001). *The labor relations process*. Fort Worth, TX: Harcourt College Publishers.
- O'Connor, K.M. & P.J. Carnevale. (1997). A nasty but effective negotiation strategy: misrepresentation of a common-value issue. *Personality and Social Psychology Bulletin*, 23, 504-515.
- Pruitt, D.G., P.J.D. Carnevale, O. Ben-Yoav, T.H. Nochajski & M. Van Slyck. (1983). Incentives for cooperation in integrative bargaining. In R. Tietz (Ed.), *Aspiration levels in bargaining and economic decision making*. Berlin: Springer, 22-34.
- Rawls, J. (1971). *A theory of justice*. Cambridge: Belknap Press of Harvard University Press.

Sloane, A. A. & F. Witney. (1997). *Labor relations*. Upper Saddle River, NJ : Prentice Hall.

Vickrey, W. (1945). Measuring marginal utility by reactions to risk. *Economica*, 319-333.

Vickrey, W.S. (1960). Utility, strategy, and social decision rules. *Quarterly Journal of Economics*, November, 507-535.

Walton, R. E. & R. B. McKersie. (1965). *A behavioral theory of labor negotiations: An analysis of a social interaction system*. New York: McGraw-Hill.

