MANAGEMENT RIGHTS

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An exhaustive itemization of management rights is impossible; continually changing circumstances render a static delineation of the term impracticable. It has been suggested that the concept may best be operationalized as management's right to make the decisions and take the actions necessary to discharge the responsibility of conducting enterprise. In the context of collective bargaining one is primarily concerned with those rights which relate to the management of people and those functions which affect the terms and conditions of employment.

Rationale for Management Rights

Management rights proponents maintain that management rights arise because of responsibility and attendant accountability peculiar to management: "A union is an employer-regulating device. It seeks to regulate the discretion of employers . . . at every point where [their] action affects the welfare of the men." "Yet it is the manager who tends ultimately to be held responsible for the success or failure of the business." The union is not entitled to the prerogatives of management because the union does not share managerial responsibility and accountability; while union members may have a sincere interest in their employer companies, their concern is voluntary.

As management rights allegedly arise because of the exclusive responsibility of management to conduct the enterprise, it is necessary to make explicit these responsibilities. First and foremost is management's responsibility to the shareholders (owners) to operate the business in an efficient and profitable manner. Secondly, management has the responsibility to consumers to produce a useable, safe, and realistically priced product. Thirdly, management has the responsibility to employees to provide continued employment at safe jobs with the best possible wages and working conditions which are consistent with the first two responsibilities.

Management rights proponents argue that the property interest which employers have in the enterprise, and the accompanying responsibilities, differentiate unions from management. Proponents argue that unions do not desire to usurp the function of management through the collective bargaining process:

Unions want more and more of the benefits which can come to them directly or indirectly as a result of good industrial management. They feel they must also, in the interest of their own survival, introduce through collective bargaining certain provisions requiring joint discussion or mutual agreement, which are intended not as a taking over of management's rights, but rather as a guarantee that they

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A. Metcalfe, "Management and Union Rights and Responsibilities," Canadian Personnel and Industrial Relations, July, 1964, at 32.

^{2.} E. Wight Bakke, Mutual Survival: The Goal of Unions and Management (1946) 7.

^{3.} A. Sloane and F. Witney, Labor Relations (1972) 25.

may question or object to complete and unfettered management authority. There may be a thin line between the two objectives, but nonetheless it is there, and it is very real when you talk in terms of responsibility.

However, labour leaders seem less convinced that management rights should remain unimpeached by the collective bargaining process. Indeed, there have been calls for a revision of *The Ontario Labour Relations Act* to make all matters relating to the employee-employer relationship arbitrable.⁵

The Arguments Against Management Rights

Those adverse to the concept of risidual management rights reject the proposition that exclusive rights are bestowed upon management by virtue of ownership. Delivering the majority decision of the United States Supreme Court in the case of Order of Railroad Telegraphers and Chicago and North Western Rwy., Justice Black wrote:

[T]he whole idea of what is bargainable has been greatly affected by the practices and customs of the railroads and their employees. It is too late now to argue that employees can have no collective voice to influence employers to act in a way that will preserve the interests of the employees as well as the interests of the employers and the public at large.

It is reputed to be an anachronism to suggest that management owns the enterprise; in the modern enterprise ownership and management are separated and the historic prerogatives of owners should no longer attach to management.

From a legal perspective the separation of ownership from management is more apparent than real. The composition of the board of directors is typically reflective of the pattern of ownership and management is ultimately accountable to the board. To the extent that such accountability is absent, the concept of residual management rights is weakened. While the degree of management accountability may be doubted, it is excessive to deny its existence. Furthermore, the fact that the remuneration of upper management often has a profit-sharing element suggests that the interests of owners and managers are co-extensive.

The suggestion that management can no longer claim the rights which historically accrued to owners may be dismissed as it ignores the legal relationship between management and owners and the consequential accountability of management. However, opponents to management rights have another, more cogent, argument at their disposal.

The argument does not attack the property interest of management; indeed it is conceded that management has a property interest in both the capital assets of the enterprise as well as the flow of income which arises from the enterprise. However, workers equally have a property interest in their labours and thus the property interest of management should be accorded no special status.

^{4.} Supra n. 2. at 1.

^{5.} The Ontario Labour Relations Act, R.S.O. 1970, c.232. See D. Archer, "Management Rights," Canadian Labour, Dec., 1964. at 19.

^{6. (1960), 362} U.S. 330, at 338.

The submission that workers have a property interest in their labours which offsets the property interests of management and thereby invalidates any rationale for residual management rights is contingent upon acceptance of the concept of labour being a type of property. As this concept is not self-apparent, it warrants elaboration.

The Tudor and Stuart political doctrines of England restricted the developments of both business and labour combinations. While Edward III commenced the practice of chartering guilds in the 14th century, owners of property were not at liberty to combine their assets for commercial gain. The concept of labour being a type of property was completely unknown.

As time progressed the rationale for prohibiting combinations shifted from preserving the royal prerogatives to insuring the right of the individual to compete freely (individually) in persuit of self interest. The English concept of property was broadened; Adam Smith suggested that property might include intangibles such as one's labours: "The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable." However, the broader concept of property did not facilitate recognition of unions. For a number of reasons, including the writings of Malthus and the wage fund theory, the English judiciary applied the doctrine of criminal conspiracy to unions despite the broader concept of property.

In the United States a narrow concept of property prevailed and underlay the prohibition of unionization. In the 17th century John Locke had proclaimed the controlling significance of property ownership in the social order. During the 18th and 19th centuries, Americans embraced the Lockean state as an appropriate model for government. Americans adopted a narrow concept of property by intermingling the Lockean doctrine of private property with an agrarian emphasis upon the importance of land ownership: "While we have land to labour then let us never wish to see our citizens occupied at a work-bench . . . Should men leave their farms and property for the shops and mills of the cities they would become propertyless — unable to help themselves and a danger to society."

This narrow concept of property was supported by the rural character of America throughout the 19th century. However, as the nation became industrialized the proportion of workers who owned the property on which they worked declined rapidly. Gradually the narrow concept of property became an anachronism and by the 1930's Congress had recognized the worker's property interest in his labours and removed many of the restrictions in unionization.¹³

^{7.} J. Davis, Corporations (1961) 89.

^{8.} A. Smith, Wealth of Nations (1937 ed.) 121-22.

^{9.} T. Malthus, "Essay on Population" (1798). See M. Blaug, Economic Theory in Retrospect (1968) 68-80.

^{10.} R. v. Rowlands (1851), 5 Cox 466; 117 E.R. 1439 (Q.B.).

^{11.} J. Locke, Of Civil Government (E. Rhys. ed. 1943) 186-87.

^{12.} T. Jefferson, Notes on Virginia (Memorial ed. 1907) 229-30.

^{13.} See National Labor Relations Act, Pub. L. No. 74-198, 49 Stat. 449 (1935).

The Canadian experience was a hybrid of the experiences of England and the United States.¹⁴ The economy of the British North American Colonies was primarily agrarian. Industry was located in a few urban centres and the typically small-scale enterprises were owned by individual employers. The American interpretation of the Lockean doctrine of private property was adopted and espoused by opponents to unions. From England, Canada inherited the common law of conspiracy and anti-union legislation.¹⁵

The decade of 1870-1880 was the turning point in the battle for union recognition in Canada. The legislative response was to embrace a broader concept of property and to permit unionization. ¹⁶ While the depression during the 1880's and 1890's caused considerable setbacks to unions, ¹⁷ the legitimacy of workers combining to protect their property interest in their labours was not contentious.

The opponent to the concept of workers having a property interest in their labours is therefore in conflict with the historically emergent opinion in Canada, England, and the United States. There are, however, other grounds for disputing the countervailing property interest argument against residual management rights.

The countervailing property interest argument suggests that the property interest workers have in their labours offsets the property interests of management and thereby invalidates any rationale for residual management rights. In *National Telegraph News Co.* v. *Western Union Tel. Co.*, Judge Grosscup delivering the opinion of the United States Court of Appeals for the Seventh Circuit said:

Property... is not, in its modern sense, confined to that which may be touched by the land, or seen by the eye... Equity should see to it that the one who is served, and the one who serves, each gets that which the engagement between them calls for; and that neither, to the injury of the other shall appropriate more.¹⁸

A Pragmatic Approach to Management Rights

Critics of this argument suggest that its fallacy lies in the assumption that the respective property interests of employees and employers cancel one another out.¹⁹ Consider a hypothetical industry which is capital intensive and highly automated. Are we to assume that the worker's property interest in his labour necessarily offsets the property interest of management? An intuitively more sensible approach weighs the importance of labour (measured in dollars) against the amount of capital invested in the enterprise. Thus, the more substantial the labour component the more management rights would be construed narrowly in the absence of a management rights provision. While this approach may be sensitive to the competing property interests of employees and employers alike, arbitrators have not

^{14.} See S. Jamieson, Industrial Relations in Canada (1957).

^{15.} British Combines Act, 1798-99, 57 Geo. 3, c.19; 1801, 5 Geo. 4, c.96; 1825, 34-35 Vict., c.32 (U.K.).

^{16.} Trade Unions Act, S.C. 1872, c.xxx; Criminal Law Amendment Act, S.C. 1872, c.xxxi.

^{17.} Criminal Code, 1892, S.C. 1891-93.

^{18. 119} F. 294, at 299 (7th, Cir.)

^{19.} S. Rottenberg, "Property in Work" (1962), 15 Indus. & Lab. Rel. Rev. 402-05.

considered it. Furthermore, it may permit excessive management discretion in capital intensive industries.

It is submitted that management insistence on preserving management rights may be ill-conceived. The suggestion that responsibilities attach to management alone which justify residual management rights is a generalization that reflects a norm, not an ideal.

As early as 1776 Adam Smith observed:

In the progress of the division of labour the employment, of a great body of people, comes to be confined to a few very simple operations... the man whose whole life is spent performing a few simple operations has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur.²⁰

In contemporary management literature the phenomenon which Smith described is termed a loss of employee discretion.²¹

The low-discretion syndrome is characterized by repetitive, prescribed routines, close supervision, personal pressure by supervisors, harsh discipline, careful checks on performance and punitive responses towards mistakes. The effect of the low-discretion syndrome is that the worker feels no autonomy on the job, no obligation to produce high quality work, and no sense of identification with the organization. It has been suggested that these characteristics are widespread among low level employees in most industrial organizations.²²

The frustrations and deprivations of the low-discretion syndrome do not remain at the periphery of consciousness. Occupants of low-discretion roles find themselves contributing in a minuscule way to the provision of goods and services for totally anonymous consumers. No common purpose binds workers to management. Instead, rank and file employees perceive their interests as being secondary to consideration of corporate profit and efficiency. Employees find themselves indisposed to commit themselves to management's objectives. Excessive management discretion aggravates this alienation.

Many employees legitimize management's claim to exercise discretion over general organizational objectives, structure and activities. However, where management rights encroach on the direct interests of employees (rate of pay, hours of work, job security, etc.) the collective response of employees is to attempt to limit, by means of prescriptive rules, management discretion. A low-trust relationship between employees and management prevails and collective bargaining is perceived as a win-lose situation. The behaviour, communications and policies are anticipated to be antipathetic to the other.

The development of practices which increase worker discretion and foster a high-trust relationship between workers and management should be an objective of management. Excessive residual management rights may be

^{20.} Supra n. 8, at 5.

^{21.} See G. Friedmann, Industrial Society: The Emergence of the Human Problems of Automation (1964) 62.

^{22.} A. Fox, Beyond Contract: Work, Power and Trust Relations (1974) 29.

counter-productive in the long run. The proponent of management rights should temper his argument in light of this reality.

Role of the Arbitrator

Before canvassing arbitral authority on management rights, it is important to note that the arbitrator's conception of management rights is related to his conception of the arbitral function. The literalistic approach assumes that all management initiatives or rights which existed prior to the collective agreement remain unfettered except to the extent that the collective agreement provides otherwise. Accordingly, the arbitrator's role is strictly limited to applying the express provisions of the collective agreement.²³ Under the literalistic approach management rights are relatively unbridled.

In contrast, the purposive approach assumes that the advent of a collective agreement constitutes a total break from the past. Arbitrators adopting this approach perceive an implied limitation on management's ability to unilaterally change conditions affecting the workplace from the general tenor of the collective agreement. The purposive approach views precollective bargaining standards as irrelevant and broadens the mandate of the arbitator while narrowing the scope of management rights.²⁴

Neither the literalistic nor the purposive approach has achieved predominance. Instead, arbitrators have recently eschewed such philosophical premises. Arbitrators now tend to approach each grievance on an *ad hoc* basis and recognize that arbitral jurisdiction is founded in the terms of the collective agreement. Accordingly, the phrasing and content of the management rights clause is crucial.

"Approximately 60% of all labour agreements today contain clauses that explicitly recognize certain stipulated types of decisions as being vested exclusively in the company." There is some diversity in the content of management rights clauses. Some management right clauses limit themselves to short, general statements whereas others list with some specificity particular management prerogatives.

The omission of a management rights provision revitalizes the debate as to the scope of residual management rights. Proponents argue that in the absence of a management rights clause the employer retains all rights of management that are not relinquished, modified, or eliminated by the collective agreement. Opponents proceed from the proposition that management is the trustee of the interests of employees as well as the interests of the owners of the enterprise. Opponents to residual management rights argue that management rights arise through the collective bargaining process, and the exercise of residual powers must reflect the trustee capacity of management.

^{23.} Re Textile Workers and Dominion Textile Co. (1963), 13 Lab. Arb. Cas. 371.

^{24.} Re Peterborough Lock Manufacturing Co. (1953), 4 Lab. Arb. Cas. 1499.

^{25.} A. Sloane and F. Witney, Labor Relations (3rd ed. 1977) 391.

Arbitral Authority

Having noted the arguments of opponents and proponents of management rights, the probable counter-productiveness of excessive management rights in the long run, the alternative arbitral approaches and the effect of the absence of a management rights clause, it is appropriate to review arbitral authority regarding specific management rights. The cases discussed below are illustrative and not definitive. However, they do illustrate important principles that are consistently applied to management rights arbitrations. The management rights considered include the most important and the most frequently disputed residual management prerogatives. The arbitral authority is the most recent and, unless otherwise noted, represents the preponderance of arbitral opinion.

Management has often claimed a right to reorganize its administration to achieve greater efficiency and effectiveness. Arbitrators have typically received this alleged right with skepticism, particularly where it undermines a provision of the collective agreement. In Re Air Canada and Canadian Air Line Employee's Assn., 26 the board refused to allow reorganization to adversely affect the seniority rights of employees. Whereas Air Canada had entered into a collective agreement which established employee rights according to an existing structure, it could not unilaterally alter the composition of departments to the detriment of individual employees. If the collective agreement is silent, management is at liberty to change its organizational structure. However, such reorganization cannot prejudice the explicit rights of employees contained in the collective agreement.

An issue closely related to management's right to reorganize is management's right to impose new standards for a position already governed by the collective agreement. Unilaterally imposed qualifications typically run afoul of the seniority rule and precipitate grievances. In Re Goodyear Tire and Rubber Co. of Canada and United Rubber Workers, 27 the collective agreement was silent as to requisite qualifications and provided that seniority should govern promotions. The company felt that technological change made higher qualifications desirous and unilaterally imposed different minimum requirements. The board recognized that the preponderance of arbitral authority supported the proposition that an employer may unilaterally alter, modify, and extend job qualifications and job descriptions during the lifetime of the collective agreement in the absence of a provision in the collective agreement to the contrary.28 However, the board found that the required educational level imposed by the company was unrelated to the applicant's ability to perform the job and allowed the grievance. The lesson learned is that unilaterally imposed job qualifications are likely to be subjected to critical review at arbitration and management must be able to establish job-relatedness.

The right of management to evaluate performance and make promotion-demotion decisions has frequently been the subject of arbitration. It must be conceded that the assessment of an employee's performance

^{26. (1975), 7} Lab. Arb. Cas. (2d) 420.

^{27. (1973), 2} Lab. Arb. Cas. (2d) 443.

^{28.} Re Nat'l. Union of Natural Gas Workers and Union Gas Co. of Canada (1961), 12 Lab. Arb. Cas. 53.

is primarily a managerial responsibility.²⁹ If an employee is undergoing a probationary period, management's assessment is not generally subject to review. However, after the probationary period management's assessment is open to review in the event that unfairness is alleged. Moreover, since the company is in the best position to bring forth the facts upon which its decision was based, the onus rests with management to establish that its decision was reached in accordance with some acceptable, objective standards.³⁰

There have been several arbitration awards which have considered management's right to promulgate rules regarding the personal appearance of an employee. The issue typically arises in two contexts: (1) where the rule is related to employee safety; (2) where the rule reflects a management preference unrelated to safety.

The safety-related personal appearance regulation situation went to arbitration in *Re Denison Mines Ltd. and United Steelworkers.*³¹ In this case the Director of Safety of Denison Mines enacted a rule which prohibited beards and required hair nets for those with long hair. The board weighed the *prima facie* right of employees to keep their appearance in accordance with their own judgment against the right of an employer to promulgate safety rules. The reasonableness of the rule was obvious and ultimately the right of an employer to promulgate safety rules prevailed. The board cautioned, however, that safety rules must be purposeful (non-specious), uniformly applied, and made known prior to enforcement.

The right of management to promulgate appearance regulations not related to safety is still more restricted. The case of Re Lumber and Sawmill Workers' Union and KVP Co. listed six requisites of valid appearance regulations: the rule must be consistent with the collective agreement; the rule must be reasonable; the rule must be clear and unequivocal; the rule must be brought to the attention of the employee affected before the company can act on it; the employee must have been notified of the consequence of a breach of the rule; the rule must have been consistently enforced by the company from the time it was introduced.³² The case of Re Air Canada and Canadian Airline Flight Attendants' Assn. is authority for the submission that appearance regulations unrelated to safety will be reviewed with skepticism and the onus falls on the employer to justify the reasonable business purpose underlying the rule.³³

Another aspect of management's rights which has been the subject of arbitration involves whether management is entitled to require an employee to be at home in the event that his services are required. The infringement on the individual's freedom is obvious: under what presumed mantle of authority does management dictate where an employee spends his leisure time? In Re Corporation of the County of Hastings and International Union of Operating Engineers an employee was suspended for three days

^{29.} Re Int'l. Woodworkers and Macmillan Bloedel Ltd. (1966), 16 Lab. Arb. Cas. 369.

^{30.} Re Riverdale Hospital and C.U.P.E. (1973), 2 Lab. Arb. Cas. (2d) 178.

^{31. (1973), 2} Lab. Arb. Cas. (2d) 186.

^{32. (1965), 16} Lab. Arb. Cas. 73, at 85.

^{33. (1975), 9} Lab. Arb. Cas (2d) 254.

for failing to remain at home during a weekend when he was on call.³⁴ The grievor was a patrolman who worked in ploughing and sanding of roads during the winter. The grievor was aware that he was on call and that a term of his employment required him to be on call during the weekend in question. He had been reprimanded on an earlier occasion for a previous violation. This was not a case where the grievor was unavailable at a time of crisis. His supervisor knew where the grievor was spending the weekend and the greivor's services were not in fact required. The board held that the suspension was unwarranted. Management could properly require that an employee be available to work but could not dictate his whereabouts.

Another rule-making prerogative claimed by management involves the right to search employees. This issue went to arbitration in *Re Johnson Matthey and Mallory Ltd. and Precious Metal Workers' Union*³⁵. The company retained substantial inventories of gold, silver, and platinum for use in the production of jewellery and electrical components. After a substantial loss of gold through repeated thefts the company was pressured to tighten up security by its insurers. Accordingly, a program of random personal searches was initiated. The company took the position that it had the legal right to search employees under the management's rights clause of the collective agreement. An employee refused to be searched and was consequently discharged. The union grievance attacked the presumed authority of management to search employees after working hours. The board reviewed awards on point and concluded that management was at liberty to institute a policy of personal searches.

The individual's right to pass without being searched has been recognized in both criminal and civil law. The *Criminal Code* details the ambit of search procedures and prohibits random searches by private citizens.³⁶ The common law concept of civil assault includes even the slightest touching or immediate apprehension thereof.³⁷ In this context the presumed right of management to randomly search employees is a gross violation of individual liberty. The board was cognizant of the need to prescribe management's right to search employees and emphasized the necessity of informing employees of security procedures, applying such procedures consistently, and consulting the union at various stages of implementation of the program. Accordingly, it cannot be said that management has an absolute right to conduct personal searches of employees.

Mangement's right to schedule vacations has often been the subject of arbitration. The case of Re United Electrical Workers and Fairbanks-Morse (Canada) Ltd. suggests that there is no limit to an employer's reasonable exercise of its right to schedule vacations. In Re Municipality of Metropolitan Toronto and Canadian Union of Public Employees, the board was faced with a grievance by a crane-operator at a garbage in-

^{34. (1973), 2} Lab. Arb. Cas. (2d) 73.

^{35. (1976), 10} Lab. Arb. Cas. (2d) 354.

^{36.} R.S.C. 1970, c. C-34, s. 443(1).

^{37.} Stephens v. Myers (1830), 4 Car. & P. 350; 172 E.R. 735 (K.B.).

^{38. (1968), 19} Lab. Arb. Cas. 27.

^{39. (1975), 7} Lab. Arb. Cas. (2d) 34.

cinerator who had requested to take his vacation over the Christmas season. The Municipality refused his request and maintained that consistency and efficiency required the prohibition of Christmas vacations. The board found that vacation time for some personnel could be granted at Christmas with no demonstrable effect on efficiency and ruled that the grievor was entitled to his vacation time as requested. The board refused to permit an admitted management right to lead to arbitrariness; management's right to schedule vacations is not unbridled.

It is a well established principle of labour arbitration that once a wage structure has been negotiated management cannot lower wages. There is mixed authority as to whether management can unilaterally raise wages. If one considers wage rates in a collective agreement to be minimum rates only, management should be at liberty to unilaterally increase wages. In Re Misericordia Hospital and Health Sciences Assn. of Alberta, the board characterized unilateral salary increases to certain classifications of employees as ex gratia payments which did not contravene the collective agreement. Given the risk of management creating tension within a bargaining unit through a process of selective raises and the potential for the perceived effectiveness of union negotiators to be diminished, unions might be wise to incorporate raises in the collective agreement. The uncertainty of arbitral authority supports the suggestion the right to unilaterally raise wages should be made explicit in the collective agreement.

Conclusion

An exhaustive review of management rights is beyond the scope of this paper. However, the previous survey of arbitral authority is sufficient to warrant some general conclusions. Management is not unbridled in the exercise of residual rights. Management must act reasonably and with purpose. Where purported management rights conflict with the collective agreement, the latter prevails. Elements of natural justice attach to the exercise of management rights so as to require advance notice to those affected by new policies, to prohibit discrimination and to require the establishment of objective standards where possible.

Before drawing any conclusions as to the legitimacy and effect of management rights, it is desirable to reiterate the points discussed previously:

- (i) Proponents of management rights argue that the fact of ownership and attendant responsibility and accountability give rise to exclusive management prerogatives.
- (ii) Opponents to management rights argue that there is nothing sacred about the property interest of employers. The historically emergent property interest of workers in their labours has a countervailing effect and destroys any rationale for residual management rights. In any event, management and ownership are now separated so that management cannot claim the traditional prerogatives of owners.

- (iii) Relinquishing management rights may be in the employer's long-term interest if a high-trust relationship is generated and the low-discretion syndrome is averted.
- (iv) The arbitrator's conception of the arbitral function affects his approach to management rights. Neither the purposive nor literalistic approach has achieved predominance. Instead arbitrators approach each grievance on an ad hoc basis, eschewing philosophical premises.
- (v) Two industrial relations truisms attach to all management rights clauses: the power of the management rights clause is always subject to qualification by the wording of every other clause in the collective agreement; and, consistent administrative practices on the part of the employer must be followed if the management rights clause is to stand up before an arbitrator.
- (vi) The omission of a management rights clause revitalizes the debate as to the scope of residual management rights. However, even in the absence of a management rights clause the residual prerogatives of management are not unbridled.

In the final analysis, management rights must be seen as inconsistent with the concept of encouraging political democracy in the workplace. The advent and development of the collective bargaining process represents the historical struggle to replace the rule of man with the rule of law in the workplace. Residual management prerogatives are contrary to our enlightened commitment to political democracy in the workplace and our appreciation of the property interest workers have in their labours. Accordingly, the restrictive approach to management rights evidenced in the arbitral authority canvassed previously is commendable. As the concept of political democracy advances, it is logical that all matters relating to the employee-employer relationship become arbitrable. To the employer committed to fostering a high-trust relationship the demise of management rights is not a particularly worrisome prospect.