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NUMMI: You only live twice

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New United Motor Manufacturing, Inc. (NUMMI) is an extremely successful automobile plant, known for its innovative high performance management systems. These systems co-exist peacefully with a union-management system of industrial relations. Moreover, a lot of experts believe that good labour relations at NUMMI is a factor that allowed the plant to establish innovative management systems and achieve success.

Case 2: NUMMI: You only live twice[1]

Year 1982

In 1963, General Motors opened an automobile assembly plant in Fremont, California. By 1978, this plant employed over 7,200 workers. By 1982, it was closed… General Motors had a lot of sound reasons for closing the plant:

- GM-Fremont ranked at the bottom of GM's plants in productivity and was producing one of the worst-quality automobiles in the entire GM system;
- the union averaged 5,000 to 7,000 grievances per three-year labour contract;
- the plant was characterized by high use of sick leave, slowdowns, wildcat strikes, and sabotage;
- first-line managers were carrying weapons for personal protection;
- daily absenteeism was almost 20 percent;
- drug abuse and alcoholism plagued the workforce.

There was a climate of fear and mistrust between managers and workers. This is how George Nano, union representative at this GM plant described labour relations there: "It was war. At GM we had to fight for everything. Management just did not seem to care. And when management doesn't care, workers won't care either" (O'Reilly and Pfeffer, 2000).

Year 2001

In 1983 General Motors signed a letter of intent with Toyota to re-open the plant, now called New United Motor Manufacturing, Inc. (NUMMI). Toyota wanted to gain a foothold in the US market, learn about working with US suppliers, and see if their manufacturing and management approaches could work with American employees. GM needed a small car (the Nova) to add to its product line and hoped to learn about Toyota's production system. Doug Fraser, then President of the United Auto Workers (UAW) union, saw this as an interesting opportunity and committed the union to work with the new venture. Don Ephlin, UAW head for GM also made a commitment (Adler, 1993).

Now NUMMI is one of the best plants in the industry. It employs over 4,000 union members and produces an average of 87 vehicles per employee, far above the 50 cars per worker at both Saturn and Buick City, the most efficient GM facilities (O'Reilly and Pfeffer, 2000). In 1998 NUMMI won the National Association of Manufacturers' award for excellence. The award noted that this plant managed a changeover to a new model in the remarkable time of only five days and took only 30 days to reach full production. The

[1] Sources: O'Reilly and Pfeffer, 2000; Adler, 1993; Rogovsky, interviews at NUMMI, 1995-1996.

quality of the new vehicles, already one of the highest rated, was nearly 50 per cent better than the old version, while the cost-reduction targets through the launch were exceeded by 86 per cent. In addition the workforce made over 3.2 suggestions per person in 1998, of which 81 per cent were adopted. Over 86 per cent of the plant's team members made suggestions that year, leading to savings of over $27 million (Productivity Consulting Group, 1999).

This is the same plant, the same union and, surprisingly enough, the same workers – NUMMI offered recall rights to the ex-GM plant workforce, 85 per cent of whom accepted. So, what made all the difference?

A tale of two plants

The explanation is simple – the difference in management systems and approaches. New management (mainly Toyota executives), introduced the Toyota system of lean manufacturing, which depends crucially on trust and respect for workers. This system emphasizes teamwork, job security, employee involvement, and worker self-confidence. The system makes all employees responsible for quality and safety and provides a method (the *andon* cord) for any person to stop the line to get help with a quality or safety problem. The estimated cost of line downtime is $15,000 per minute, and the cord is routinely pulled over 100 times per day (O'Reilly and Pfeffer, 2000).

The new system also promotes an egalitarian culture and team approach. NUMMI has three levels of management, compared to five or six levels at other GM plants. All workers at NUMMI are part of a 3-6 member multifunctional team, run by a team leader, who is not a manager but a union member selected jointly by management and the union.

This new management system could not have been implemented successfully in a hostile union environment, which, unfortunately, is not such a rare thing in the automobile industry. NUMMI operates in an environment characterized by peaceful industrial relations based on labour-management dialogue.

O'Reilly and Pfeffer (2000) state:

From the beginning, the NUMMI system has relied on a unique relationship between the union and management...[the union] has supported the NUMMI production system, including the team concept, ...job classifications, nonconfrontational problem solving (asking "why", not "who").

In return for this support, NUMMI management:

- recognized from day 1 the same union (UAW, Local 2244) that represented workers at GM-Fremont;
- agreed to pay union-scale wages;
- agreed to reappoint the union bargaining committee;
- asked union leaders under the old system to resume their role;
- agreed that team leaders (the key production position at NUMMI) should be selected jointly by union and management;

- agreed to a no-layoff policy; [2] and
- signed a new collective agreement.

The new collective agreement starts by stating:

Both parties are undertaking this new proposed relationship with the full intention of fostering an innovative labour relations structure, minimizing traditional adversarial roles and emphasizing mutual trust and good faith (NUMMI internal document, 1993, cited in O'Reilly and Pfeffer, 2000).

Union-management relations of trust and mutual respect are clearly evident when comparing the new and old contracts [3] (see Table NU.1):

Table NU.1. NUMMI: Old and new contracts.

Old GM contract	New NUMMI contract
UAW and GM "recognize their respective responsibilities under federal, state, and local laws relating to fair employment practices."	UAW and NUMMI "will exhibit mutual trust, understanding, and sincerety, and, to the fullest extent possible, will avoid confrontational tactics."
"Employees will be laid off and rehired in accordance with local seniority agreements, with management giving 24-hour notice."	"The company will take affirmative measures before laying off any employees, including such measures as the reduction of salaries of its officers and management"

Interestingly, the old contract ran to over 1,400 pages in eight booklets, while the new one needed only one booklet of less than 100 pages. Why use paper when the trust is already established? As one of the NUMMI union leaders put it: "It's hard to say what's the role of the union, what's the role of the company. It doesn't work that way. It's a partnership. It's a total rethinking of your role" (Levander, 1990).

The examples of Southwest Airlines and NUMMI both show that managers' recognition of the principle of freedom of association and the right to organize can create a healthy industrial relations climate which in turn helps the enterprise to be competitive.

Freedom of association is closely linked with the right to bargain collectively. The effect of collective bargaining on management development has been studied by many experts, most of whom reached the following conclusion long ago:

Collective bargaining seems to have greatly encouraged the development of management... Companies that have been relatively successful in union-management relations gave evidence of following wise basic policies, of negotiating balanced general policies, of developing good implementing and procedural arrangements to make policy effective at the operating level, and of having considerable initiative in labour relations administration. The challenge that unions presented to management has, if viewed broadly, created superior and better-balanced management, even though some exceptions must be recognized (Slichter et al., 1960).

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[2] This is was a significant move – 80 per cent of employees feel that job security is the most important aspect of working at NUMMI.

[3] Source: O'Reilly and Pfeffer, 2000.

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Management and unions can and should be partners. Their cooperation, based on mutual respect and trust, can create a true win-win situation. The following short case shows that even when the market situation apparently requires wage cuts and other measures not particularly favourable to the workers, labour-management cooperation can lead to mutual gains.