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Free Trade in North America

The Impact on Industrial Relations and Human Resources Management in Canada

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Executive Summary

The North American Free Trade Agreement between Canada, the United States, and Mexico and its predecessor, the Free Trade Agreement between Canada and the United States, have helped to restructure the Canadian economy, and the manufacturing sector in particular. Despite the increased focus on trading policies in recent years, there has been very little research on the impact of free trade on industrial relations (IR) and human resources management (HRM). This study contributes to filling that gap by examining the impact of freer trade on IR/HRM, using the cases of two globally focused companies with a strong Canadian presence: Sonoco Products Company and Levi Strauss.

- HR managers do not regard free trade as a priority. The managers interviewed for this study did not think that free trade had led them to change their strategic focus. Nevertheless, this study uncovers subtle indications of change: in general, corporate head office is beginning to play a greater role in defining HR policy.

- Since organizations are focusing primarily on competitiveness, HR departments have had to justify their contribution to the bottom-line. For multinationals this implies that HR performance is often evaluated against establishments of the parent company across the border.

- Economic integration and associated competitive pressures have created an incentive for unions and management to cooperate in solving workplace problems. Under free trade it is more costly to engage in prolonged adversarial disputes.

- NAFTA has resulted in a borderless HRM function. HR managers will increasingly implement policies that have international applications; practitioners will increasingly need a global vision of their function.

- At both Levi Strauss and Sonoco, performance evaluation has recently been standardized across the border; both companies are defining uniform competencies necessary for global competition.

- A cross-border compensation system was introduced in both instances; a portion of the employee bonus at Levi Strauss is tied to the company's North American performance.

- The author concludes that while it is difficult to disentangle the effects of free trade from the effects of other factors, such as the globalization of markets, it would appear that, contrary to the fears of critics of NAFTA, free trade has not resulted in a move to the lowest common denominator but rather has led to the importation of 'best practice' and has therefore improved HR management in the two companies studied here.

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Introduction

Since the beginning of the 1990s, economic integration and market globalization have been priorities of governments and businesses. On the American continent, several trading blocks have been formed. These arrangements range from reciprocal agreements to eliminate customs tariffs to preference agreements, which liberalize trade and set standards in such matters as technical cooperation, investments, and communication (Aparicio-Valdez 1995). The North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States is one of the most significant treaties of this nature in the world, especially because it involves countries at very different stages of economic and social development.

In recent years, despite the increased focus on trading policies, the labour consequences of free trade have not received the same attention as other problems. When labour issues have been raised, researchers have dealt primarily with the impact on employment and wages. Very little research has explored the effects on broader industrial relations issues such as labour standards, collective bargaining, and human resources management (HRM) practices.

Despite the increased focus on trading policies, the labour consequences of free trade have not received the same attention as other problems.

This study examines the extent and consequences of market integration on industrial relations in Canada, particularly on HRM in the manufacturing sector.

NAFTA Debate

The signing of NAFTA provoked a great deal of debate in the three countries involved. In Canada, controversies over labour issues—articulated primarily by the labour movement—captured the headlines. Labour leaders feared that the removal of trading barriers would lead to job losses because of the inability of Canadian businesses to compete with low wages in Mexico; firms would be enticed either to relocate further south or to increase investment abroad. Further, Canadian firms would be at a disadvantage because Mexico is notorious for failing to enforce regulatory obligations, such as labour and health and safety standards.

Proponents of NAFTA, in turn, argued that the agreement would enable manufacturers to benefit from market specialization and economies of scope and scale (Lipsey 1991). A more cost-competitive manufacturing sector would benefit the export-oriented Canadian economy. Once income and, consequently, demand for exports was generated in Mexico, these gains would follow (Magun 1993). Comparative advantage in high technology, highly skilled workers, and quality production would favour Canadian businesses, while Mexico's labour intensive production would give it an edge over its northern counterparts.

The North American Agreement on Labour Cooperation

In spite of its complexity and the concerns expressed with respect to labour issues, little provision was made in the NAFTA document to address industrial relations directly. However, side agreements were negotiated and signed by the three countries as a result of the strong opposition—particularly in the United States—voiced by various coalitions, including the labour movement.

The North American Agreement on Labour Cooperation (NAALC), the side agreement dealing with labour issues, complements the closer trade relationship between the NAFTA countries by reaffirming the parties' desire to improve working conditions and living standards of all partners (U.S. National Administrative Office 1995, 1) and to foster fair and open competition and due respect for mutually agreed upon labour laws and principles (Dobell and Neufeld 1993, 210). Under the NAALC the onus is on each party to establish and enforce its own labour laws and standards based on generic principles such as the freedom of association, the right to bargain collectively, the right to strike, the prohibition of forced and child labour, the elimination of discriminatory practices, the promotion of pay equity, and the enforcement of health and safety hazards.

While the letter of the law appears to be reasonably similar in the three regimes, the practical application and interpretation given to the law varies significantly among the three countries.

In addition, the NAALC creates a trinational commission which is empowered to ensure that the agreement is respected.

The Dispute Settlement Mechanisms

Under the NAALC dispute settlement mechanism, each government may initiate a complaint pertaining to the 'persistent' failure of one government to enforce its domestic labour laws with regard to occupational health and safety, child labour, and minimum wage. However, the agreement expressly excludes complaints concerning the right to associate, organize, and bargain collectively (Spracker and Brown 1995). When disagreement persists after cooperative consultation, an arbitral panel can make a determination by a two-third majority. A corrective plan will be agreed upon, and failure to implement the plan could result in the imposition of fines up to U.S. $20 million. Suspension of trade benefits or sanctions is also possible, but only in the case of a U.S.-Mexico dispute.

No complaint has yet been filed by Canada, partly because individual and company cases are not arbitrable and, more importantly, because consultations could currently be initiated only if they dealt with matters under exclusive federal jurisdiction. The provinces are not bound by the labour agreement, unless they voluntarily adhere to it. This means that until provinces representing at least 35 percent of the total Canadian labour force are covered by the NAALC, the federal government will not be able to initiate a complaint, nor will the provinces. Further, when a dispute concerns a specific industry, 55 percent of the work force must be subject to the NAALC (Morpaw 1995). To date, Alberta, Manitoba and Quebec have been the only provinces to grant their assent to the NAALC.

The Implications for IR and HR Management in Canada

Critics of NAFTA fear that economic integration will lead to the harmonization of labour standards and practices, since business always has the choice to relocate and will prefer to operate in the least regulated environment (Gunderson and Riddell 1995, S129). Fears of harmonization have been exacerbated by Mexico's enforcement problems and its relatively undemocratic institutional structures. While the letter of the law appears to be reasonably similar in the three regimes (Government of Canada 1991), the practical application and interpretation given to the law varies significantly among the three countries.

Like other economies, Canada is facing the policy challenge of promoting competitiveness, while at the same time trying to protect jobs and labour standards (Gunderson and Riddell 1995, S125). There are difficult trade-offs: which types of jobs ought to be favored and what labour standards will ensure that Canada remains competitive where it has a comparative advantage? Firms are also reacting to the globally competitive environment. The manner in which they adjust strategically to the opening of new markets and respond to the increased competition in existing product markets has direct implications for job content and employment conditions. The result of economic integration could be that Canadian labour standards simply adjust to the least regulated environment, or at best, the current legislative framework will represent a ceiling that will not be exceeded.

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Industrial Relations

Collective Bargaining

The Canadian and American industrial relations systems are similar in many respects. On paper, Mexican labour law is similar to that of the other two countries and sometimes appears even more stringent. However, management unions, which are closely related to the ruling Institutional Revolutionary Party differ philosophically from their North American counterparts, and they do not provide workers with the strong independent voice necessary to challenge the abuse of process and the inconsistent application of the law. The result is that, despite similar union densities in the two countries, there are large wage differentials between union and nonunion workers in Canada, but there is little variation in Mexico (Manyasz 1993).

Hence, although there are similarities in the industrial relations environments within the North American continent—especially similarities between Canada and the United States, which are amplified by the extent of trade between the two countries—noticeable differences exist in labour relations outcomes and social values. In a freer trade environment, the gap could be narrowed, particularly in the context of collective bargaining, which is perceived to be more sensitive to external pressures than the legislative environment (Québec 1989, 20).

Economic Integration and Collective Bargaining

Faced with additional competitive pressures, businesses will seek more flexibility from their work force in the short term and make comparative evaluations of labour costs and productivity before making longer term strategic decisions about investment and location (Rioux 1987). The process of economic integration and the associated competitive pressures create 'an incentive for management and unions to cooperatively address workplace concerns' (Chaykowski 1995b, 1). Under free-trade it is more costly for management and labour to engage in prolonged adversarial disputes.

Impact on Collective Agreements

Since the recession of the early 1980s, bargaining power has shifted from labour to management, and NAFTA will only accentuate this tendency. For example, in recent bargaining talks in the Ontario brewing industry, the removal of tariffs had an indirect impact on substantive issues such as plant optimization. Labour, conscious of the additional competitive pressures on management,

NAFTA has put pressure not only on government and business but also on unions to lower salary expectations in order to remain competitive.

accepted reduced gains in exchange for a longer, six-year agreement (two- or three-year agreements are the norm in the industry) which offered workers greater job security and remuneration guarantees. Although NAFTA is not usually mentioned during negotiations, unions are fully conscious of the company's competitive position and conduct their strategies accordingly: in general, NAFTA has put pressure not only on government and business but also on unions to lower salary expectations in order to remain competitive (Dolan and Schuler 1994, 203).

Based on a comparative analysis of collective agreement clauses between 1981 and 1991, Gunderson and Verma (1993) have identified some trends that could result from these competitive pressures. For companies with a 'downside' strategic focus involving plant closures and job elimination, for example, there is evidence of greater concern for worker protection, with more contracting-out restrictions, the use of notice for technological change and layoffs, early retirement provisions, and work-sharing arrangements, in return for greater job security. For companies with an 'upside' orientation, involving a diversification of skills and retraining, for example, there will be pressures for increased adaptability, flexibility, declassification, multi-skilling, and the elimination of seniority as a criterion for promotion.

Impact on Unions

The relative strength of the Canadian labour movement, compared to the fragile American unionization levels and the rigidity of the undemocratic labour movement in Mexico, could prove to be a moderator of downward harmonization in the context of NAFTA. However, Robinson (1994) warns that the most serious negative impact of NAFTA could be on the density of both Canadian and American unions. The stronger structural adjustments in traditionally highly unionized sectors and reduced demand for labour would reduce the power of the labour movement.

The integration process may lead to the decentralization of collective bargaining as unions adapt to the particular needs of each unit. Union locals may increasingly demand to be exempted from pattern bargaining (Robinson 1994, 668). Unions may be forced to broaden the scope of their negotiations in order to compensate for a weakened position (Aparicio-Valdez 1995).

Human Resources Management

Human Resources Managers' Perception of Free Trade

Wils' (1989, 207) analysis of midsized businesses in Quebec revealed significant differences in the management of the work force, depending on whether or not these businesses perceived they would be affected positively or negatively by free trade. Firms perceived to be negatively affected—generally more of the unionized firms were negatively affected—were putting more emphasis on reducing the size of their work force and using more contingent or part-time employees. Management was seeking a more conciliatory or participative attitude from their work force. However, there were no significant differences between positively and negatively affected businesses with respect to the emphasis placed on retraining to remain competitive.

Adjusting to the Free Trade Environment

HR practitioners tend to think that their organizational structure will be affected by free trade (Toulouse 1989, 217). Free trade has forced some companies to examine alliances, mergers, and acquisition opportunities to compete in new markets (Conference Board 1993a), which has led to structural adjustments of the human resource function resulting in more decentralized, more flexible, and flatter structures. HR managers may become more accountable to their foreign parent headquarters or decisions may be made to outsource some functions traditionally performed internally, such as worker's compensation administration. The new environment may lead to cross-border human resources management and an increase in temporary assignments to U.S. or Mexican subsidiaries.

Since organizations are focusing primarily on competitiveness, HR departments have had to justify their contribution to the bottom-line. For multinationals, this implies that HR performance is being evaluated not only within the Canadian context, but also against competitors or other establishments of the parent company across the border. In fact, one commentator argues that 'Future employee compensation will be based on comparisons with international payment levels rather than domestic rates' (Canadian HR Reporter, 1993). Generally speaking, corporate tradition now has much less effect on compensation policies, which are closely related to productivity gains and an organization's market position (Thériault 1994, 34, 168).

Adjustments may also be required in staffing, since gains in productivity are partially a function of the skills and education of workers and of their work habits (Conference Board 1993b). NAFTA has facilitated the movement of workers across borders. The availability of 'instant' working permits, or 'Trade NAFTA' status, gives qualifying Canadian temporary visitors, treaty traders, investors, temporary workers, and professionals1 transferring to the United States instant approval at the border and limitless permit renewals. The net effect seems to be a borderless HRM function.

Mobility of the work force and cross-border functionality will require different competencies from HR managers and, in particular, the implementation of HR policies that have international applications (Dolan and Schuler 1994, 6). It is expected that HRM will be increasingly oriented towards a global vision of the business environment, an understanding of international economies, recognition of different cultures, and an adjustment to a myriad of legislative requirements, which will require increased investment in training and development of HRM skills (Toulouse 1989; Conference Board 1993b).

It is expected that HRM will be increasingly oriented towards a global vision of the business environment.

Two Canadian Manufacturers in a Free Trade Environment

Since the manufacturing sector is particularly sensitive to the liberalization of trade, this section examines two American-based manufacturing companies, Sonoco Products—a paper and paper products company—and Levi Strauss—a textile company. It focuses on their Canadian HR departments and their activities in the free trade environment.

1 Human resources professionals, unlike economists and accountants, are not, however, specifically listed as eligible free trade specialists (Appendix 1603.D.1 of NAFTA).

Manufacturing and Free Trade

The Canadian government's decision to embark upon discussions leading to the trade liberalization agreements with its North American counterparts was motivated primarily by the belief that the domestic market was saturated and that Canada's future economic strength depended on the development of new markets. During the 1980s the productivity of Canadian manufacturing firms declined relative to their American competitors, and they were also lagging in technological performance. Free trade was perceived as a remedy for this relative decline. Today, annual Canadian exports to the United States have doubled since the implementation of the Free Trade Agreement (FTA) with the United States, which went into effect in 1989. Canadian exports to Mexico have also increased significantly since NAFTA took effect in 1994. A similar pattern is also evident in textile products and paper and paper board products, the sectors relevant to this study.

It is clear that the manufacturing sector has undergone significant restructuring in terms of output, as well as with regard to the number of establishments and level of employment. After a decline in domestic production during the recession of 1991 92, in 1994 the manufacturing sector finally surpassed the level of output attained before implementation of the FTA. However, the number of establishments and employment levels in the manufacturing sector has stabilized since the end of the recession. This has also been the case in the textile and paper products sector (see Table 1).

Table 1
Canadian Manufacturing Establishments and Employment

	Manufacturing		Textile Products		Paper Products	
	Establishments	Employees	Establishments	Employees	Establishments	Employees
1985	36,854	1.77 million	802	31,110	688	114,187
1986	38,380	1.81 million	866	32,981	698	117,063
1987	36,790	1.86 million	858	34,769	694	119,346
1988	40,262	1.95 million	984	37,065	718	121,075
1989	39,150	1.97 million	915	36,180	746	120,106
1990	39,864	1.87 million	960	35,278	731	115,176
1991	36,339	1.74 million	862	32,441	681	110,086
1992	34,511	1.67 million	785	27,185	681	105,008
1993	32,943	1.64 million	744	27,676	664	101,926
1994	31,974	1.66 million	682	27,447	668	101,834

Source*:* CANSIM Database, labels D662143, D662150, D663848, D663855, D665003, and D665010.

Manufacturers have been adjusting to the freer trade environment. Establishments responding to the Human Resources Practices Survey (Betcherman 1994) identified-several components of their current strategy, which included, in order of importance, reducing nonlabour operating costs, increasing employees' skills, developing new product markets, reducing labour costs, and introducing new technology. In another study, Canadian firms ranked costs, speed of delivery, customer service, quality, dependable deliveries, and breadth of product line—in that order of importance—as elements of their competitive strategy in North America (Johnson, Kamauff, Schein, and Wood 1993). The same strategies were reported in a similar survey conducted after the implementation of the FTA but before the implementation of NAFTA. Clearly, NAFTA has resulted in a further evolution of the more significant adjustments that were caused by the FTA.

While an increasing number of companies are considering exporting to Mexico (35 percent), most Canadian manufacturers (82 percent) continue to see the United States as the market with the greatest potential for expanding their export business. North America is a 'hub and spoke' economy, with most trade flowing to and from the United States; thus, the key challenge faced by Canadian manufacturers will likely continue to come from the U.S. market (Fraser 1995, 84, 89).

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Sonoco Products Company

Industry Profile

Today, nearly 700 companies, mostly locally owned, are in the pulp and paper industry in Canada. The industry exports two-thirds of its estimated Can$21 billion in sales. Sixty-five percent of this goes to the United States which is the primary destination of Canadian exports (Industrie Canada 1994a). Mexico is a much smaller market for Canadian exports. The economic integration of the paper industry is average between Canada and the United States and very low between Canada and Mexico (Fraser 1995).

Under NAFTA, the elimination of tariffs between Canada and the United States will continue to be determined by the FTA schedule. Since 1 January 1993, tariffs have not been levied against most pulp and paper products. Under the FTA, Canada had already increased exports to the United States of packaging products such as bags and corrugated boxes. These markets are some of Sonoco's strongholds.

Company Profile

Sonoco Products Company, which is one of the world's largest manufacturers of packaging materials, is a vertically integrated packaging company with a global presence. There are 26 plants in Canada, 9 in Mexico, and more than 175 in the United States. The company is headquartered in Hartsville, South Carolina. Today, the company's financial position remains strong; approximately half of Sonoco's 19,000 employees are working in North America, the majority in the United States (8,000); the rest are almost equally divided between Mexico (1,000) and Canada (900). The head office of the Canadian company (named Sonoco Limited) is in Brantford, Ontario, and the Canadian plants are in Alberta, British Columbia, New Brunswick, Ontario, and Quebec.

Markets and Strategic Objectives

The vision of the company is to dominate its competitors in all markets. As stated by the director of HR in Canada, ‘We are not benchmarking off others; in fact we want to leapfrog what everybody else is doing by doing it better.’ As enunciated in its mission statement, Sonoco strives to be recognized as a customer-focused, global packaging leader that delivers superior quality and high-performance results. The hallmark of its culture is integrity and a commitment to excellence. In recent years, Sonoco has made serious efforts to contain all costs, especially with respect to the efficiency of processes (nonlabour costs). So far, this strategy has proven successful in Canada. However, it has not deterred the search for innovation and quality: Sonoco is more than ever committed to ‘customer satisfaction through excellence’ (Sonoco 1995).

The Human Resources Function

The HR department in Canada is relatively small; there are six employees, compared to twelve in the U.S. department. Members of the Canadian department are experienced and highly skilled. Four of the six managers are located in various facilities throughout Canada. Others have multiregional responsibilities: for example, the workload of the benefits coordinator at head office is equally divided between the Brantford operations and all other Canadian locations.

The IR/HR structure is described as relatively hierarchical by the director of the department: all IR/HR personnel report to him. The incumbent is responsible for all the traditional areas of HR. In addition, he acts as the corporate in-house counsel, and as a company director reporting directly to the Canadian president, he is also strategically involved in business decisions and planning. This three-fold mandate makes his position vital to the Canadian company's corporate success.

The current HR priority in Canada is training and development, and the director explained during an interview, the company aims to develop soft rather than technical skills: ‘It is the softer and less tangible skills that we are talking about, such as how to coach people, [manage] interpersonal conflicts and . . . work effectively towards projects.’ Compared to three years ago, there is a greater emphasis on the long term, a broader application of skills, and more focus on quality of work life rather than productivity. To address the cost-containment strategy, Sonoco's HR mission includes organizational development, or participation in what the company calls ‘Process Excellence’: ‘We are looking at all our activities and making radical changes in order to become the best at what we do in all respects.’

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HR in Canada is considered a leader throughout the company as a whole for its management of costs and service. The department has been very successful in redesigning benefit plans, implementing programs which have reduced injuries, obtaining training subsidies from governments, farming out services, and charging commissions for Sonoco's services to the outside community. According to the HR director, ‘We have saved sometimes as much as our whole annual budget, and it has not cost the company any money for our services; this is unique!’

The structure of the Canadian department is also unique. Within the parent U.S. company, IR/HR is fragmented. Conversely, in Canada the same function, which acts in an advisory capacity to the company as a whole, serves all departments.

Its director supports such a philosophy by saying: ‘We have seen the benefits of having expertise in one department that serves all interests.’ The efficiency of this unified model is recognized within the company, and the U.S. counterpart is moving towards a similar centralized departmental structure.

IR/HR in a Free Trade Context

Because Sonoco had already committed itself to a market leadership strategy in the mid-1980s, there are very few competitors who can penetrate Sonoco's new or existing product markets. Because almost all tariffs applicable to the company's products—for paper in particular—were eliminated under the FTA, NAFTA's impact on company operations has been minimal. As perceived by HR management, NAFTA’s direct impact is limited to the assignment of cross-border responsibilities, as personnel are moved across a borderless North American business environment. Since May 1995 two Canadian HR managers have been serving five U.S. plants in the Northeast. For the past several years, the West Coast American HR manager has been devoting half his time to five Western Canadian operations. Consequently, these individuals have a dual reporting relationship; one is a formal reporting relationship to the director in his or her own country, and the other is described as ‘a dotted line for communications’ with the other country's HR department.

The IR/HR departments at Sonoco have always been involved in cooperative activities, in particular between Canada and the United States. Generally, the exchanges between the Canadian and Mexican IR/HR counterparts have been limited to consultative discussions. However, the level of interaction between the U.S. and Mexican staff has been increasing. According to the HR director, ‘With respect to immigration laws, NAFTA has certainly helped. Sonoco has had HR managers and assistants in Mexico train for a year or three to six months in the United States.’ Managers from other departments, including from the Canadian division, have also been temporarily assigned to the United States in order to learn and utilize management practices. In addition, ‘hourly employees with expertise in maintenance or other technical areas cross the border to help each other.’ Members of health and safety committees have also been conducting audits across the border. According to the HR director, it ‘was more difficult in the past, but the seamless border crossing has permitted us to have more flexibility and helped cross-pollination between U.S. and Canadian plants; but not so much with Mexico, because of cultural and language issues.’

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As part of this cross-pollination, the IR/HR department has been advising managers concerning benefits, procedures, and opportunities. Sonoco has developed a worldwide expatriate and relocation policy that is adapted to local levels of pay and benefits, whether in Quebec City, New York, or Bombay. However, there has been less emphasis on such expatriate programs in recent years, because Sonoco prefers hiring local people who are cognizant of the local business environment, training them properly, getting them to the ‘hubs’ throughout the world , and employing them at home once they have learned from these global theatres of operations. Overall, as a result of the removal of global economic barriers, Sonoco places more emphasis on short-term ‘on-the-job-training’ at global hubs, as opposed to permanent relocation.

Sonoco is also working on a human resources information system (HRIS) that will link the operations of the three North American countries and take into account local differences and needs, including languages. However, the HR director does not ‘think NAFTA has helped anything regarding HRIS. I have not seen anything in NAFTA that addresses what Sonoco is trying to accomplish with its information systems.’

It is true that NAFTA has very little to say directly about human resources issues. However, the potential effect of greater economic integration on harmonization has to be examined carefully. In the case of Sonoco, there does continue to be a strong affiliation between the Canadian and American operations, in particular. The HR director describes it as the ‘greatest, compared to anywhere else within Sonoco.’ This cooperation does not necessarily translate into harmonization of HR policies and practices; the Canadian HR director still enjoys considerable autonomy in the planning and decision-making process. As he describes it:

Everything that they have in the U.S., we have a choice of whether it is applied to Canada or not. There the infrastructure is composed of dozens of people, whereas we have six. They have systems that are very complete. They have payrolls of hundreds of millions of dollars, so they are in need of certain expertise, such as pension, benefits, systems, labour relations, training and development, and organizational development. So we get to see the best of what they have, whether it is policy or something else, and we can basically mime them, and apply it to Canada with very little cost.

Since the implementation of NAFTA, some HR policies and programs have been or are being harmonized within the three countries.

Nevertheless, since the implementation of NAFTA, some HR policies and programs have been or are being harmonized within the three countries. For example, a consistent system of performance management was developed in the United States and then tailored to the Canadian industrial relations environment. A new job evaluation system was also introduced.

The modification of the job evaluation instrument is being accompanied by compensation adjustments. The same Hay infrastructure that is used for performance evaluation will also be used to establish a pay structure. ‘Effective July, we will have a consistent Hay evaluation throughout North America. As a result, we will then be moving to broad-banding, and it will also be consistent throughout North America,’ explains Sonoco’s HR director. With the new compensation system, employees' pay will be determined similarly throughout the world, but the system will nevertheless reflect conditions in local labour markets. Sonoco's HR director explains: ‘In terms of factors of equivalency between manager benefits—manager of purchasing or plant manager with similar scope of duties, knowledge, and working conditions—all will be the same throughout the world. It is just a matter of how you pay in terms of the points that are attributed to that position in that locale.’

There are distinct differences regarding the training being offered in each country, but also some similarities. The Sonoco HR director points out that ‘Because we are in the same business, there are structural linkages. As well, when something has worked well in the U.S., we meet and determine if it can be transferred across the border. If yes, then we meet and fine tune it, or Canadianize it.’ The design of the training plan is strictly tailored to local needs. However, according to the HR director, Sonoco's common organizational development through Process Excellence initiatives may lead to greater standardization.

Sonoco intends to provide ‘on-line’ training information in which ‘employees will pick through assessment tools and then be advised what their best choice would be, given their preferences, what they learn best, and where these training sites are located. That will be consistent across North America.’

The conduct of labour relations at Sonoco, on the other hand, continues to diverge significantly across borders. This difference is explained by the HR director as being the result of the distinct balance between the industrial parties. He says: ‘The United States favours the employer significantly more, given the laws and industrial structure, especially in the Sunbelt where they have right-to-work legislation. In Canada, there is more balance in making sure that all parties are actually working as partners: government, labour, and management.’ Within the last three years, there has been greater cooperation between Sonoco's management and the different unions in Canada.

The director does not recall any instance in which free trade has influenced collective bargaining in Canada. Six years ago, in a New York State plant, labour had weighed the consequences of their bargaining strategy against the possibility of the plant being moved to Canada. The union was aware that this type of business decision made sense at the time given the imminent reduction of tariffs on Sonoco's cross-border shipments under the FTA and the favourable currency exchange rate. Interestingly, there is no communication between unions in the three countries. The director points out that the unions ‘do share knowledge between provinces, but nobody talks about what is happening in Mexico or in the United States.’

In Canada, management has sought greater cooperation, employee involvement, and flexibility. In return, the unions' bargaining priorities have centered around employment protection, new early retirement clauses, and improved pension benefits in order to protect workers against plant closures. For the first time, agreements have been signed for five-year duration in two bargaining units.

Overall, however, it is the view of Sonoco’s director of HR in Canada that free trade has had absolutely no impact on the company’s labour relations in Canada: ‘There is no connection in terms of how we do things in the U.S. labour relations to how we do things in Canada.’ Nevertheless, we have seen that the trade agreements have provided the company with greater flexibility and mobility for its work force. More subtly, there has been some harmonization of HR policies and activities; however, the HR director cannot say whether this evolution has resulted specifically from greater economic integration in North America or from other factors such as the globalization of markets.

While free trade has had no impact on the company’s labour relations in Canada, it has provided greater flexibility and mobility for its work force.

Levi Strauss

Industry Profile

Levi Strauss is one of about a thousand establishments which comprise the Canadian textile industry. Most of the firms are located in Quebec and Ontario, and together they employ forty-five thousand workers. Approximately one quarter of the Can$6 billion production is exported, and imports represent 45 percent of the Canadian market, which is estimated to be Can$8.4 billion annually (Industrie Canada 1994b).

In North America the level of integration (ratio of intra-North American exports to total North American production) of the apparel and textiles industries is relatively low (Fraser 1995).

Under the FTA, tariffs on textile products between Canada and the United States were reduced by equal amounts of 10 percent annually; duties between the two countries will have been eliminated by 1998. Under NAFTA, virtually all tariffs on textile products between the three North American countries will be eliminated by 1 January 2003.

Under the FTA trade intensified between Canada and the United States. In 1993 sales to the United States represented one-sixth (Can$1.1 billion) of the Canadian production of textile products, or three quarters of Canadian total exports, whereas this proportion was only 55 percent in 1988 (Industrie Canada 1994b). Sixty percent of Canadian imports came from the United States in 1993, compared to 48 percent in 1988.

Company Profile

Levi Strauss is one of the world's biggest brand-name apparel makers (Henricks 1995): it is a globally oriented company with U.S.$6.1 billion annual sales and branch offices and plants in 24 countries around the world, but mainly in Europe and North America. The company is based in San Francisco, and the bulk of its production comes from the United States, where it employs more than 20,000 workers in 30 plants. However, the international share of revenues is increasing steadily. In Canada, the company employs nearly 2,400 employees in its five facilities at Edmonton, Brantford, Stoney Creek, Cornwall, and Rexdale; its Canadian headquarters is in Markham, Ontario. Overall, more than three-quarters of its 37,000 employees worldwide are located in North America.

Levi Strauss is 95 percent family-owned. According to the Canadian HR director, private ownership has permitted the company to become more strategically focused and focused more toward the long term. The company reported earnings of U.S. $492 million in 1994, and net income grew by 31 percent between 1986 and 1994 (Henricks 1995).

Markets and Strategic Objectives

According to its mission statement, Levi Strauss balances profitability with product quality and service. The company focuses strategically on satisfying the customers' needs from the stage of product design to its packaging and delivery. To accomplish this aim, large investments are being made in the latest technology, and the company is concentrating its efforts on clustering manufacturing and distribution units on a regional basis. This strategy has led to some rationalization of operations within the last three years, particularly in the United States. However, the location of Canadian facilities has not changed, and the size of the work force has increased. For instance, the Cornwall sewing facility has doubled in size in the 1990s.

The HR Function

The HR role is vital to Levi's commitment to customer satisfaction. ‘Management understands,’ said the senior vice-president in 1992, ‘that people issues are business issues. You can go out and buy the technology, but if you don't have the people trained and committed to using it, and making changes, changes aren’t going to happen’ (Laabs 1992, 40). At Levi Strauss in the 1990s, the HR focus has changed from being ‘on the cutting edge’ to being more ‘client-driven.’ For this purpose, the HR function in Canada is relatively decentralized and conceptually divided along strategic, operational, and tactical lines. In practice, those segments of responsibility interact and overlap so that the business partners may become fully integrated at all levels of the organization. For its Canadian director, the challenge is to balance all these requirements and determine what the priorities are. Although the HR function was reorganized in 1993, questions remain as to whether some of the functions could be outsourced: ‘not to downsize in staff [however] but to allow them to do different work,’ as the Canadian director puts it. Contrary to what has happened in HR departments in other companies, this reorganization has not led to downsizing of the HR personnel but to an actual increase in staff.

The HR function in Canada is relatively decentralized and conceptually divided along strategic, operational, and tactical lines.

Currently, there are nine people in the central function located at head office. These HR specialists are primarily strategically focused to the long term. As described by the HR director, ‘they are developing the strategies around compensation and benefits, recruitment, policy development, organizational design, and training.’ While most of their time is occupied by strategic thinking, a small portion of their work is also operational and tactical, in the sense that they provide counsel and advice to other directors and managers.

One IR specialist is among the staff employed at the HR central office; however, it is important to note that labour relations at Levi Strauss falls under the purview of each plant manager and, ultimately, the director of operations. The line managers are also responsible for collective bargaining, which makes the process relatively decentralized, so that the IR specialists at the plant level act mainly in an advisory capacity to the line function.

Operationally, each of the five Canadian facilities—three sewing operations, a finishing plant, and a distribution centre—has an HR manager on staff. A small team of three to five individuals serves as advisor to the HR manager. Members may have specific expertise and responsibilities, as is the case for IR. Some of their responsibilities may also be tactical. According to the HR director: ‘In each of those facilities, there is probably lots of work which falls into the tactical aspect of HR, where we could outsource it, whether it is benefits administration, new-hire orientation, etc.’ In addition, the personnel responsible for health and safety, management of change, or organizational development are also reporting to the HR function. The on-site HR staff ultimately reports to the facility manager, who has a ‘dotted line’ of communication with the Canadian HR director. This line of accountability to the HR central office appears to be taking greater importance.

The role of the HR director in Canada is to strategically orient the HR function so that it is aligned with the business. There is a dual responsibility to direct the work of the strategic and operational staff, while keeping current and influencing ‘best practices’ within the industry.

As described by the HR director, the responsibility 'is clearly directing the HR organization on all the different dimensions, including recruitment, terminations, skill development, compensation, benefits, organizational development, and employee well-being.' In addition, the director is a member of the Canadian management team, which allows the HR representative to 'be a partner in running the business.' Finally, as the HR voice in Canada, the director also has a role to play within the North American operation, which is reflected in her indirect reporting relationship to the HR vice-president in San Francisco.

IR/HR in a Free Trade Context

The relationship between the Canadian subsidiary of Levi Strauss and the American head office has intensified during the past two years. Levi Strauss (Canada) used to be one of the many foreign components operating under the umbrella of Levi Strauss International; however, the Canadian company now forms part of Levi Strauss North America, as do the American and Mexican operations. The formation of a North American Division coincided with the negotiation and inception of NAFTA.

A concern for efficiency and economies of scale has laid the foundation for greater cooperation and, to a certain extent, the operational integration of the company in North America. According to the HR director, there is now greater consistency between the three companies: 'That has allowed for a more North American-wide efficient operation.' However, she adds, 'What we have done well is not to lose the identity of the different countries while still creating that North American perspective.'

From a business point of view, Levi Strauss is conscious of the impact of NAFTA on its North American operations. As the HR director stated: 'Levi Strauss & Co. not just supports the NAFTA agreement in principle, it has seen the benefits of it in the organization. For instance, in Canada, we have been able to take advantage of sourcing opportunities.' The possibility under NAFTA of shipping finished products to the sister plants in the United States has, in the opinion of the HR director, created jobs in Canada when the American facilities were not able to meet the domestic demand. This partly explains the increase in the work force in Canada, compared to the downsizing in the United States. According to the HR director, NAFTA 'has allowed the three companies to work much more closely, to tighten their relationship, and it allowed for a more efficient operation, one which still appeals to the local markets.'

For Levi Strauss, there appears to be no direct linkage between the liberalization of North American trade and IR/HR practices.

When assessing whether NAFTA has contributed to any changes in IR/HR decision making, the Canadian HR director's answer is a resounding 'No.' For Levi Strauss, there appears to be no direct linkage between the liberalization of North American trade and IR/HR practices, in part because it is very difficult to disentangle the impact of free trade from globalization. The HR director points out that 'The timing of the two, NAFTA and the move towards a more global organization, is very close in time. So, that is why it is hard to distinguish the two.' She goes on to say that

It is still a question in my mind as to whether it was global competition or NAFTA which has affected HR. Whichever it was, it has been very positive in the sense that it has created best practices. It has allowed more of a brain trust attitude or approach to business rather than something which was specific to different locations. We don't have much of an influence from the Mexican operation; it is more a Canada-U.S. relationship.

Globally, Levi Strauss is recognized for its innovative and progressive HR practices. According to the senior HR vice-president, ‘We have a vision in human resources that employees’ lives are just as important as the quality of the product’ (Laabs 1992, 36). This vision is reflected in a global perspective on HR practices and values and in the global HR structure that has been formally created within the last three years according to which each country's HR department embraces the same corporate vision. As the Canadian HR director describes it, ‘whether it is an Australian working in Canada, a European working in Canada, or Canadians working in Europe, Australia, or Mexico, you don't feel any cultural or value disconnect when you go to a different organization.’ HR is following suit in the company’s evolution into a global organization.

At Levi Strauss, ‘all HR functions have begun to integrate the company's aspirations on a worldwide basis’ (Laabs 1992, 36). An example is a program called ‘Partners in Performance,’ which is an integrated compensation and performance management system implemented on a global basis within the last two years. Precise goals and objectives are set for every individual job, which, according to the HR director, allows ‘people to feel much more aligned with the overall business objectives.’ Everyone's behaviours are being evaluated against the same standard around the globe.

The HR focus has been globally oriented in other areas, including succession planning and leadership development. The first step in designing such programs is usually to establish a task force. A number of employees with diverse expertise and coming from various parts of the world are brought together. To maintain an identity and a voice in the implementation of HR programs such as these, HR organizations from various countries must become actively involved. As the Canadian HR director puts it, ‘Our challenge is to get in and be part of the design teams so that we are not implementing something that does not make sense here in Canada.’

However, despite the integration of best practices and the definition of a global set of competencies, it is important to note that HR planning and strategic thinking continues to be done at the local level: as we have seen, the Canadian HR director continues to report directly to the Canadian president. However, with the inception of Levi Strauss North America, a new reporting relationship was created. While the HR function is not fully integrated in practice, nevertheless, from the HR director's perspective,

Despite the integration of best practices and the definition of a global set of competencies, it is important to note that HR planning and strategic thinking continues to be done at the local level.

Previous to about two years ago, HR here in Canada was much more independent from the U.S. and part of Levi Strauss International; it set a lot of the strategies and the programs, quite separately from the North American organization. There was not a global organization at the time. In the last couple of years that has changed greatly.

Overall, in an environment where HR is considered a business partner, there is a conscious effort to balance global and local needs. As the Canadian director describes it, ‘HR planning is really done on a Canadian basis, and I keep the global objectives in mind.’ This is particularly the case for staffing and recruitment, where there has been no change in cross-border assignments. Similarly, labour relations remain very decentralized. The bargaining units affiliated with the Union Industry of Textile Employees and United Food and Chemical Workers, representing the majority of the hourly workers, have had virtually no contact with their cross-border counterparts, and for the first time last year there was some attempt to discuss bargaining issues among the different Canadian facilities

Because labour relations are very decentralized and based on the needs of each site, it is difficult to pinpoint any common thread linking the different bargaining priorities. Nevertheless, in most cases the duration of the collective agreements continues to be two years on average.

Although HR in Canada has retained a great deal of autonomy, the North American structure has some influence on the Canadian strategic direction. Levi Strauss North America has set its own business objectives and targets, and all employees in North America are being evaluated on their contribution to these goals and remunerated accordingly. In recent years, Levi Strauss has placed a greater emphasis on its variable compensation package. In addition to their base salary, all employees who have met the objectives of Partners in Performance receive merit pay in the form of annual bonuses. In addition, about two years ago, the company introduced an annual incentive plan in which all employees—sewing operators, receptionists, managers, directors—receive an annual bonus if the company attains its financial objectives. Finally, everyone is also eligible for a three-year long-term bonus if the company meets its strategic objectives. What is most interesting, within the NAFTA context, is that these company objectives are set for Levi Strauss North America. Consequently, all employees in Canada, Mexico, and the United States are engaged in a joint venture to compete, not only regionally but also internationally.

Comparative Analysis of Sonoco and Levi Strauss

IR/HR within the Free Trade Context

Although difficult to compare in many respects, the emphasis on IR/HR issues appears to be strategically important for both Sonoco and Levi Strauss. Globally, the links between the IR/HR departments are more accentuated at Levi's. This is well illustrated at Levi's by the creation of the HR Council and the establishment of a number of task forces involving participants from around the world. In North America, furthermore, the level of interaction at the IR/HR level is more formalized at Levi Strauss. Nonetheless, in both organizations there is greater cooperation between the Canadian and American subsidiaries than between subsidiaries in any of the other countries in which they operate. This cooperation has been more evident operationally than in IR/HR management. The intensification of relations within the Levi Strauss North America structure has coincided with NAFTA. The company's recent North American evolution is in contrast to the long-lasting relationship between Sonoco's Canadian and American partners. Generally, in both instances, the North-South affinity mirrors the previously established economic and trade reality.

The emphasis on IR/HR issues appears to be strategically important for both Sonoco and Levi Strauss.

Sonoco's and Levi Strauss' HR departments are functionally organized in a different manner. The larger staff at Levi Strauss, partially due to a larger and more unionized work force, is more decentralized and more specialized. In addition, at Levi Strauss, the plant managers, in consultation with the director of operations, are in charge of daily labour relations issues and collective bargaining. In contrast, at Sonoco the HR/IR staff are generalists who often cumulate both IR and HR functions, and they are more hierarchically structured: all staff located in the different facilities report to the Canadian HR director.

At Sonoco, the director's responsibilities include all aspects of IR/HR, including labour relations, which is not the case at Levi's. Finally, it is important to note that in both instances, the incumbents are considered to be business partners, and they have a voice in the business decision-making process.

As pointed out by Wils (1989), free trade is not at the top of HR managers' agenda: free trade is ‘one drop in the ocean of change’ (Toulouse 1989). This perspective was also conveyed by the directors interviewed for this study. They considered free trade to be primarily an operational issue for the companies. When they were asked whether free trade had affected IR/HR at their companies, their immediate answers were generally negative. Although they were conscious of the business repercussions of free trade and were interested in discovering whether NAFTA would present them with new opportunities, free trade had not, in their view, led them to change their strategic focus.

The only direct impact of free trade on IR/HR was noted by Sonoco's HR director, who mentioned NAFTA's relaxed immigration provisions. As we have seen, these clauses have facilitated greater work force mobility and have increased employment flexibility. In the case of Sonoco, these changes have made it possible to manage human resources across the Canada-U.S. border. Nonetheless, both organizations reported no direct increase in expatriate IR/HR employment or training. This contradicts the Conference Board’s (1993b) argument that companies would have recourse to a greater pool of resources and competencies in order to compete under NAFTA. As indicated by the interviewees, the unemployment situation in Canada has allowed companies to tap into a pool of talented workers without having to recruit internationally. Generally, other than in the case of relaxed immigration provisions, NAFTA is not considered to directly influence the day-to-day activities of either HR department.

Generally, NAFTA is not considered to directly influence the day-to-day activities of either HR department.

More subtly, however, there are indications that corporate head office is beginning to play a greater role in defining HR policies. Both HR departments in Canada have retained their full autonomy in conducting their strategic plan and overseeing day-to-day operations; however, the U.S. parent companies are taking a preeminent role in the development of HR policies and programs which are to be applied across the different borders. For instance, in both cases, as we have seen, the performance-evaluation process has recently been standardized. Sonoco, as well as Levi Strauss, is deliberately defining uniform competencies that are considered necessary to compete on a global front. This development appears to be more closely linked to global strategies than to NAFTA per se.

Compensation has changed at both companies, as is evident in Sonoco’s move to broad-banding and Levi Strauss’s Partners in Performance program, which accentuates the importance of its variable pay system. This is consistent with Roland Thériault's recommendations for organizations to opt for more flexible compensation systems when under global competitive pressures (1994). A portion of the bonus of the employees of Levi Strauss is contingent upon the company's performance in North America; but there is no indication that employees' compensation is based on cross-border comparisons. Contrary to what was reported in the

Canadian HR Reporter (1993), both firms studied here continue to rely on local labour market surveys, especially for their hourly workers.

In terms of labour relations, there appears to be no link between what the two companies are doing in Canada and what they are doing internationally. Sonoco's HR director clearly indicated that the priorities and the behaviours of management, as well as of the bargaining units, are unique to Canada and differ significantly from practice in the United States. At Levi Strauss these priorities and behaviours are in fact difficult to pinpoint because IR is highly decentralized. However, at Sonoco, the Canadian bargaining units have sought greater worker protection and better retirement benefits. In return, management has demanded more cooperation, involvement, and flexibility from the union. These positions corroborate Chaykowski's (1995b) and the Conference Board's (1993a) view that economic integration and its associated pressures represent an incentive for both parties to cooperate. Furthermore, the unions' demands at Sonoco for greater protection is consistent with Gunderson and Verma's (1993) view that under NAFTA there would be considerable need for legislation and programs in the areas of advance termination and retirement benefits.

Finally, when unions are setting their priorities, there seems to be no cross-border consultation between the bargaining units. Even among the different units in Canada, there is little evidence of any formal pattern bargaining. At Levi Strauss, such discussions took place for the first time in 1995. The lack of cohesion among unions and their lack of an international perspective are both consistent with Robinson's (1994) and Lipsig-Mummé's (1995) findings.

Conclusions

Free trade is one of many elements that have shaped the business environment in the 1990s. Although the FTA and NAFTA have contributed to increased trade in North America and forced companies to become more internationally competitive, many firms—especially multinationals such as Sonoco and Levi Strauss—are globally focused anyway. Further, the business impact of NAFTA on the two companies studied here appears to be marginal when compared to the transition that occurred under the FTA, because most tariffs were already reduced or eliminated by the time NAFTA took effect and trade with the United States remains much more significant than trade with the smaller Mexican market. Because the pressures of globalization and free trade within North America occurred simultaneously, it has been difficult to disentangle the relative impacts of the two factors. It has become apparent; however, that economic integration is generating some harmonization pressures on some HR dimensions. In the case of Sonoco and Levi Strauss, the harmonization effect has not yet resulted in pressures to move to the lowest common denominator, as critics of NAFTA feared, but rather has resulted in the importation of ‘best practices,’ which has, in fact, improved HR management in those companies. At both Sonoco and Levi Strauss, the different bargaining units’ priorities and behaviours remain unique, although greater cooperation between management and the unions has occurred. It is apparent that the decentralized and fragmented Canadian labour relations system, as well as the distinct nature of the unions in Canada, is moderating the effects of external influences.

The decentralized and fragmented Canadian labour relations system, as well as the distinct nature of the unions in Canada, is moderating the effects of external influences.

It should be noted that the conclusions reached here are based on the experience of two globally focused manufacturing companies, and they cannot therefore be generalized to apply to firms and industries that are domestically oriented or oriented to North America. Further research on the impact of freer trade on companies with a different orientation is especially important given that Canada is now fostering the expansion of the NAFTA trade block to Mercosur Common Market South American countries such as Chile.

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