

Manager's Journal

A Better Way to Go on Strike

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When President Clinton imposed a cooling-down period in the American Airlines pilots' strike, he recognized that a strike would impose huge costs on those not involved in the labor dispute -- from travelers and air-freight shippers to resorts in Florida and the Caribbean. Mr. Clinton estimated such costs at \$200 million a day. What's more, a strike would cost the pilots and other employees their salaries. The airline would lose tens of millions of dollars daily and risk losing market share to its competitors.

Yet the pilots were understandably unhappy with Mr. Clinton's intervention, which deprives them of their bargaining power, at least until April, when the presidential order expires. There is, however, a better way -- one that would permit the contending parties to fight it out while limiting the costs to themselves and avoiding much collateral damage from a labor war. We call the concept, which we developed with our colleagues Howard Raiffa and Michael Wheeler, the No-Fist alternative, an acronym for Normal Operations with a Financial Strike.

Here's how it would work: Once the deadline is imminent and negotiations are irretrievably stuck, the parties would agree to continue normal operations but to put some or all of their revenues and salaries into an escrow account controlled by a trusted outside party. In the American Airlines case, planes would continue flying but a large fraction of the company's revenues and pilot's salaries would go into the fund, leaving only enough to keep operations going.

Neither battling party would get a nickel from this fund until they reached an agreement -- not just on a new contract, but on how to divide the pot itself. As in an ordinary strike, each side could wage a war of attrition on the other. But, while the financial pain mounted with no relief to either side, the fund would keep growing, providing an increased incentive to settle. When one side cried uncle -- on whatever terms -- the financial strike would be over. But a great windfall would be waiting, and the company's competitive advantage would be unhurt. No matter how the fund was ultimately divided, both sides would be better off than after an ordinary strike.

In sharp contrast to a cool-down period, jawboning or arbitration, a financial strike would not disturb the balance of power between the contending parties. Until there is a mutually satisfactory contract, American and its pilots would be in the same financial position as they would be with a strike. Each could bargain as hard or as collaboratively as it saw fit, holding out as long as its resources and will permit.

But what about the "irrational" parties who mainly yearn, self-destructively, to teach the other side a lesson? Indeed, if the American pilots prefer to act purely out of animosity toward CEO Robert Crandall, they could impose endless costs on the airline by simply refusing agreement. Mr. Crandall could do the same to the pilots. Yet while impasse continues, the fund would grow, making a cessation of hostilities an increasingly attractive option.

Ideally, the specifics of the No-Fist mechanism would be part of the initial collective bargaining agreement, since agreement on true variable costs of operations could be difficult and to some extent arbitrary.

Estimates of real variable costs can easily be proxies for highly partisan arguments. The two sides could negotiate this percentage or just pick a number, like two-thirds of revenue and salaries, to put into this escrow fund.

Moreover, the mechanism must ensure that neither party can count in advance of settlement on receiving a known share of the fund. If they could, a financial strike would merely defer payment. But if the division of the fund completely depends on final agreement between the two sides, the outcome of the strike more accurately reflects the balance of their bargaining positions.

The No-Fist mechanism wouldn't work for every industry. When no money is directly at stake, as is often the case in a strike by public employees, there would be no fund to accumulate and divide. And in some cases one side might prefer to bear the costs of an ordinary strike -- if, for example, management thinks that its workers are replaceable with technology or cheaper workers.

But in many other cases, No-Fist should be an attractive alternative for both sides. Like a strike, it permits an unfettered war of financial attrition; unlike a strike, it ends with a windfall, competitive advantage intact, innocent bystanders upright and customers happy.

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