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Bhanu Bisht
Research Scholar, Department of Commerce, S.B.S.
Government Post Graduate College, Rudrapur, Uttarakhand, India

Dr. Sanjay Khatri
Professor, Department of Commerce, M.B. Government P.G. College, Haldwani, Nainital, Uttarakhand, India

Examining the dynamics of industrial relations between workers and management and its impact on organizational performance

Bhanu Bisht and Sanjay Khatri

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Abstract

This study investigates the dynamics of worker-management industrial relations and their impact on organizational performance in Indian industries, employing Structural Equation Modeling (SEM) on survey data from 600 workers across sectors like engineering, pharmaceuticals, and FMCG. A cross-sectional quantitative design utilized a structured questionnaire to assess key constructs communication/employee involvement, conflict resolution/grievance handling, fairness/respect/trust, and labour union effectiveness with robust validation (Cronbach's $\alpha > 0.80$, AVE > 0.75) confirming measurement reliability. Findings reveal significant positive effects from fairness/respect/trust ($\beta=0.648$, $p<0.001$) and labour unions ($\beta=0.607$, $p=0.001$) on industrial relations, rejecting the null hypothesis of negative associations, while other factors showed non-significant impacts, highlighting trust and unions as strategic drivers amid evolving labour contexts. These results urge organizations to prioritize fairness-oriented HR practices and union empowerment for enhanced harmony, productivity, and competitiveness in India's industrial landscape.

Keywords: Industrial relations, worker-management relations, structural equation modeling (SEM), labour unions, organizational performance

Introduction

Industrial relations (IR) represent the complex system of interactions among workers, management, and organizational structures that govern workplace harmony, productivity, and conflict management. As modern organizations face increasing competitive pressures and rapid technological advances, the quality of relationships between workers and management has become a critical determinant of organizational success (Budhwar & Debrah, 2019) ^[2]. Effective industrial relations promote cooperation, reduce disputes, and cultivate a workplace climate that supports employee motivation, commitment, and stability. Conversely, poor relations often lead to absenteeism, grievances, turnover intention, and reduced productivity, ultimately weakening organizational performance (Kaufman, 2021) ^[4]. Globally, scholars emphasize that industrial relations are no longer confined to negotiations and conflict resolution but are strategic mechanisms that influence workforce effectiveness and organizational outcomes (Bamber, Lansbury, & Wailes, 2022) ^[1]. The strategic perspective highlights that harmonious IR fosters a supportive climate where employees feel valued and are more willing to contribute to organizational goals. This aligns with social exchange theory, which argues that positive treatment from management leads employees to reciprocate through improved performance and cooperative behavior (Cropanzano & Mitchell, 2005) ^[3]. In this context, trust, communication quality, involvement in decision-making, and fairness in HR practices have emerged as essential drivers of constructive worker-management relations.

In developing economies, including India, effective industrial relations are particularly significant due to diverse labor structures, evolving regulatory frameworks, and the growing role of unions and collective bargaining (Sharma & Purang, 2020) ^[6]. Organizations that invest in meaningful employee participation, transparent communication, and conflict-handling mechanisms are better able to sustain productivity and maintain industrial peace. Empirical studies have consistently shown that positive worker-management relations directly contribute to enhanced organizational performance through improved morale, lower conflict costs, and stronger alignment between employee and organizational goals (Roche, Teague, & Colvin, 2014) ^[18].

Given these dynamics, examining the relationship between worker-management industrial

Correspondence
Bhanu Bisht
Research Scholar, Department of Commerce, S.B.S.
Government Post Graduate College, Rudrapur, Uttarakhand, India

relations and organizational performance is crucial for understanding how organizations can leverage human resources as a strategic asset. This study aims to explore the key dimensions of industrial relations, the factors shaping their effectiveness, and the extent to which these relations influence organizational outcomes. By generating empirical evidence, the research contributes to ongoing discussions on strategic human resource management and provides actionable insights for policymakers, practitioners, and organizational leaders.

Literature Review

Industrial relations (IR) have long been recognized as a cornerstone of organizational functioning, influencing both workplace harmony and business performance. Classical perspectives define industrial relations as the study of the employment relationship, focusing on interactions among workers, management, and regulatory institutions (Kaufman, 2021)^[4]. Over time, this field has expanded to include organizational culture, communication systems, leadership styles, and employee participation, reflecting the growing complexity of work environments (Bamber, Lansbury, & Wailes, 2022)^[1].

1. Worker-Management Relations and Industrial Harmony

Positive worker-management relations are essential for maintaining industrial harmony, which contributes to organizational stability and efficient operations. According to Budhwar and Debrah (2019)^[2], mutual trust, transparent communication, and participative decision-making are foundational to productive industrial relations. When management engages employees in problem-solving and acknowledges their contributions, employees demonstrate higher commitment and lower resistance to organizational policies. Studies also highlight that industrial relations climate a shared perception of fairness, cooperation, and respect strongly predicts employees' intentions to stay and their overall morale (Sharma & Purang, 2020)^[6].

Research consistently shows that poor industrial relations manifest through conflicts, grievances, strikes, and high absenteeism, all of which impose substantial costs on organizations (Roche, Teague, & Colvin, 2014)^[18]. These disruptions negatively impact workflow and create uncertainty that undermines employee confidence. Thus, the ability of management to maintain cooperative relationships with workers is not only a human resource priority but also a strategic requirement for organizational continuity.

2. Drivers of Effective Industrial Relations

Several organizational factors contribute to effective worker-management relations. Communication quality plays a critical role, as open information sharing fosters transparency and reduces misunderstandings (Budhwar & Mellahi, 2020)^[10]. Conflict-resolution mechanisms, such as grievance handling processes and collective bargaining systems, also determine the effectiveness of industrial relations. According to Colvin and Darbshire (2013)^[12], organizations with structured negotiation and mediation practices experience fewer disputes and greater employee satisfaction.

Leadership style is another crucial determinant. Transformational leaders who inspire trust and cooperation tend to foster stronger industrial relations environments than

authoritarian leaders who rely on control and coercion (Avolio & Bass, 2004)^[7]. Furthermore, employee involvement in organizational decision-making enhances perceived fairness, leading to stronger relational bonds between employees and management.

3. Industrial Relations and Organizational Performance

A significant body of research supports the view that industrial relations are directly linked to organizational performance. The performance outcomes include productivity, service quality, financial returns, and employee well-being (Kaufman, 2021)^[4]. According to Bamber *et al.* (2022)^[1], constructive worker-management relations create a synergistic environment in which employees are more motivated, innovative, and resilient to change. Social exchange theory suggests that when employees feel valued and treated fairly, they reciprocate through enhanced performance and reduced counterproductive behavior (Cropanzano & Mitchell, 2005)^[3].

Empirical studies across industries demonstrate a strong correlation between harmonious industrial relations and improved organizational outcomes. For example, Singh and Singh (2019)^[17] found that manufacturing firms with robust IR practices reported significantly higher productivity and lower turnover. Similarly, Teague and Roche (2014)^[5] observed that organizations with collaborative IR frameworks experienced more successful change initiatives, highlighting the strategic importance of worker-management interactions in achieving business objectives.

4. Changing Industrial Relations in the Contemporary Workplace

Globalization, technological advancements, and evolving workforce demographics have transformed traditional industrial relations. Modern organizations emphasize flexibility, employee empowerment, and collaborative problem-solving rather than hierarchical control (Budd, Johnstone, & Deery, 2021)^[11]. Digital communication tools, hybrid work arrangements, and shifting employee expectations demand new IR strategies focused on trust-building and adaptability. This evolution reflects a broader transition toward strategic human resource management, where worker-management relations are viewed as dynamic, reciprocal, and central to organizational competitiveness.

Research Gap

Despite extensive literature on industrial relations (IR) and organizational performance, several significant gaps remain unaddressed. First, much of the existing research predominantly adopts a traditional perspective, focusing on conflict, collective bargaining, and union-management negotiations (Kaufman, 2021)^[4]. However, contemporary workplaces emphasize collaboration, communication, and participatory management, and empirical studies integrating these modern relational dimensions remain limited. This indicates a gap in understanding how newer determinants such as trust, involvement, and communication quality shape worker-management relations in evolving organizational contexts.

Second, prior studies have extensively analyzed IR frameworks in Western economies, but evidence from developing countries, especially India, is comparatively scarce (Budhwar & Debrah, 2019)^[2]. Given the socio-

cultural diversity, informal labor structures, and varying management practices in Indian workplaces, findings from Western contexts may not be directly applicable. There is therefore a need for context-specific empirical studies that capture the unique dynamics of industrial relations within Indian organizations.

Third, although several studies acknowledge that worker-management relations influence organizational performance, few investigate the mechanisms through which this relationship occurs. Existing research tends to treat IR as a broad construct without examining its sub-dimensions such as grievance handling, fairness perception, employee participation, or leadership style and how each independently contributes to organizational outcomes (Roche, Teague, & Colvin, 2014) [18]. This lack of multidimensional analysis creates a theoretical gap in understanding the pathways linking IR to performance.

Fourth, many earlier studies rely on qualitative or descriptive methodologies, which limit generalizability. There is a growing need for quantitative, SEM-based models that can empirically test causal relationships between worker-management relations and organizational performance (Bamber, Lansbury, & Wailes, 2022) [1]. Structural Equation Modeling allows for the simultaneous testing of multiple variables, offering a more rigorous assessment of how IR dynamics shape organizational results.

Fifth, the influence of organizational culture, leadership, communication technologies, and changing work arrangements (e.g., hybrid work) on industrial relations has received insufficient attention. Contemporary research highlights that evolving workplace environments require new IR approaches (Budd, Johnstone, & Deery, 2021) [11], yet empirical work linking these changes to organizational performance outcomes remains limited.

Finally, little research explores industrial relations from an integrative perspective that considers both employee and management viewpoints simultaneously. Studies often assess only one side, leading to incomplete insights into relational dynamics (Sharma & Purang, 2020) [6]. This creates a gap in understanding how perceptions differ between workers and management and how these differences affect organizational performance.

Given these gaps, the present study seeks to provide a comprehensive, empirical examination of worker-management industrial relations and their impact on organizational performance, particularly in the Indian context. By applying a structured analytical model, this research aims to address unresolved theoretical, contextual, and methodological gaps in existing literature.

Objective

To examine the industrial relations between workers and management.

Hypothesis

- **H₀:** There negative relationship between workers and management in terms of industrial relations.
- **H_a:** There Positive relationship between workers and management in terms of industrial relations.

Research design

- The study adopts a descriptive and explanatory research design to measure the nature of worker-management industrial relations and test hypothesized relationships

among key constructs such as communication and employee involvement, conflict resolution and grievance handling, fairness-respect-trust in workplace relationships, labour union effectiveness, and overall industrial relations.

- A cross-sectional survey approach was used, collecting data at a single point in time from industrial workers across multiple sectors to empirically test the proposed hypotheses using SEM.

Population, sampling and sample

- The target population consists of industrial workers employed in sectors such as engineering and manufacturing, pharmaceuticals and healthcare, FMCG, automobile and auto components, textiles and garments, and other related industries.
- The achieved sample comprises 600 workers, predominantly male (75.5%), with the largest age groups being 25-35 years (38%) and 36-45 years (34%), and with varied education levels from below 10th to postgraduate and Diploma/ITI qualifications.

Instrument and measures

- Data were collected using a structured questionnaire containing items representing latent constructs: Communication and Employee Involvement (CEI), Conflict Resolution and Grievance Handling (CRGH), Fairness, Respect and Trust in Workplace Relationships (FRTWR), Role and Effectiveness of Labour Unions (RELU), and overall Industrial Relations (IR).
- All constructs demonstrated strong psychometric properties: Cronbach's alpha values exceeded 0.80, composite reliability ranged from about 0.90 to 0.94, and Average Variance Extracted (AVE) values were above 0.75, confirming internal consistency and convergent validity of the measurement scales.

Data collection procedure

- Respondents were approached in their respective organizations and requested to complete the questionnaire, capturing demographic details (age, gender, education, industry type, work experience, experience in current organization, employment type, skill level, monthly salary, and average working hours) along with perceptions of industrial relations variables.
- The resulting dataset reflects diverse employment conditions, with a mix of permanent, temporary and contractual workers, semi-skilled and skilled employees, and varied wage and working-hour profiles, providing a broad empirical base for model testing.

Data analysis and hypothesis testing

- Data analysis began with descriptive statistics to profile the respondents, followed by assessment of the measurement model using reliability and validity statistics (Cronbach's alpha, composite reliability, AVE) within an SEM framework.
- The structural model was then estimated to test the hypothesized paths; results show that fairness-respect-trust in workplace relationships and the role/effectiveness of labour unions have significant positive effects on industrial relations, whereas communication and employee involvement and conflict resolution and grievance handling show positive but statistically insignificant paths in this sample

Table 1: Data analysis

Age		
	Frequency	Percent
Below 25 years	36	6.0
25-35 years	228	38.0
36-45 years	204	34.0
Above 45 years	132	22.0
Gender		
Male	453	75.5
Female	147	24.5
Education		
Below 10th	68	11.3
10th-12th	169	28.2
Diploma/ITI	118	19.7
Graduate	189	31.5
Postgraduate	56	9.3
Type of Industry		
Automobile & Auto Components	93	15.5
Textile & Garments	50	8.3
Pharmaceutical & Healthcare	119	19.8
Engineering & Manufacturing	158	26.3
FMCG	97	16.2
Other	83	13.8
Type work Experience		
Less than 1 year	63	10.5
1-3 years	144	24.0
3-5 years	127	21.2
5-10 years	173	28.8
More than 10 years	93	15.5
Experience in Current Organization		
Less than 1 year	83	13.8
1-3 years	214	35.7
3-5 years	166	27.7
5-10 years	111	18.5
More than 10 years	26	4.3
Employment Type		
Permanent	255	42.5
Temporary	181	30.2
Contractual	164	27.3
Skill Level		
Skilled	210	35.0
Semi-Skilled	273	45.5
Unskilled	117	19.5
Monthly Salary		
Below 12,000	104	17.3
12,000-20,000	245	40.8
20,000-25,000	106	17.7
25,000 - 30,000	78	13.0
Above 30,000	67	11.2
Average Working Hour		
Less than 8 Hours	28	4.7
8 Hours	296	49.3
9-12 Hours	212	35.3
More than 12 Hours	64	10.7

The demographic profile of the respondents reveals a predominantly male (75.5%) industrial workforce, largely concentrated in the 25-35 years (38%) and 36-45 years (34%) age groups, indicating that most participants are in their prime working years. The sample reflects a mix of educational qualifications, with a significant proportion being graduates (31.5%) and individuals with 10th-12th education (28.2%), along with a considerable number of

Diploma/ITI holders (19.7%), suggesting a combination of technically trained and academically educated workers. Respondents represent diverse industries, particularly Engineering & Manufacturing (26.3%), Pharmaceuticals & Healthcare (19.8%), FMCG (16.2%), and Automobile components (15.5%), making the sample sectorally rich. Work experience varies, with most having 5-10 years (28.8%) or 1-3 years (24%) of total experience, while their tenure in the current organization is mostly 1-3 years (35.7%), indicating moderate stability but noticeable mobility among industrial workers. Employment types show that less than half are permanent (42.5%), with the rest being temporary or contractual, reflecting widespread flexible labor practices. Skill levels are dominated by semi-skilled (45.5%) and skilled (35%) workers, while salary distribution highlights that most earn between ₹12,000-20,000 (40.8%), consistent with industrial wage norms. Additionally, nearly half the respondents work standard 8-hour shifts (49.3%), though a substantial proportion work 9-12 hours (35.3%), suggesting prevalence of extended work schedules. Overall, the demographic data depict a diverse and representative industrial workforce with varied work experiences, skill levels, and employment conditions.

SEM Path Model

Structural Equation Modeling (SEM) is a sophisticated multivariate technique that enables the simultaneous analysis of multiple relationships among both observed variables and latent constructs. By integrating the principles of factor analysis and multiple regression, SEM provides a comprehensive method for examining theoretical frameworks and the underlying causal pathways among variables.

A key component of SEM is the path model, which offers a graphical depiction of the hypothesized relationships. These models include both directly measured indicators and latent variables inferred from them. Arrows within the model represent the direction and type of relationships, indicating whether the associations are causal (one-way) or correlational (two-way).

In disciplines such as social sciences, education, psychology, and business research, SEM has become a preferred method for testing complex hypotheses. It is particularly effective for exploring mediation and moderation effects, as well as reciprocal relationships between constructs. Through SEM, researchers can assess both the measurement model which evaluates how well observed indicators reflect their respective latent variables and the structural model which tests the proposed causal linkages among constructs.

This integrated approach not only enhances the rigor of hypothesis testing but also strengthens the empirical validation of theoretical models. As a result, SEM serves as a powerful tool for making informed decisions based on data-driven insights.

Table 2: Reliability and Validity Statistics of Constructs

Construct	Cronbach's Alpha	Composite Reliability (ρ_A)	Composite Reliability (ρ_C)	AVE	Construct
CEI (Communication & Employee Involvement)	0.852	0.856	0.910	0.771	CEI (Communication & Employee Involvement)
CRGH (Conflict Resolution & Grievance Handling)	0.848	0.849	0.908	0.766	CRGH (Conflict Resolution & Grievance Handling)
FRTWR (Fairness, Respect & Trust in Workplace Relationships)	0.864	0.864	0.917	0.787	FRTWR (Fairness, Respect & Trust in Workplace Relationships)
IR (Industrial Relations)	0.803	0.850	0.944	0.775	IR (Industrial Relations)
RELU (Role and Effectiveness of Labour Unions)	0.846	0.846	0.907	0.764	RELU (Role and Effectiveness of Labour Unions)

Source: Compute Data

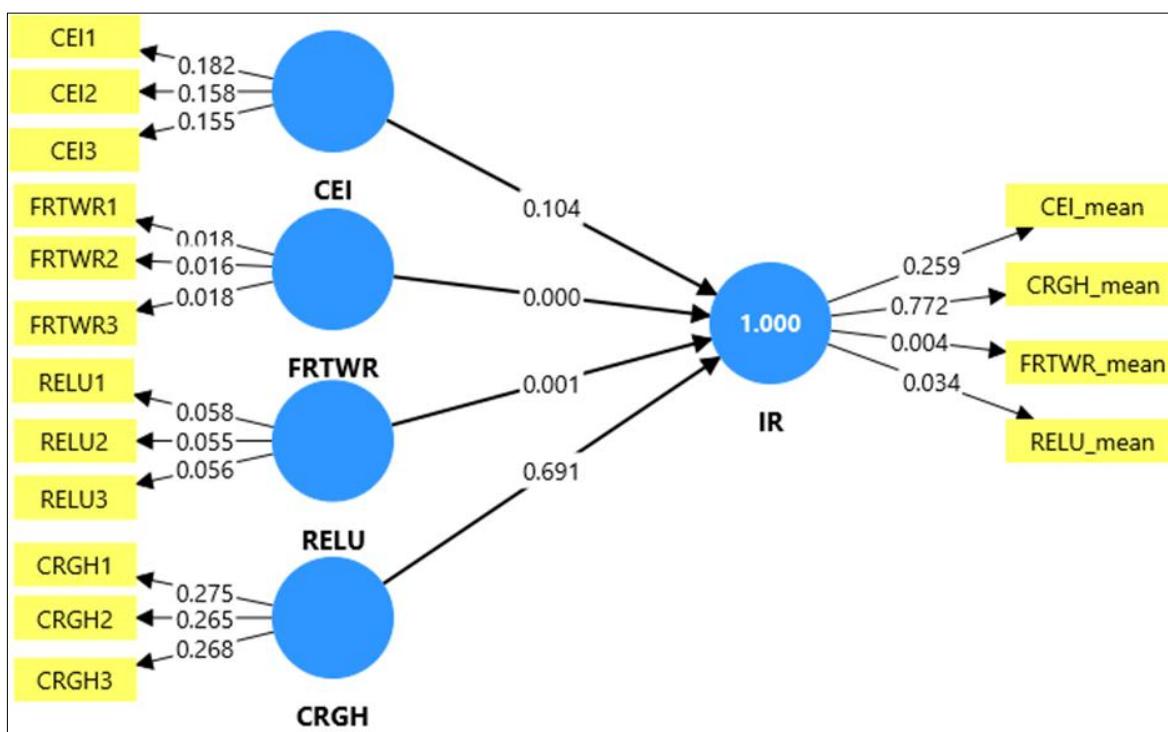
The assessment of the measurement model reveals robust psychometric properties across all latent constructs under investigation. Internal consistency is firmly established, with Cronbach's alpha values exceeding the recommended benchmark of 0.70 for each construct Communication and Employee Involvement (CEI = 0.852), Conflict Resolution and Grievance Handling (CRGH = 0.848), Fairness, Respect and Trust in Workplace Relationships (FRTWR = 0.864), Industrial Relations (IR = 0.803), and Role and Effectiveness of Labour Union (RELU = 0.846). These results indicate a high degree of consistency among the items measuring each construct, as proposed by Nunnally and Bernstein (1994).

In addition to internal reliability, composite reliability (CR) values for the constructs fall within a high range of 0.907 to 0.944. This further affirms the reliability of the

measurement scales, exceeding the 0.70 criterion established in the literature (Hair *et al.*, 2019). Convergent validity is also demonstrated through Average Variance Extracted (AVE) values, all of which are above 0.75 well beyond the 0.50 minimum recommended by Fornell and Larcker (1981). This suggests that a substantial portion of variance in each construct is captured by its corresponding indicators.

Taken together, the results confirm that the observed variables adequately represent their intended latent constructs. Therefore, the measurement model meets the reliability and validity conditions required for advancing to structural model assessment within SEM.

Path Model

**Table 3:** Structural Model - Path Coefficients Summary

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
CEI -> IR	0.330	0.343	0.203	1.626	0.104
CRGH -> IR	0.103	0.256	0.261	0.397	0.691
FRTWR -> IR	0.648	0.526	0.164	3.954	0.000
RELU -> IR	0.607	0.505	0.175	3.473	0.001

Source: Compute Data

Interpretation: The structural model analysis provides insights into the strength and direction of relationships among the latent variables influencing Industrial Relations (IR). The findings reveal that some variables have a statistically significant effect on IR, while others do not demonstrate a strong influence within the context of this study.

The path from Fairness, Respect, and Trust in Workplace Relationships (FRTWR) to Industrial Relations shows a strong and significant impact ($\beta = 0.648$, $T = 3.954$, $p < 0.001$). This indicates that when employees experience fairness and mutual respect in their work environment, it substantially enhances industrial relations. The result supports principles from Social Exchange Theory, suggesting that reciprocal, trust-based relationships foster positive organizational outcomes (Blau, 1964; Cropanzano & Mitchell, 2005)^[3].

Similarly, the path coefficient from Role and Effectiveness of Labour Union (RELU) to IR is statistically significant and positive ($\beta = 0.607$, $T = 3.473$, $p = 0.001$). This emphasizes that efficient union functioning through advocacy, negotiation, and conflict resolution contributes significantly to harmonious and stable industrial relations. These findings align with literature emphasizing the importance of unions in maintaining workplace balance and protecting employee rights (Kaufman, 2004).

Conversely, the paths from Communication and Employee Involvement (CEI) ($\beta = 0.330$, $T = 1.626$, $p = 0.104$) and Conflict Resolution and Grievance Handling (CRGH) ($\beta = 0.103$, $T = 0.397$, $p = 0.691$) to IR are statistically insignificant. Although the relationships are in the expected positive direction, the results suggest that their influence is not strong enough to reach statistical significance. This could be attributed to contextual factors, such as variability in communication practices across organizations or inconsistent implementation of grievance procedures.

Overall, the structural model highlights the central role of trust-based workplace relationships and union effectiveness in fostering sound industrial relations. At the same time, it suggests that communication strategies and grievance handling mechanisms may require stronger execution or cultural adaptation to achieve measurable outcomes.

Conclusion

The study empirically demonstrates a positive relationship between workers and management in industrial relations, rejecting the null hypothesis and affirming that effective relational dynamics enhance organizational performance in Indian industries.

Strong fairness, respect, and trust in workplace relationships, alongside effective labour unions, emerge as primary drivers of harmonious industrial relations, while communication and grievance mechanisms warrant improved implementation for greater impact. These findings underscore the strategic value of trust-based practices and union roles in reducing conflicts, boosting morale, and sustaining productivity amid India's evolving labour landscape.

Organizations should adopt fairness-oriented HR policies, empower unions through transparent negotiations, and adapt communication strategies to contextual needs, thereby leveraging worker-management synergy for competitive advantage. Future research could employ longitudinal

designs and dual-perspective data to explore causal mechanisms and sector variations.

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