



Handling Restructuring *Collective Agreements on Employment and Competitiveness*



EUROPEAN FOUNDATION
for the Improvement of Living and Working Conditions

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Collective Agreements on Employment and Competitiveness



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About the authors

Keith Sisson is Emeritus Professor of Industrial Relations and researcher at the University of Warwick Business School's Industrial Relations Research Unit, having previously been its Director for 13 years.

Antonio Martín Artiles lectures in Sociology of Work and Industrial Relations in the Faculty of Political Science and Sociology at the Universitat Autònoma de Barcelona (UAB).

The authors acknowledge the assistance of **Ramón Alós-Moner** in the preparation of this report.

About the Research Group

The Research Group for the Foundation's project 'Collective Agreements on Employment and Competitiveness' is composed of the following members:

Jacques Freyssinet, Institut de Recherches Economiques et Sociales (IRES), Paris

Hubert Krieger, European Foundation for the Improvement of Living and Working Conditions, Dublin

Antonio Martín Artiles, Universitat Autònoma de Barcelona (UAB)

Kevin O'Kelly, European Foundation for the Improvement of Living and Working Conditions, Dublin

Claus Schnabel, University of Erlangen-Nürnberg

Hartmut Seifert, Hans Böckler Stiftung, Dusseldorf

Keith Sisson, Industrial Relations Research Unit (IRRU), University of Warwick, Coventry

About the National Correspondents

Special thanks are due to the correspondents in the 11 EU Member States who were responsible for the case studies on which this report is based. In alphabetical order by country, the teams comprised the following:

Austria: Manuela Blum, Jörg Flecker, Christophe Hermann and Lisa Fischer

Denmark: Herman Knudsen, Jens Lind and Ole R. Sørensen

Finland: Tuire Santamäki-Vuori

France: Olivier Mériaux and Alexandre Bilous

Germany: Thorsten Schulten, Hartmut Seifert and Stefan Zagelmeyer

Ireland: Joe Wallace

Italy: Francesca Stanzani and Volker Telljohann

Netherlands: Rien Huiskamp

Spain: Antonio Martín Artiles and Ramón Alós-Moner

Sweden: Carin Wiberg

United Kingdom: Jim Arrowsmith, Mark Hall and Paul Marginson

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Keith Sisson
and
Antonio Martín Artiles



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Foreword

At the special European Council meeting in Luxembourg in November 1997, the European Employment Strategy was adopted, with the inclusion of the Employment Title in the Amsterdam Treaty. Employment has moved centre-stage as a policy priority of the European Union and is viewed by Member States as ‘a matter of common concern’. They have committed themselves to drawing up and submitting to the European Commission, annually, National Action Plans on Employment, drafted around the four pillars of the Employment Guidelines — employability, entrepreneurship, adaptability and equal opportunities. Through this process, the EU employment policy is translated into national policies and actions.

At the enterprise level, there is a growing interest among management and worker representatives in the preservation and creation of jobs. To survive and remain competitive in an increasingly global business environment, enterprises are faced with the need to change, restructure and adapt their organisation of work. In this competitive environment, there are many examples of innovative approaches designed to meet the challenge of the markets. One such tactic is to reach an agreement collectively with the workforce on how to achieve a balance between its concerns with job security and the need for the enterprise to remain an efficient and effective player in its particular market sector.

In the early stages, such collective agreements were considered as forms of concession bargaining, with a more adversarial approach to the negotiating process (win – lose approach). In more recent times, however, negotiations have invariably followed the partnership model, with the views and suggestions of the employees and their representatives taken into consideration in the formulation of an agreed business strategy (win – win approach). These agreements, called ‘pacts for employment and competitiveness’ (PECs) in this report, are different in their approach to the traditional form of labour market regulation, since they bring to the negotiations three key,

overlapping principles: employment, competitiveness and partnership. The negotiation of PECs is frequently influenced by factors external to the enterprise, such as national and EU policies on employment, taxation, social security, training and innovation, and national or local/regional authorities are often involved in forging agreements. PECs, therefore, might combine traditional collective bargaining with the broader labour market, fiscal and industrial policies.

To take account of this new joint approach to collective negotiations, the European Foundation for the Improvement of Living and Working Conditions (subsequently referred to as the Foundation) initiated an investigation of PECs. This project is designed to study how such agreements are making a contribution to the European Employment Strategy, in particular through the pillars of *employability and adaptability*.

A network of national experts in 11 EU Member States carried out 43 case studies, within an agreed framework, and this publication is an analysis of their reports. It examines how PECs are negotiated and implemented and by whom; what issues are included; how they relate to national policies; the motives of the parties to the negotiations; and the effects on employment and competitiveness.

This is the third publication of the Foundation's PECs project, following on from an assessment of PECs and related issues reported on the Foundation's website, *EIROOnline*, and a paper which defined the key concepts and set out the analytical framework for the project. It is intended to publish a fourth report, companion to the other three, which will compare the national systems and trends within which PECs are negotiated.

We believe that this PECs project will help to highlight the innovative approach being taken in meeting the concerns of management, workers and authorities involved with the preservation and creation of jobs. We hope it will provide a better understanding of how such agreements can contribute to increased employment, a better industrial relations climate and a recognition of the interdependence of job security, on the one hand, and greater efficiency and productivity, on the other.

Raymond-Pierre Bodin
Director

Eric Verborgh
Deputy Director




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Preface

In the words of the European Commission's 1997 Green Paper on *Partnership for a new organisation of work* (European Commission, 1997a): 'The need to improve the employment situation by increasing competitiveness has been at the heart of EU policy and was given added impetus with the publication of the White Paper on *Growth, Competitiveness and Employment* in 1993.' Taking up the challenge, an increasing number of collective agreements have been concluded in many EU Member States at the inter-professional, sectoral and company/workplace levels, linking employment to competitiveness.

At the inter-professional level, in countries such as Finland, Greece, Ireland, Italy, Portugal and Spain, these agreements are commonly referred to as *social pacts*. They have tended to be tripartite and to involve government (either directly or indirectly), employers' organisations and trade union representatives. Typically, they have covered a wide range of issues besides employment, including developments in wages, social security and public expenditure. The initial stimulus for these agreements has often been the pressures to meet the criteria for membership of the Economic and Monetary Union (EMU).

At the sectoral and company/workplace levels, these agreements — called *pacts for employment and competitiveness* (PECs) in this report, to distinguish them from social pacts — have primarily involved management and employee representatives, although public authorities have also sometimes been involved. Typically, these PECs have combined measures promoting greater flexibility of pay, working time and work organisation, together with the preservation and/or creation of jobs. Significantly, this is often the first time that employment has been on the negotiating agenda in this form. Moreover, the PECs appear all the more remarkable for being concluded in an environment of considerable uncertainty as well as, in some countries, a

declining influence for collective bargaining over traditional matters such as pay and working time.

It is against this background that the European Foundation for the Improvement of Living and Working Conditions (subsequently referred to as the Foundation) decided to launch a major investigation in 1998 into the nature and extent of PECs at the sectoral and company/workplace levels and to explore the links they establish between employment and competitiveness.

The main focus of the investigation is on EU Member States and the objectives are:

- to increase awareness and understanding among governments, social partners and the general public of the (possible and de facto) contribution of different initiatives within existing industrial relations structures for the improvement of employment and competitiveness;
- to focus, in particular, on explicit agreements which link activities to protect and create employment with different measures to improve competitiveness;
- to enable policy-makers and negotiators of all three parties to acquire new ideas based on the analysis of innovative agreements and initiatives.

In order to achieve these objectives, the investigation asks a number of major questions:

- How is the *emergence* of PECs at this particular time to be explained?
- What is the *diffusion* of PECs?
- *How* are PECs being implemented?
- What are the reasons for the different *extent and nature* of diffusion and implementation?
- What is the *relationship* between PECs and public employment policy (for example, are they complementary or substitutes)?
- How do PECs *link* employment to competitiveness?
- What are the *motives* of the parties in reaching PECs?
- What are the *effects* of PECs (directly on employment and competitiveness, and indirectly on human resource management and the industrial relations system)?
- What are the conditions for the *success or failure* of PECs?
- What are the *prospects* for PECs?
- What can be *learned* by negotiators and policy-makers about PECs, taking into account the specific context of each initiative?

This report is a detailed exploration of the key features of PECs at sectoral and company/workplace levels and the issues raised by their negotiation. It is the third in a series dealing with the various activities of the investigation. Two papers have already been published:



one dealing with the investigation's key concepts, analytical framework and methods (Sisson *et al.*, 1999), and one summarising the *EIRO* records that deal with the issues (Zagelmeyer, 2000a).

Keith Sisson and Antonio Martín Artiles have had the primary responsibility for preparing the present report. Each member of the Research Group has, nonetheless, made a significant contribution to its structure and content, as well as to the conceptual framework underpinning it. Needless to say, not every member of the group agrees with every single statement that appears in this final version, but there is a significant consensus about the broad thrust of the argument and approach.



Chapter 1

Introduction

The specific focus and aims of this report reflect the overall project's objectives of improving the quality of data and analysis available to policy-makers at organisational, national and European Union (EU) levels. The focus is on collective agreements dealing with employment and competitiveness — referred to here as *pacts for employment and competitiveness* (PECs) — at sectoral and company/workplace levels. The main aims are as follows:

- to explore the key features of PECs and the issues raised by their negotiation;
- to identify any practical lessons that might be helpful in successfully negotiating PECs; and
- to attempt a preliminary assessment of the significance of PECs and the implications of the findings for policy-makers.

The first section of this chapter begins by briefly restating the rationale for the project found in the project's concept paper (Sisson *et al*, 1999) and the focus of this report on the sectoral and company/workplace levels. The second section considers some of the key theoretical issues which the project raises and which form the basis of the assessment in Chapter 10. The third section describes the data on which the report is based and how it was collected. Finally, the fourth section gives details of the structure of this report.

Rationale

The policy context

A major reason for investigating PECs is their policy significance. PECs bring together the three elements at the heart of EU economic and social policy — competitiveness, employment and partnership or social dialogue. The focus on *competitiveness* reflects developments such as trade

liberalisation (for example, the Single European Market and World Trade Agreements), the emergence of a world market for capital and the growth in the number and significance of multinational companies (MNCs), coupled with the widespread diffusion of information technology. The focus on *employment* reflects concerns about Europe's performance in terms of the main indicators and how they compare with the USA, both matters being a recurrent theme in the debate within the OECD (1994, 1995 and 1998) and in the EU (European Commission, 1993 and 1997b). In the case of the EU, a particular cause of concern has been the persistent high levels of unemployment and low rates of job creation. As Sarfati (1998) reports:

The lack of resilience of the 'job machine' brought to the forefront debate on 'jobless growth and querying about what went wrong in Europe and who were the main culprits, especially when comparing the European performance with US exceptional job creation outcomes and some better than average results in some European countries, particularly the Netherlands, Norway and Ireland, and more recently the United Kingdom.

The questioning resulted in the highly controversial debate on 'labour market flexibility' within the OECD and the European Union, focusing around the best path to achieve high competitiveness in a globalised economy while maintaining a socially acceptable level of employment.

For its part, the European Commission (1999) identifies two major reasons for Europe's relatively poor performance: firstly, 'an inability to handle the transformation of the labour market' and, secondly, difficulties in handling macroeconomic shocks, which EMU is designed to help remedy. The European Commission states that the EU does not have 'a good springboard to new skills and jobs . . . At the same time Europe's adaptation to new technologies is relatively slow both in terms of work organisation and the lack of opportunities for those in work and for those out of work to develop and renew their skills throughout their working life'.

Along with legislation and financial support (through EU structural funds), the process of *partnership* or social dialogue enters into the equation as one of the main policy instruments for tackling employment issues. Social dialogue, which finds its most visible expression in the agreement on social policy of the 1991 Maastricht Treaty, is not only seen as the key instrument in bringing about the modernisation of work organisation (European Commission, 1997a), but also in achieving wider social goals. The European Commission's *Social Action Programme 1998-2000*, for example, talks in terms of the 'collaborative approach' as a 'prerequisite for achieving real change' (European Commission, 1998a).

A similar thread runs through the European Commission's report *Managing Change* (1998b). Like the approach of the Commission more generally, the implicit assumption is that it is unwise to leave the process of restructuring entirely to market mechanisms. The report states:

Good forward planning and dialogue allow more effective management of industrial change. With their help we can make the right choices for the future and turn change to our advantage . . . The systematic development of social dialogue within companies, nationally and at European level, is fundamental to managing change and preventing negative social consequences and deterioration of the social fabric (national levels). Social dialogue ensures a balance is maintained between corporate flexibility and workers' safety.

As well as giving employment a treaty basis at the Amsterdam Inter-Governmental Conference in June 1997, the Extraordinary Jobs Summit in November of the same year began a rolling

programme of yearly planning, monitoring, examination and re-adjustment based on the four pillars of priority action, each with its own set of guidelines, namely:

- *improving employability* — making sure people can develop the right skills to take up job opportunities in a fast-changing world;
- *developing entrepreneurship* — making it easier to start and run a business and to employ people in it;
- *encouraging adaptability* — developing flexible ways in businesses and their employees of working to reconcile security and flexibility; and
- *equal opportunities* — strengthening the policies for equal access for women and men, and equal treatment at work.

In the words of the 1997 report by the European Industrial Relations Observatory (EIRO) on *Collective bargaining on employment in Europe*, the guidelines:

- emphasise the importance of local employment initiatives and territorial pacts, bringing together all involved at local, regional and national levels;
- urge the social partners to ‘conclude as soon as possible a framework agreement to open workplaces across Europe for training, work practice, traineeships and other forms of employability measures and to agree on the terms and conditions and to continue the impressive contribution over the past five years to wage moderation’; and
- call on the social partners to ‘negotiate, at the appropriate levels, particularly in economic sectors undergoing major structural change, agreements on work organisation and flexible working arrangements, including where appropriate reductions in working time, with the aim of making enterprises productive and competitive, and achieving the required balance between flexibility and security’.

Pre-dating and paralleling developments at EU level, there were negotiations between the national level social partners and governments in a number of EU Member States about what have come to be known as ‘social pacts’. In such pacts, major considerations were a concern to bring public finances in line with the Maastricht convergence criteria for EMU and the coming to power of social democratic or left-of-centre governments, helping to raise the level of debate and expectations about employment matters. Typically, a key feature of these pacts has been a commitment to promote investment and to create more employment in exchange for moderation of wages and a reduction of public expenditure (involving unemployment benefit and reform of the social protection system).

The information gap

Besides their policy significance, the second main reason for undertaking this investigation is to provide much-needed information about PECs. The reasons for, and the processes involved in, the negotiation or attempted negotiation of ‘social pacts’ at the national inter-professional level have already received a considerable amount of attention (*see, for example*, European

Commission, 1997c; Fajertag and Pochet, 1997; Ferner and Hyman, 1998; Hassel, 1998). Information about PECs at national sector level is much less the subject of analysis, although there have been general overviews by EIRO (1997) and by a European Commission-sponsored research network organised by the Institute of Labour Sciences at the University of Louvain (Spineux *et al.*, 1998).

As with so many aspects of European industrial relations, the information gap is especially pronounced at the sectoral and company/workplace levels. The EIRO report (1997) shows that there has been a considerable increase in collective bargaining over employment and competitiveness at these levels, although much of this seems to have little direct relationship with developments at higher levels. France is singled out as the country where company-level bargaining on employment has been steadily growing, reflecting the considerable emphasis of the government on employment issues (including the passage of the loi Robien, or Robien law, in 1996 which links reductions in employers' social security contributions to agreements reducing employees' working time and preserving or creating employment).

Overall, however, very little is known about PECs at company level. Hardly anything is known, for example, about such matters as the contents of PECs, the motives of management and employee representatives for negotiating them, the process involved, the effects on employment and competitiveness, the relationship between the parties or the challenges that employee representatives may have had to face. As things stand, then, most of the questions posed in the Preface of this report are likely to remain unanswered. The danger is that policy-making is likely to find itself increasingly taking place on an ad hoc basis. To put it another way, a national inter-professional 'social pact' does not necessarily mean an improvement to employment or competitiveness.

Key theoretical issues

There has, as yet, been no serious attempt to theorise about PECs. The small amount of literature that is available is essentially descriptive. In its discussions leading up to the preparation of the concept paper (Sisson *et al.*, 1999), however, the Research Group was able to identify a number of issues that needed clarification. Four are especially relevant to the thinking behind the investigation's analytical framework:

- *the logic of employment and competitiveness pacts*, which addresses the reasons for the emergence of PECs at this particular juncture;
- *the changing nature of collective bargaining*, which considers PECs within the context of debates about developments in collective bargaining;
- *the interpretation to be put on PECs*, which is fundamental in assessing not only their significance, but also their future prospects; and
- *the balance between the micro and macro implications of PECs*, also fundamental in assessing their significance and future prospects.

In the case of *the logic of employment and competitiveness pacts*, it is especially important to establish whether or not the need for concertation is the key consideration. As Traxler (1997) reports, a general reason for the need is that advanced societies are undergoing a process of ‘pronounced functional specialisation . . . [which] means that certain tasks are allotted exclusively to certain sub-systems within the society’. A specific reason arises from the changes in the world economy, which are manifest ‘above all in the stronger pressure for a restructuring of production systems’. Other things being equal, it might be expected that, while employee representatives would favour concertation to deal with the implications, employers would prefer to leave things to the market. Yet, Traxler suggests, ‘effective concertation may reduce the uncertainty felt by investors, employers and workers and foster acceptance of restructuring decisions among the population at large’. The implication is that the alternative, of coordination by the market, is likely to exacerbate the problems of uncertainty and acceptance.

Turning to the second issue, whether or not PECs signal a change in *the nature of collective bargaining*, it has long been accepted that collective bargaining is a complex process that does not just involve a market relationship. From Dunlop (1958) and Flanders (1970) comes the emphasis on collective bargaining as a rule-making process (*see also Slichter et al*, 1960). Collective bargaining — for which Flanders suggested a better description would be *joint regulation* — makes it possible to agree the key procedural rules, as well as the substantive ones, governing the employment relationship, be they informal understandings or legally enforceable contracts. An added advantage is that it enables employees themselves to shape the decisions affecting them through democratic activity within their trade unions.

From Walton and McKersie (1965) comes the notion of collective bargaining involving a number of overlapping sub-processes. Typically, collective bargaining has come to be associated with *distributive bargaining*, in which there are ‘winners and losers’ in a ‘fixed-sum’ or ‘zero-sum’ game. Yet many bargaining situations are better understood in terms of what Walton and McKersie term *integrative bargaining*, involving a ‘positive-sum’ game in which the parties seek to integrate their objectives to some degree and in which there can be ‘mutual gains’ from arriving at an agreement.

Against this background, there have been a number of debates about the development of collective bargaining that would appear relevant to, or are raised by, the emergence of PECs:

- whether there is a shift of emphasis from ‘distributive’ bargaining to ‘integrative’ bargaining (variously referred to as ‘competitiveness’ bargaining in Germany and ‘partnership’ in Ireland and the UK);
- whether management is playing an increasingly active role in collective bargaining;
- whether collective bargaining is assuming some of the functions traditionally performed by government in the area of employment policy; and

- whether the developments of ‘globalisation’ and ‘Europeanisation’ are bringing about something of a convergence in the structure and form of collective bargaining, in particular greater decentralisation and greater informality.

The third issue is *the interpretation to be put on PECs*, which is fundamental in assessing not only their significance, but also their future prospects. As already stated, PECs, together with ‘social pacts’, have generally been very favourably received. But there is an alternative perspective that cannot be ignored in any serious investigation of their significance. It is that, far from being an innovative and progressive step in the development of collective bargaining, PECs amount to little more than a form of *concession bargaining* (*see, for example*, Rosdücher, 1997).

As the project’s concept paper points out (Sisson *et al*, 1999), a major problem is that there is no accepted definition of concession bargaining. Interestingly, the only one of the European Foundation’s industrial relations glossaries to include the term is the French (Lyon-Caen, 1993). Here, concession bargaining is described as ‘give-and-take’ and ‘win – win’ agreements in which ‘reciprocal exchange is strongly emphasised; in return for an undertaking to limit the number of redundancies or reduce general working hours, for example, the employees’ side accepts the reopening of discussions on pay structure or the pace of work’. The term is used in a similar way in recent German literature (*see, for example*, Kotthoff, 1998; Mueller-Jentsch, 1998). Indeed, the project’s German correspondents emphasise that the term is explicitly used in this way in the case of one of the key Lufthansa agreements (*see Chapter 7*).

Evidently, under the above definition, virtually all PECs would be categorised as concession bargaining. Indeed, almost any kind of integrative bargaining would be defined as concession bargaining. In fact, the only type of collective bargaining that would *not* be so defined would be the simplest form of distributive bargaining, where the concessions were one-way — from employer to employees.

Arguably, another definition, associated with the USA, offers a more appropriate benchmark for present purposes. In this case, concession bargaining not only involves a range of specific features, such as a ‘nominal wage cut or wage freeze during the first year of an agreement’ (Mitchell, 1994) or attempts to ‘re-open contracts or to seek rollbacks in the terms of contracts’ (Kochan *et al*, 1986). Concession bargaining is also very much one-sided, there being few, if any, quid pro quos on the part of employers. Another distinguishing feature is that this form of concession bargaining has often been confrontational and linked to a strategy of ‘union avoidance’ or ‘union busting’.

The fourth issue — *the balance between the micro and macro implications of PECs* — is also highly relevant in assessing the significance of PECs and their future prospects. The Harvard scholar Martin (1997) makes the point most forcibly in a critique of ‘social pacts’, which is also relevant to PECs. Since the European Central Bank has inherited ‘a price stability macro-economic policy regime’ from national governments, Martin argues that there is very little that ‘social pacts’ (and, by implication, PECs) can do except redistribute work. In the circumstances, he states:

... it is quite appropriate to ask whether trade unions might have more to lose than to gain by entering into social pacts. If there is no reduction in unemployment in exchange for the various forms of 'flexibility' unions are called upon to accept, they may well run the risk of internal divisions as members with more and less secure jobs — and of course the non-members whose numbers grow as union ranks decline — are pitted against one another in a kind of zero-sum — or even negative-sum — game of re-distributing work. For trade unions this is not only politically dangerous, but also ethically dubious ...

Arguably, the dangers are especially pronounced at company level, with local employee representatives being vulnerable to 'micro-corporatist' entreaties from management to engage in a form of 'regime competition'. In discussing the situation in multinational companies, for example, Hyman (1994) observes:

... in adverse economic circumstances company-level productivity coalitions can easily imply a competitive underbidding of either job protection or conditions of employment, with unionism organisationally intensifying the 'fault-lines' of intra- and international conflicts of employee interests. Fragmentation into company unionism along Japanese lines represents the ultimate logic of this model.

The data

This report draws on two sets of essentially qualitative data to tackle these issues. The first is the information from the *EIRO* records, summarised by Zagelmeyer (2000a). These records include both the special national reviews of PECs undertaken by the 16 national EIRO centres in 1997 and any subsequent entries dealing with agreements covering competitiveness and employment. The observation period ran from January 1997 to February 1999 and covers more than 300 records. Using this data, Table 1 shows the overall pattern of PECs across the 15 EU Member States involved and Norway.

The major weakness of this first set of data is that the depth of information is variable, ranging from one-sentence entries to full accounts. It was for this reason that a second set of data was commissioned as part of the present project. Eleven EU Member States were included, reflecting size and/or known developments in the area — Austria, Denmark, Germany, Finland, France, Ireland, Italy, the Netherlands, Spain, Sweden and the UK. As well as producing up-to-date overviews of the trends and developments in their countries, the national correspondents were asked to supply three to five case studies for each country, which would fulfil two main objectives:

- to provide the authors of this report with sufficient data on the themes and issues outlined below to write an authoritative and up-to-date review of experience of PECs dealing with employment and competitiveness; and
- to offer the general reader, who might like more detail than can be given in the cross-national review, an accessible standalone account of what is involved in negotiating specific arrangements linking employment to competitiveness.

As well as taking into account the discussion in the concept paper (Sisson *et al*, 1999), the case studies were also to be written to a common format and cover the following issues:

- *Organisation*: Basic details of the company and the social partners at local level.

- *Context*: A brief discussion of the background to the agreement.
- *Motives*: The specific reasons of the parties for negotiating the PEC.
- *Process*: An overview of the conduct of the negotiations, including details of any particular problems encountered and how they were dealt with.
- *Key features*: An overview of the contents of the agreements.
- *Effects*: A discussion of the parties' assessments of the effects of the PEC, supported, wherever possible, with data about the number and type of employment involved.

Table 1 *Pacts for employment and competitiveness (PECs) in the 1990s*

Country/Level	National	Regional/Local	Sectoral	Company
Austria			✓	✓
Belgium	✓ ○ ★	○	✓	✓
Denmark	○	○	✓	✓
Finland	✓ ○		✓	✓
France	✓		✓	✓
Germany	○ ★	○ ★	✓	✓
Greece	✓ ○	○		
Ireland	○	○		✓
Italy	○	○	✓	✓
Luxembourg	○		✓	✓
Netherlands	✓		✓	✓
Norway	✓			✓
Portugal	○	○		✓
Spain	✓	○	✓	✓
Sweden	★		✓	✓
United Kingdom				✓

- ✓ Collective agreements between the social partners (employment pacts)
- Collective agreements between the social partners and government (social pacts)
- ★ Failed attempts to conclude social pacts

Source: Zagelmeyer (2000a), based on *EIRO* data, excluding mining.

The choice of case studies is always problematic. The representativeness of a case is open to question and, with something as dynamic as collective bargaining, there is inevitably the danger of capturing one period only in what may be a long drawn-out process. In selecting the case studies, therefore, national correspondents were asked to use their professional judgement, taking into account two main considerations:

- *Significance*: The country's social partners would generally regard the selected case studies as typical of any general trend and/or as setting such a trend.
- *Sector*: The selected case studies would come from a range of sectors and, ideally, at least one case study from each of the manufacturing and services sectors.

National correspondents were also advised that case studies could be based on secondary sources where the coverage was adequate to cover the issues outlined above. They were, nonetheless, asked to get up-to-date views on the PEC from representatives of each of the main social partners involved. If the case study was to be based mainly on primary sources, interviews were to be held with representatives of each of the main social partners.

There was only one major problem experienced in undertaking the case studies. For the detailed reasons spelt out there, the concept paper stipulated that a necessary condition for case studies to be included in the investigation was that they involved *employment preservation or creation*. In the event, a key finding in the Scandinavian countries investigated was that there were very few agreements specifically linking employment to competitiveness at company level. In the words of the project's Danish correspondents, one reason is the 'predominant ideology in Danish industrial relations', namely:

Decisions regarding employment are seen as falling under the employers' prerogative and employment is seen as dependent on competitiveness. It is a common understanding among the two parties that employment — quantitatively as well as qualitatively — is best promoted through measures which improve competitiveness: training, new technology, new forms of work organisation, and cooperation at all levels between the parties. At the national level, one can say that the main agreement and cooperation agreements are social pacts on employment and competitiveness. They oblige both parties to pursue these goals, but not in a way which challenges market mechanisms — i.e. there are no attempts at defining quantitative measures for job creation or job protection. During the years, trade unions have shown their readiness in the collective agreements for wage moderation, flexible working time and flexibility in relation to technological and organisational changes. In this way, the collective bargaining and deals in the cooperation committees are the specific forum for trading employment and competitiveness among the parties in the labour market.

A second reason, paraphrasing the Danish correspondents, is that the State plays an important role in facilitating compromises between possibly conflicting interests regarding employment and competitiveness. In particular, the unemployment insurance system is crucial in this respect. Not only does it grant a relatively high level of compensation (especially for relatively low-paid workers) whereby worker resistance to redundancy is reduced; it also encourages measures such as job rotation, work reduction in the form of worksharing, and training.

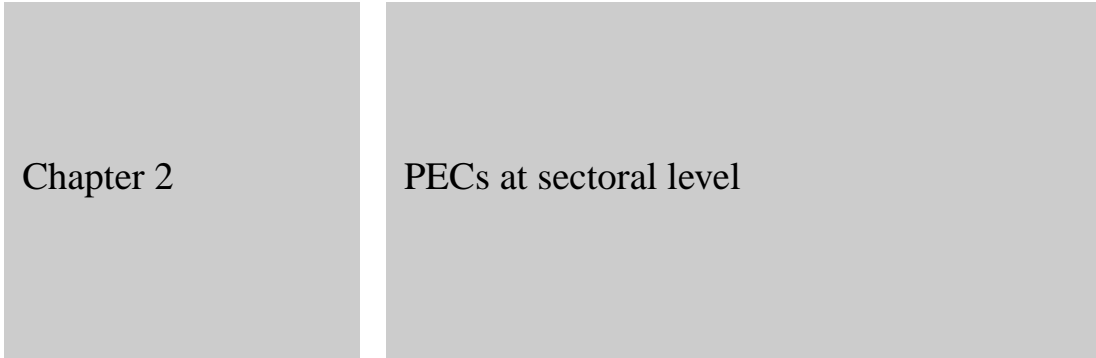
Despite these findings, it was possible for the Danish correspondents to identify cases where there were company-level agreements aimed at improving performance and, indirectly, securing employment, which also satisfied the other criteria for selection.

Structure of this report

This report is organised as follows, to reflect the aims of the study:

- **Chapters 2 and 3** give an overview of the incidence and key features of PECs at sectoral and company/workplace levels.
- **Chapter 4** provides much-needed information on the contents of PECs at company level.
- **Chapters 5 and 6** give details of the parties involved and their motives, respectively.

- **Chapters 7 and 8** are concerned with the process of negotiating PECs and their effects, respectively.
- **Chapter 9** draws lessons about the ingredients that make for ‘success/failure’ in negotiating PECs.
- **Chapter 10** offers a preliminary assessment of PECs and a brief exploration of the implications for policy-makers.



This chapter gives an overview of pacts for employment and competitiveness (PECs) reached at sectoral level. It goes on to examine the key features of these agreements and the issues raised by their negotiation.

Incidence

Table 2 shows that, in a majority of EU countries, there were sectoral agreements dealing with employment and competitiveness (Zagelmeyer, 2000a). The exceptions were Greece, Ireland and the UK. In Greece and Ireland, there were ‘social pacts’ at national level which covered the same or similar ground as PECs. The only country without agreements at either the national or sectoral levels, therefore, was the UK, reflecting the absence of a tradition of national bargaining and the long-running decline of sectoral bargaining in the private sector.

It is difficult to draw conclusions about the incidence of PECs by sector, given the tendency in some countries simply to incorporate the provisions of national agreements or ‘social pacts’. Other things being equal, however, there is a fairly obvious association between the incidence of an agreement and the degree of restructuring that has been taking place in the sector. For example, the coal, iron and steel sector figures in several countries. In manufacturing, metalworking and chemicals feature. In services, the presence of banking in a number of countries is to be noted.

Key features

The following section lists the most common features of PECs at sectoral level, together with examples.

Table 2 *Sectoral PECs, excluding mining (based on EIROOnline data)*

Country	Sector
Austria	Individual features reported in banking, construction, education and metalworking
Belgium	Many recent sectoral agreements reported as including employment provisions
Denmark	Many private and public sectoral agreements reported as having 'social chapters' dealing with employment
Finland	None reported, apart from local authorities
France	Some sectoral agreements reported as incorporating the provisions of the loi Aubry (e.g. textiles), but main impact has been at company level
Germany	Individual features reported in banking, chemicals, insurance, iron and steel, metalworking, public services and wholesale trade
Greece	None reported
Ireland	None reported
Italy	Individual features reported in banking, chemicals, shoes and textiles
Netherlands	Sectoral agreements said to have 'increasingly included provisions on employment'
Norway	Individual features reported in banking and the public sector
Portugal	Sectoral agreements reflect contents of national 'pact'
Spain	Individual features reported in coal, chemicals, glass and ceramics, and wine-making
Sweden	Individual features reported in construction, engineering and timber
United Kingdom	None reported

Source: Zagelmeyer (2000a)

Labour costs

One way in which sectoral agreements have contributed to the promotion of employment and competitiveness is through the moderation of increases in labour costs. As Fajertag (1997) reports, 'generalised moderation continued to represent the prevailing trend of wage developments in the large majority of European countries in recent years'. Initially, this reflected a decline in growth and an increase in unemployment, coupled with a fundamental change in macroeconomic policy as governments turned their backs on Keynesian demand management in favour of monetary policy and improving supply-side efficiency. In recent years, pay increases have continued to lag behind productivity improvements, with the approach of EMU reinforcing the pressure on competitiveness (*see* Schulten, 1998).

Flexibility of application

Many sectoral agreements have introduced clauses, variously described as 'opening clauses' or 'hardship clauses', giving the individual employer a degree of flexibility in applying the collectively agreed standards at sectoral level in return for preserving employment. For example, opening clauses are a feature of agreements in Austria (metalworking) and Germany (banking, chemicals and metalworking), allowing companies to make works agreements on short-term working time reduction from 35 hours per week with no wage compensation, but with a job guarantee during the term of the reduction. Examples of hardship clauses, where the employer is

able to pay less than the collectively agreed rate in special conditions, are to be found in western Germany (chemicals) and eastern Germany (construction and metalworking).

So-called 'gradual alignment' and 'discount' clauses have been introduced in Italy in sectors such as textiles and shoes. Gradual alignment clauses were designed to encourage small to medium-sized enterprises (SMEs), in southern Italy especially, to come within the recognised economy for the purposes of the payment of wages and social charges. In brief, they were given three years to come into line, starting at around 70% of the collectively agreed rate. Discount clauses, for example, in the textiles sector, were designed to incorporate the sectoral agreement signed by minor interest organisations, allowing them to have rates lower than those in the main agreement.

Reduction in overtime

In this case, there is a commitment to reduce or minimise overtime working in return for a commitment to create new jobs. Examples include Austria (education, public services, construction and metalworking) and Germany (chemicals).

Reduction in working week

Here there is a reduction in the working week, sometimes accompanied by wage reduction, in return for preserved or increased employment. There are several examples in France, including textiles, following the passage of the loi Aubry. Other examples include Belgium (the national electricity sector) and Italy (chemical industry).

Employment reduction

A number of sectoral agreements provide for a reduction in employment. Examples include municipalities in Finland (40,000 between 1991-96), steel in Luxembourg (in both the 1980s and 1990s), coal in Germany (48,000 up to 2005) and Spain (4,000 up to 2001), and the allied forces in Germany (45,000 between 1991-97).

Employment preservation

As already indicated, many sectoral agreements offer a limited job guarantee in exchange for working time reduction or wage concessions by employees. Most of these, however, are very general in nature. The problem, as with employment creation (*see below*), is that it is very difficult in a sectoral agreement to commit individual employers to specific guarantees.

Employment creation

Agreements on overall job creation at sectoral level are scarce. One example is chemicals in Germany, where provision for an extra 25,000 jobs was made in 1996. Most of the sectoral agreements in France, based on the loi Aubry, make provision for job creation in general terms and leave the task of defining quantitative terms to company agreements.

There are examples of employment creation for specific groups such as the young or the long-term unemployed. Many sectoral agreements in Denmark and the Netherlands have these provisions. Other examples include the national electricity industry in Belgium, where temporary

jobs are involved, and most of the sectoral agreements in France based on the loi Aubry. The switch from temporary to permanent jobs also features in several agreements in Spain (chemicals, glass and wine-making) and Germany (chemicals).

Early and partial retirement

Early and partial retirement are a feature of several sectoral agreements in France following the *Allocation de Remplacement pour l'Emploi* (ARPE) initiative. They are also to be found in a number of sectors in Belgium, Germany and the Netherlands.

Training

The agreement in banking in Italy establishes a training and prevention plan to deal with the restructuring envisaged in that sector. Although, strictly speaking, the agreement covering the region of Steyr in Austria is a territorial one, its focus is mainly on metalworking and the aim is to create a reasonable-cost instrument for dealing with unemployment, offering training and development in a labour pool. A third example, the so-called 'Orion' project, covers construction in Sweden and links the retraining of existing employees with their temporary replacement by young unemployed workers.

Job pools

Some sectoral agreements introduce arrangements dealing with the temporary placement and training of employees who lose their job as a result of restructuring. Examples include the port transport industry in Rotterdam and Amsterdam, the confectionery industry in the Netherlands, wine-making in Spain and mainly metalworking in the Steyr region of Austria.

Summary and conclusions

Sectoral agreements, together with national 'social pacts', have been important in legitimising negotiations over employment and competitiveness, as well as moderating increases in labour costs. In many cases, they have been the immediate catalyst for negotiations at company level, sometimes setting the parameters for negotiations at this level.

Important though they are, however, there are major limits to what agreements at sectoral level can achieve in terms of promoting employment and competitiveness. It is not just that sectoral agreements have to be implemented at company level, which means that they can have a different impact from company to company. Most sectors are made up of an extremely heterogeneous collection of businesses, ranging from the very small to the very large and covering a wide range of activities and markets. In metalworking especially, sectoral agreements in most countries cover a vast array of different products and markets. Businesses can be multinational companies (MNCs), dealing with integrated production arrangements across a number of countries, or they can be family-owned SMEs, operating from a single establishment. It is virtually impossible, therefore, to take into account the special circumstances of each workplace and so the outcome is likely to approach the common denominator. Not surprisingly, this is likely to be very low. Also critically important is that, at the sectoral level, it is impossible to commit individual employers to specific guarantees of employment or investment. Such commitments can only be made at the company level, which is why PECs at this level are the main focus of the rest of this report.




Chapter 3



PECs at company level

This chapter gives an overview of the incidence and key features of pacts for employment and competitiveness (PECs) reached at company level and examines some of the issues raised by their negotiation.

Two sets of data are used for this analysis (*for further details, see Appendices A and B*): the first is information from the *EIRO* records, summarised by Zagelmeyer (2000a), and the second is information gained from the case studies specifically commissioned for this investigation from the national correspondents in 11 EU Member States, giving more detailed information on some of the main features of PECs. In selecting the case studies, it will be recalled from Chapter 1 that national correspondents were asked to use their professional judgement, taking into account two main considerations:

- *Significance*: The country's social partners would generally regard the selected case studies as typical of any general trend and/or as setting such a trend.
- *Sector*: The selected case studies would come from a range of sectors and, ideally, at least one case study from each of the manufacturing and services sectors.

In each case, the national correspondents were asked to write the case studies to a common format dealing with the *context, motives, process, key features* and *effects* of PECs.

Incidence

Notwithstanding the presence of national and/or sectoral agreements, PECs at company level are virtually universal; the only country where such agreements have not been reported is Greece.

Appendix A gives details of the 101 company PECs that appear in the *EIRO* records summarised by Zagelmeyer (2000a). Although this data is not a representative sample in the statistical sense, it nonetheless suggests that the spread of company-level PECs is far from uniform. Germany accounts for 18 such PECs, Italy for 15 and Spain for 11. At the other end of the spectrum, only one agreement had been reported in each of the cases of Austria, Denmark and Sweden, and only two in the case of Norway.

There are three main features of the overall economic, social and legal context of each country, which help to account for the incidence of PECs at company level:

- the performances of the labour market;
- the actors' analysis of efficient means of action on employment and competitiveness; and
- the way in which the labour market is regulated and the organisation of the system of industrial relations.

The first of these, the performance of the labour market, need not concern us here. It is sufficient to note that, although they have negotiated this difficult phase under very different conditions of employment and unemployment, most EU countries have been subject to the same trends, mainly in the form of economic recession occurring in a phase of acceleration of globalisation and European integration. It is the second and third features that are of most interest. Both are closely related and allow us to understand better the implications of the relationship between the general characteristics of each country's industrial relations system and the scope that they allow for collective bargaining to deal with employment and competitiveness. For example:

- In the UK, the link between employment and competitiveness is seen as an issue for management and trade unions, reflecting the tradition of 'voluntarism' in industrial relations and the handling of restructuring more generally.
- In the Scandinavian countries, the link between employment and competitiveness has been the subject of general policies, with explicit or implicit tripartite agreements dealing with general economic policy, wage policy and proactive employment policies. Company PECs only occur in exceptional circumstances because the solution to the employment problem is sought at other levels.
- In France, Italy and Spain, the link between employment and competitiveness is simultaneously tackled at all levels, with the responsibility of each being constantly reviewed. The role of PECs is a direct result of the extent of decentralisation of the regulations and particularly the respective roles of sectoral and company-level collective bargaining and the way they link together.

The other four countries are more difficult to characterise.

- In Austria and Ireland, the State and social partners share the joint responsibility for employment of what might be labelled the 'Latin' model. In Austria, however, the dominant



level of collective bargaining is the sector, whereas in Ireland both the national *and* company levels play significant roles.

- In Germany and the Netherlands, the sectoral level is also dominant, with the Netherlands sharing some of the features of the national dialogue of the Scandinavian countries. But there has been increasing provision for decentralisation to the company level to increase management's flexibility.

Notwithstanding the strong country effects, sector is also an important variable. Appendix B draws on the case studies specifically commissioned for this report from the national correspondents in 11 EU Member States and confirms the findings based on the EIRO data. Many of the company PECs are to be found in three main sectors — manufacturing, banking and recently privatised public corporations. Each of these sectors has been experiencing considerable turbulence, either as a result of intensifying competition and/or deregulation, which helps to account for a number of cross-national similarities.

In the case of recently privatised companies in air transport, telecommunications and other utilities, it is deregulation and privatisation that have brought about significant changes in the context in which management has to manage. Deregulation has significantly reduced, if not eliminated altogether, the market protection that management used to enjoy. Privatisation has meant that management must have regard to the expectations of shareholders in running the business and not just the interests of government. Indeed, a major reduction in the cost bases involving reductions in employment has often been seen as a necessary preliminary to an effective flotation of shares on stock markets.

In automobiles, food and drink, household appliances and some branches of the electronic manufacturing sector, competition is increasingly global. Markets are characterised by overproduction and market saturation, leading to pressure to lower prices at the same time as to improve quality and reliability. However, it is not just the competition between companies that provides the dynamic. Also significant is the fact that these sectors comprise industries that are often dominated by a small number of very large multinational companies (MNCs), with increasingly integrated worldwide markets and production operations. An internal market for capital is a feature, forcing national managers and employee representatives to pay attention to the 'coercive comparisons' set by operations in other countries for fear of losing out on investment. Most obviously, the EIRO data confirms that several MNCs in the automotive sector (Ford, General Motors, Mercedes-Benz and Volkswagen) have been negotiating such agreements in a number of countries (Zagelmeyer, 2000b).

In banking, large companies that are multinational in their coverage also dominate employment. Yet retail banking, where most employees are to be found, remains largely a domestic affair and there is nothing like the cross-national integration that exists in the automotive sector. Pressure to change the traditional branch structure of banks comes from two main sources in a context of increasing deregulation: technological change, such as automatic cash machines and the Internet;

and intensifying competition from ‘new’ and ‘old’ players alike as telephone and Internet banking develop. In circumstances of considerable overcapacity, there is great pressure on management to cut costs, leading to a wave of mergers and take-overs, both within and across borders.

Key features

An important preliminary point to note is that many company-level PECs are essentially framework agreements, reflecting the fact that typically the organisations are relatively large and are made up of a number of separate business units or workplaces. In most of these cases, the agreement devolves responsibility for implementation to individual units. A good example is Air France’s *Accord pour un Développement Partagé*. This has come to be publicised as an agreement trading off a reduction in working time against the creation of 4,000 new jobs in line with the loi Aubry. Critically, however, as the project’s French correspondents remind us, the achievement of this objective depends on local agreements in 26 establishments dealing with the flexibility of work organisation as well as working time.

A second point to note is that, in many cases, there is not one single agreement, but several. In some cases (for example, Danfoss in Denmark), there are agreements for different subjects such as the pay system, working time, education and training, and employment security. In other cases (for example, Lufthansa in Germany and Hyder in the UK), there are a number of agreements spread over nearly a decade, reflecting the need of the parties to re-affirm key commitments and/or add to the subjects covered.

There is a strong country effect in the contents of PECs (*see Appendix B*). Although there are considerable differences of emphasis, PECs in the Netherlands, Germany, Ireland, Italy and the UK tend to be characterised by *a mix of guarantees* on employment security, reductions in employment and arrangements for handling them, coupled with provisions for flexibility of working time and work organisation. PECs in Spain cover much the same ground, but also emphasise the transfer of temporary jobs into permanent ones, reflecting recent developments in national agreements and/or changes in the legislative framework. In France, employment creation rather than reduction or preservation is the key feature, reflecting the government’s campaign to link shorter working hours to creating jobs. In Austria and the Scandinavian countries, explicit links between measures to improve competitiveness and employment reduction/preservation/creation are much less obvious than in other cases. Provisions for employment ‘companies’/‘foundations’/‘pools’ as a means of encouraging employability are to be found in Austrian and Swedish PECs, however, together with some Dutch ones, but are rare in other countries.

A second area where there is a strong country effect is the *employees’ bargaining agent*. Not surprisingly, the bargaining agent reflects the legal framework and practice more generally in each of the countries. Thus, subject to their legal competence, works councils are the main bargaining agent in Austria and Germany, and also play a key role in Spain and the Netherlands, whereas local trade union representatives take this position in the other countries.



A third area where there is a strong country effect is the *relationship with higher level agreements/legislation*. France and Spain, in particular, stand out in this regard. In France, the main catalysts for the negotiation of company PECs have been the loi Robien and loi Aubry, encouraging the introduction of reductions in working time (*details of both laws are given in Box 1 at the end of this chapter*). In Spain, the inter-professional agreements of April 1997 dealing with employment, ‘employment stability’ and ‘collective bargaining’ reform are similarly important in helping to explain the provisions for transferring temporary jobs into permanent ones in several of the company agreements.

In terms of the main thrust of the agreements, there has been a tendency in comparing PECs to distinguish between ‘defensive’ and ‘offensive’ agreements, following French usage. Defensive agreements seek to preserve the number of jobs, whereas offensive agreements try to increase them. The problem is that, on the basis of the ‘defensive – offensive’ criteria, the majority of PECs investigated would have to be categorised as ‘defensive’. Indeed, of all the PECs listed in Appendix B, only Bonfiglioli in Italy and the French ones could be categorised as ‘offensive’ in that an increase in employment was involved. Moreover, in the case of Air France, the agreement was being negotiated against a background of reductions in employment in the recent past.

The critical distinction is not so much whether an agreement makes explicit provision for the preservation or creation of jobs. Rather, it is where the balance of emphasis lies between short-term cost reductions to safeguard jobs and measures to improve the flexibility and adaptability of the organisation in the medium term. In terms of ideal types, three main groups or models may be identified:

1. agreements that are essentially concerned with the *survival* of the business or key operations of the business;
2. agreements that are intended to aid the process of *retrenchment* — not so much a question of survival as of slimming down in the light of changing market conditions; and
3. agreements designed to help with the *adaptation* of the business to deal with new market situations and/or opportunities.

The three models, it must be emphasised, are not mutually exclusive — it is a question of balance. Moreover, negotiators may start in one group and end up in another due to circumstances beyond their control.

It is here that the sector, the significance of which has already been mentioned in connection with the incidence of PECs, makes its mark. It is the sector rather than the country that helps us understand the distribution of the cases between the three models. Thus, the recently privatised public companies best fit the *adaptation* model. They include Post und Telecom in Austria, the town of Raisio in Finland, Air France and EDF-GDF in France, Lufthansa in Germany, the Electricity Supply Board (ESB) in Ireland, Alitalia in Italy, Telia in Sweden, and Hyder in the UK. Although, in many of these cases, the agreement (or agreements) had its origins in a crisis

situation, the survival of the organisation was rarely an issue: the activities for which it was responsible had to be performed. The aim was to help the organisation to adapt to the new market situation.

The situations in the manufacturing and banking sectors are more complicated. In some manufacturing cases, the agreement *was* about *survival*. Examples would be Philips in Austria, Opel in Germany, and Rover and Vauxhall in the UK. Elsewhere in manufacturing, the *retrenchment* model more accurately describes the essence of the agreement, as in the case of Irish Cement in Ireland and Blue Circle Cement in the UK. Examples of the *adaptation* model would be Bonfiglioli and Zanussi in Italy, Heineken in the Netherlands, and Volkswagen in Germany. In banking, cases such as Die Erste Bank in Denmark, the FöreningsSparbanken in Sweden, and the Co-op Bank in the UK typify the *retrenchment* model, whereas the agreement at La Caixa in Spain was essentially about *adaptation*.

Differences within the sectors can be related to the specifics of ownership, market and the company's position within it. A comparison of Volkswagen and Opel in the automotive sector in Germany illustrates the point. Volkswagen is a German-owned company with an element of public ownership, which not only has the bulk of its workforce in Germany but in one particular area of the country. The acquisitions that it has made in other countries (such as SEAT in Spain and Skoda in the Czech Republic) produce their own marques. Opel belongs to a US-owned company and has a number of operations across Europe, as well as in Germany, producing the same or very similar products to those of Volkswagen. Volkswagen has been able to achieve a position for itself where demand tends to outstrip supply, whereas Opel (like Ford) has to rely on a high-volume approach.

It follows from this that the emphasis of a PEC is not a matter of choice. A wide range of factors go to make up competitiveness — ownership, prices, products and markets — over which the negotiators of PECs have little or no control. The scope that the parties have for including issues within PECs, and the specific form of their contents, can differ significantly from one case to another. In some cases, circumstances effectively condemn negotiators to cost reductions, whereas in others it is possible for the parties to contribute to future competitiveness through share-ownership and employee representative involvement in the strategic direction of the business. An important implication in assessing the potential contribution of PECs to improving competitiveness is to appreciate that, however necessary they may be, they are unlikely to be sufficient.

The point is well illustrated by reference to three UK companies — Rover, Hyder and Blue Circle Cement. These have consistently been cited in recent years as paradigm cases of the 'partnership' approach (IPA, 1997; TUC, 1999). In early 2000, BMW announced that, to staunch the flow of losses incurred in running Rover, it was selling Land Rover to Ford and off-loading much of the car division, initially to a venture capital group (called Alchemy) and subsequently to a Midlands-based consortium (Phoenix). Meanwhile, Hyder was being courted by a Japanese investment bank (Principal Finance Group of Nomura International) and Blue Circle Cement was



the subject of a hostile take-over bid from one of its French competitors (Lafarge). In each case, further redundancies were likely, calling into question the employment security guarantees that had been a prime feature of the PECs of these companies.

It was circumstances beyond the control of the negotiators of the PECs that were responsible for bringing these three UK companies to this position. In the case of Rover, key considerations were a weak model range, an uncertain business strategy and the strength of the pound sterling. In the cases of Hyder and Blue Circle Cement, it was the business strategies pursued by the senior managers of the parent organisations that were primarily to blame. In both cases, overambitious programmes of expansion into relatively unrelated activities had raised considerable doubts in investors' minds about future directions.

Box 1 *Loi Robien and loi Aubry*

The loi Robien, or Robien law, became legislation in France in June 1996 and provides for reductions in employers' social security contributions for companies which, on the basis of a sectoral or company agreement, introduce a new collective working time organisation, together with a minimum 10% reduction in working time. This is on the condition that more employees are recruited or that redundancies are avoided.

The loi Aubry, passed in 1998, continues this approach with the introduction of the 35-hour working week, which is set to apply to companies with more than 20 employees from the year 2000 and to small companies as from 2002. Government financial incentives to prompt companies to introduce the 35-hour working week as early as possible are available, conditional upon a corresponding collective agreement. In addition, this reduction in working time must boost employment by 6% or safeguard jobs that are at risk. The scope of the financial incentives increases in proportion to the reduction in working time achieved and the attendant impact this has on employment. Furthermore, it is claimed that the financial incentives taking the form of decreased social security contributions will promote the introduction of part-time work (between 16 and 32 hours).



Chapter 4

Contents of company PECs

This chapter investigates the contents of company-level pacts for employment and competitiveness (PECs) and examines the issues raised by their negotiation.

There are several specific aims. One is to provide much-needed information on the contents of PECs. Appendix B gives an overview of the key features of PECs in 11 EU Member States. But knowing that an agreement contains provisions for employment preservation and/or creation, for example, only gets us so far. There is a need to know the precise ways in which this is done and how, if at all, it is made into a guarantee of investment.

Another aim is to understand better the balance of emphasis in PECs so that a more informed judgement can be made about their significance. Here it is important to know whether the essential thrust of improving competitiveness is by reducing cost (the ‘quantitative’ dimension) or by improving development and investment (the ‘qualitative’ dimension). If the former is the case, a further issue is whether reductions in labour costs are secured primarily by reducing pay and/or the numbers employed. If the latter is the case, a further issue is whether the main vehicle is changes in work organisation or training and development. In the light of current policy concerns, it is also important to know whether the main emphasis is on training in specific skills for the use of the present employer or more general skills intended to promote employability in the external labour market.

Other aims take us back to some of the theoretical issues raised in Chapter 1. In the case of the ‘concession bargaining’ debate, for example, it is important to know the extent of the concessions being asked of employees and the extent to which they are being reciprocated by concessions from management. In the case of the ‘insider – outsider’ debate, it is important to

know what attention, if any, the negotiators pay to the position of employees in the external labour market. In the case of the 'convergence' debate, it is important to know the extent to which common patterns are emerging and the extent to which they reflect the influence of sector as well as country.

Changes in pay levels

A fundamental point to note is that, among the company-level PECs appearing in the EIRO database and in the cases studied by this project's national correspondents, a straightforward reduction in existing (nominal) pay levels and associated benefits is relatively rare. Indeed, there appears to be only one major example of such a development. It involves **Philips Lebring** in Austria. Despite the introduction of flexible 7-day working, Lebring was still showing a deficit in 1998. More drastic steps were therefore taken, including the announcement of the closure of TVT production by June 1999. Even this, however, was not enough. In order to reduce production costs further, management came to the works council at the end of 1998 with a proposal for a voluntary wage reduction of 15% for the remaining workers. Even in this case, the cut did not involve undermining the agreed rate in the national sector collective agreement. Indeed, wages still remained significantly above it.

In some cases, a reduction in earnings and/or benefits can be a corollary of other changes, such as a reduction in working time. **Volkswagen** is a case in point. The introduction of the 4-day-week involved a 20% cut in working hours (down from 36 to 28.8 hours a week) and a cut of 16% in salaries.

In other cases, a reduction in earnings can be projected forward, so that the cut is in what employees *would have* received rather than in what they *actually* receive. An example of such a cut appears in the **Opel (General Motors)** agreements. Thus, the new site pact followed closely the pattern of its predecessor in providing for a reduction of the wage drift between collectively agreed and company payments. Until the end of 2002, every wage increase collectively agreed at branch level would be reduced by 1.25 percentage points for Opel workers, through a cut in additional company payments. For example, although the 1998 metalworking collective agreement provided for a wage increase of 2.5%, the Opel employees received only a 1.25% wage increase.

Another case is that of **Vauxhall (General Motors)** in the UK. The annual pay increase incorporated in the PEC was lower than the industry average of 4.5%. The agreement also reduced the potential growth in productivity payments, which at the time amounted to around £33 per week or just less than 10% of weekly basic pay. From August 1998, any additional sum over and above the-then current levels would increase at half the previous rate.

A novel and much-publicised element of the Vauxhall pay agreement was a commitment to pay workers an extra 0.5% in Year 3 if the rate of sterling fell below DM 2.7 for any two consecutive months between 1 July 2000 and 31 August 2001. This was justified on the basis that, allied to

the new working practices, such a fall in the value of sterling would sufficiently narrow the costs differential between the Vauxhall and continental Opel plants to allow extra compensation for the UK workforce. In addition, as a demonstration of his seriousness and commitment to a positive outcome, the Managing Director volunteered to forego his salary in the coming year as a ‘gesture of goodwill’ during the negotiations and other directors had their pay reduced by 5%.

Of course, the target for a reduction in pay may not be the workforce as a whole, but specific groups such as new recruits. Several examples are to be found in the company agreements reported by the national correspondents. In the case of Zanussi in Italy, for example, the agreement states that ‘for the first 24 months of employment, newly recruited employees will benefit only partly from wage components laid down in company-level agreements . . . Newly recruited employees, if utilised for shift work with a working week below 36 hours, will be employed on a part-time contract and so paid only for the hours worked, with all corresponding contributions and other payments paid in proportion’. The Damm brewery in Spain also has different salary scales for permanent workers starting before and after 1 January 1996 and a middling group with discontinuous contracts. Vauxhall (General Motors) in the UK provides a third example. The 1999 agreement required new production operators to start at 82% of the full rate and have 5 days less annual leave entitlement. This provision was seen as a major concession, reflecting the expectation that the company would be recruiting substantial numbers to an additional third shift at Ellesmere Port.

Each of these agreements takes significant steps to ensure that a permanent two-tier workforce does not develop. As well as stating that the standards of the national collective agreement are fully safeguarded, the Zanussi agreement stipulates that the company must guarantee job-training programmes for these newly recruited employees, in the classroom or on the job, for no fewer than 40 hours for every year of employment. These are also to be carried out outside working hours and to be unpaid (except for a 5,000 lire per hour lump sum). Also such conditions are limited to 36 months. Employee training aims also at favouring the passage of workers to open-ended contracts. In the case of Vauxhall (General Motors) in the UK, the unions succeeded in ensuring that pay equalisation was achieved over the course of the 3-year agreement and not, as management would have preferred, over a 5-year period. Holiday entitlement would also be increased in order to equalise over a 10-year period.

Changes in pay systems and structures

A number of company-level PECs provide for changes in pay systems and structures. A feature of each of the Irish agreements is what might be described as a ‘tidying up’ of arrangements. For example, in the case of **Irish Cement**, in addition to security of employment, the PEC provides for the following:

- guaranteed annual salary, including basic pay plus payment for additional committed hours;
- buy-out of ‘additional payments’ in payroll, with a lump sum compensation based on a multiple of two years of the value of payments to individual employees;

- payment of an examination allowance for craft workers (currently IR£1,500) and a skills allowance for general workers (currently IR£1,300);
- payment of a share participation bonus, up to IR£4,000 for certain employees, and reduced levels for others; and
- enhancement of the company pension to include the basic annual salary and the examination/skills allowances, but excluding payment for additional committed hours and share participation bonus.

In the case of **Danfoss** in Denmark, changes in the pay system ('WageSystem 90') were the subject of one of the four PECs reported by the project's Danish correspondents. The aim of WageSystem 90 is to stimulate the productivity wage system on the basis of incentive structures inducing workers to produce even more and organise their work in a more autonomous way. In general, the new wage system rewards employees of Danfoss according to their individual ability to achieve predefined production-standards, jointly set by management and employee representatives. Where a group of employees during a certain period of time are able either to attain these predefined production goals or to display performances which surpass the goals, then the employees are awarded additional pay.

As reported by the Danish correspondents, WageSystem 90 contains three important components which aim at enhancing Danfoss' productivity and competitiveness:

1: A basic structure for locally determined minimum wages through which all groups of employees are paid according to their professional and qualification skills. In order to rank different employee groups and determine their basic wages, the WageSystem 90 takes the complexity of work, work experience and specific educational backgrounds of each employee into consideration. The specific level of basic wages within this fundamental part of the wage system has to be settled by a joint committee in which management and employee representatives participate.

2: An assessment of employee qualifications which triggers off additional payment to the individual employee according to his/her ability to apply and utilize personal qualifications in connection with job knowledge, work efforts, quality of products, flexibility, initiative and planning. According to the production performance of any single employee or group of employees during a specific period of time, the employee(s) are evaluated (through an interview with the superintendent) and receive an amount of score points. According to the amount of score points achieved by the person in question, the individual wage level is regulated. In case (s)he scores fewer points during one term in comparison to the previous one, the additional wage amount is reduced. In case (s)he scores more points than previously, the person will be rewarded with additional wage benefits.

3: A result-orientated wage pool (*resultatløn*) which depends on the results achieved by employees. The intentions behind this pool is to create the incentives for a more '*result orientated attitude among the employees and reward those results, which further the goal achievements of the production section/the company*'. The allocation of the wage pool has to take place on the basis of predefined result parameters, which contribute to the goal achievement of specific production departments within Danfoss. These predefined result-orientated parameters have to be measurable in quantitative terms and must apply for a specific period of time. They have to be unanimously defined and developed in cooperation between management and employee representatives.

The pay scheme in **Essex Communications** in Finland has been constructed to support team work, mobility between teams and the development of multiskilling. It provides another example of an agreement in which changes in pay systems and structures are central. Rather than detailed job descriptions, the pay scheme is based upon the perception that the input of each team



member is roughly of equal worth for the team performance. The wage disparities are, therefore, rather narrow. In addition to basic pay, some supplements are paid for specific tasks. Team leaders, for example, receive a higher wage, as well as people responsible for certain development projects.

Until 1999, there was a single hourly wage (basic wage) in use for all workers paid on an hourly basis. For newly hired workers, the initial wages were 10-17% lower. The normal level of basic wages was gradually reached within 9 months by those who came through labour market training and within 14 months by others. The supplements payable for team leaders or those responsible for development projects yielded an increase of 5-10% to the basic wages.

As from 1999, as a result of developing a uniform pay scheme for all production units (both the original units and the newly acquired Nokia ones), a 3-level pay scheme was adopted. In addition to the original basic wage, two more steps — each entailing a rise of 10% in basic wages — were introduced for more demanding jobs. The original basic wage still applies for most workers, in particular for those in assemblage tasks. The graded scale for initial wages was retained, but supplements (5%) are now payable for team leaders only.

There are separate bonus schemes for three categories of workers and for salaried employees. For workers, the schemes are based on the performance of teams with respect to two or three indicators. These indicators are associated with productivity (time used as compared to the standardised object time), quality (number of items returned or under reclamation) and on-time delivery. For salaried employees, the bonus schemes are based on the degree to which the individual targets are reached. The maximum bonus per year is equal to the monthly salary of the individual. The payment of any bonuses presupposes a positive economic return for the company.

Several PECs also provide for the introduction of share-ownership arrangements. Three of the Irish agreements (Electricity Supply Board, Howmedica and Irish Cement) do this. The most extensive agreement in this area, however, is that of **Alitalia**, dated 3 June 1998, with a range of its unions. The agreement states that the parties have identified the involvement of the entire personnel of Alitalia companies as ‘an essential element for the recovery of the Group companies’. Share-ownership of company capital, the agreement goes on, is ‘a qualifying moment for the reorienting of the systems of industrial relations and human resource management’. As such, it was accompanied by the setting up of a series of bilateral bodies, including ‘the verification of the implementation of the Alitalia industrial restructuring plan, the evolution and development of routes and fleet, customer services, organisational structures and processes, and staff training’.

Working time flexibility

A key feature of many PECs is the use of greater flexibility of working time to achieve the parties’ objectives. The most widely publicised agreement to do this was that of **Volkswagen**. As a result of the introduction of the 4-day week in 1994, it was possible to secure 30,000 jobs and

to save 1.6 billion DM that would otherwise have had to be spent on redundancy payments over time. The Volkswagen agreement also turned out to be a useful tool in making working time more flexible in order to deal with the economic fluctuations within the automobile industry and market. Indeed, the agreement led to a great many differentiated working time systems; the press reported that there were more than 140 different systems.

In particular, flexible rostering was a prominent feature of the settlement at Volkswagen in 1995. Around the core 28.8-hour week introduced in 1994 is what is known as the ‘flexibility cascade’, which provides the basis for plant-level decisions on fixing working hours according to a strict order of priorities. The sequence of priorities consists of five stages as follows:

- flexibility in hours per day
- flexibility in shifts per day
- flexibility in days per week
- flexibility in Saturdays
- flexibility in location

Only when flexibility in hours per day (first priority) has been exhausted is the step taken towards the less popular daily shifts (second priority). Only when these have been exhausted is the next step taken to invoke flexibility in terms of days (third priority). Only when working days from Monday to Friday have been exhausted is there a move towards the less popular Saturday working (fourth priority). When all these stages have been exhausted, the fifth and last priority is brought into play — flexibility in manufacturing location, with production volume being transferred to another plant.

Under the 1995 agreement, it is also possible to distribute weekly working hours irregularly over the year in line with the volume of orders. Weekly working hours may be extended up to 8 hours per day and 38.8 hours per week without resulting in overtime payments. Subject to agreement with the local works council, Saturday working may also be included in the plan.

The monthly wage does not change, even when working hours are irregular. The basis is provided by the 28.8 hours per week. There is also a form of ‘hours banking’ whereby individuals can open working time accounts which record credits and debits for the purpose of later settlement.

Subsequent agreements refined these arrangements still further. Thus the 1997 agreement called *Beschäftigungsscheck* (Employment Cheque) aimed at placing the overtime hours performed by an employee in a long-term account, which could then be claimed at a later date. As well as early retirement, which was the major aim, the agreement also allowed three further possibilities in using this time:

- sabbaticals, either for further qualification or personal reasons;
- spending the time individually within a 12-month period; and

- reducing working hours collectively if management and the works council were in agreement. [However, this last possibility was reserved only for those hours which an employee said he/she would spend individually within a 12-month period so that the long term 'saving plans' of employees could not be undermined by such a measure.]

Another example is that of **Philips** in Austria where a key component of the PEC was the introduction of continuous shift working in early 1998. The main provisions were as follows:

Shift plan: A fourth shift is introduced in addition to the existing three shifts. The Saturday and Sunday afternoon shifts are made up by 50% 'old permanent workers' and 50% temporary workers, in order to create additional time-off for half of the 'old permanent workers' (cut in working hours). The distribution of 'old permanent workers' must ensure that the necessary skills for production are available on the Saturday and Sunday afternoon shifts.

Cut in working hours: The weekly 'normal working hours' for 'old permanent workers' is reduced from 38.5 to 36.43 hours. This is a reduction of 1.92 hours per week with no loss of earnings. (Not included in the agreement: For new workers, the 'normal working hours' are 35 hours.)

Structure of personnel (share of temporary workers): The proportion of temporary workers in the total number of employees is reduced within one year of the entry into force of the agreement to a norm of 20% and a peak coverage of 25%. Temporary workers employed on Saturday and Sunday afternoons are not included in this calculation (as a result of their employment, half of the 'old permanent workers' receive additional time-off). Additional workers required above and beyond the agreed proportion of temporary workers will be taken on as new Philips' workers, with the Philips' contract of employment.

Flexibility: Weekly hours can be extended or reduced according to requirements in order to be able to react to fluctuations in orders quickly and economically. The extension takes place by extending the length of shifts to 38.35 hours and beyond. The reduction takes place through the removal of individual shifts, including Sundays. The divergences from normal hours are calculated against plus or minus hours over a period of 52 weeks (one year). Plus hours can be run down within a period of 13 weeks after the calculation period or paid immediately without any bonus as 'additional working hours' (that is, hours to the extent of the difference between the new 36.43-hour week and the previous 38.5-hour week). Plus hours over this level must be paid at a 50% bonus. After the end of the 13-week period, any remaining plus hours are to be paid with a 87.5% bonus. Minus hours, to a maximum of 120 hours, can be carried over into the next year. This means that the minus balance of 240 hours may not be exceeded. Over and above this, minus hours are not taken into account in the cross-checking. Measures to extend or reduce the weekly normal working hours are to be made known to the works council twelve days before, and to the workers ten days before, they come into effect. This period of advance notice can be reduced in particularly urgent cases. After the expiry of the measure, the previous shift plan automatically comes back into force.

Sunday bonus: 'Old permanent workers' receive time-and-a-half for Sunday work (6am Sunday to 6am Monday). The bonus is calculated on the basic pay. Above and beyond this, a 25% time credit is credited to their time account.

- the long-term or temporary reduction in the length of the working week and/or extension of contractual working time without overtime premium;
- greater variability in working hours for some or all employees;
- the increased use of part-time work;
- extension of operating hours (night and weekend work).

A third example comes from the **Bonfiglioli Group** in Italy. In order to guarantee maximum utilisation of the plant, the company asked for an extension of the production cycle and flexibility of working hours, involving night work and work on Saturday. The company achieved the requested extension of the production cycle (now from 6am Monday to 10pm Saturday). In return, the union obtained a considerable reduction of working hours: working three shifts, the average working hours a week are 30, with workers being on-site for 31.5 hours. The worker is paid for 40 hours and, in addition, gets a bonus for shiftwork and work on Saturdays. Furthermore, due to the introduction of a new production line and to the reduction of working

hours, nearly 300 new employees have been taken on. Thus the level of employment has increased to 1,060 employees.

Changes in work organisation

Several dimensions can be involved in work reorganisation. One is the relocation of the workforce within the company or group. In the case of **Heineken** in the Netherlands, there is a separate agreement dealing with the redeployment of workers, due to reorganisations or company circumstances, within the same establishment to a different job or to another establishment either in the same or a different job. The intention of the social plan, called Rowor 1998-2002, is:

- to avoid redundancies of workers above the strength as much as possible;
- to expect from workers a positive stance towards redeployment in another job;
- to cushion the financial consequences of redeployment;
- workers above 55 years of age will be exempted from transfer to another establishment.

There is a procedure for accepting a new job:

- The wages of a worker who accepts a transfer will be paid up to his wage scale before the transfer. A worker who transfers to another establishment will be financially compensated for travel, renting or buying a new house and moving to a new house.
- For workers who have not found suitable work within Heineken, there are several financial severance arrangements depending on age. Workers above 57.5 years of age and with at least 10 years employment with Heineken will be compensated to their pensionable age.

There is also an outplacement procedure as a possible alternative to the internal placement procedure described above.

In recent years, there has been a strong emphasis within **Rover** (UK) on internal mobility, with employees moving between plants to an increasing extent. For example, in 1997-98, some 800 employees transferred from Longbridge to the Solihull Land Rover plant to work on the Freelander and Discovery lines, while 120 employees transferred temporarily between Cowley (where they were surplus to requirements pending the introduction of the Rover 75) and other sites including Solihull and Gaydon. Again, in 1999, some 700 employees were scheduled to transfer temporarily from Longbridge to Cowley before returning to support the building of the new Mini. The flexibility commitment within the 'New Deal' also enabled the transfer of surplus tool-making craftsmen to maintenance or manufacturing support roles, with retraining as required. Where employees moved to a lower grade level job, their personal pay grade and benefits were maintained indefinitely.

Another dimension involves new forms of work organisation. For example, the **Howmedica** agreement in Ireland makes express provision for 'continuous improvement and team-working'. In addition to the provisions on employment and partnership, the agreement provides for the following:

- a change from control-type management to team-working;
- flexible working;
- replacement of the traditional role of supervisors from one of direct management to one of 'facilitating teams';



- provision and acceptance of training;
- development of cross-skilling to create continuity of manufacture to have a broad band of skills available to overcome fluctuations in demand and people availability;
- change to a 'Quality World' culture.

The terms of this agreement reflect a largely management agenda, designed to change the established system of working in Howmedica and to effect a culture change. These concessions were balanced with significant substantive gains to employees. These were paid up-front and before the items above were in place.

In the case of **Bonfiglioli** in Italy, the parties agreed that the optimisation of organisation structures represented 'a fundamental and unavoidable condition for the consolidation and development of the Company'. Each trade union representative (RSU), conferring with specialists, was to meet by the end of April 1997 with division management to study the following themes:

- A. Definition of specific objectives and tasks resulting from these.
- B. Identification and improvement of necessary work processes.
- C. Acquisition of know-how and operative tools.
- D. Closer working relationships with other Company components with the aim of optimising work organisation.
- E. Improvement of working conditions and competence and skills of employees.
- F. Ergonomic aspects.
- G. Functioning and efficiency of plants and equipment.
- H. Rationalisation of activities, machine efficiency relating to break-downs, equipment and idleness.
- I. Information concerning procedure, even if not strictly related, which may be of specific interest for their related activities.

In relation to the progression of the stages of organisational analysis, the go-ahead for the testing of new structures will be given and it shall be the duty of the parties to follow their evolution.

In order to support such organisational trials, eventual training programmes will be started. The themes and areas involving training will be identified in relation to the objectives of the 'work groups' and on the basis of a general programme which shall be agreed to by the parties.

The common objective is the improvement of overall results of Company processes, by means of growth in the professional involvement of workers, with particular attention paid to quality, professional competence, degrees of autonomy, efficiency levels of plants, improvement in delivery times, management of orders, possible productivity increases and the improvement of working conditions.

Training and development

Provision for training and development appears in a number of these PECs and similar agreements. For example, the agreement at **Bonfiglioli** in Italy (*see above*) goes on to deal in some detail with the issues involved:

PROFESSIONAL TRAINING (clause 5)

In the present phase of the jobs market and technological-organisational development of the Company, the parties are agreed on the strategic importance of professional training, be it internal or using external training centres.

Complementary to existing agreements, in the search for complete agreement on relevant programmes, it has been agreed to concentrate professional training on the following themes:

A) technical-practical training of newly hired employees (especially if lacking specific education qualifications), with the aim to attain necessary professional skills;

B) specific and specialisation training of employees already in possession of adequate skills and autonomy, with regard to new organisational structures for quality, which require greater inter-functional skills and know-how, officially recognised.

Moreover the parties agree to develop the use of school-work sandwich courses and 'stages', organised in agreement with educational programmes of the main professional training centres and schools, for young people studying in their final two years at secondary school, and students on professional courses ('stages' or summer work).

In this regard, it has been agreed to call periodical meetings with trade union representatives (RSU), for the young people working in the Company on sandwich courses, with the aim to verify the functioning of the courses themselves.

PROFESSIONAL COMPETENCE AND SKILL (clause 7)

The parties acknowledge the common desire to encourage the growth of professional competence and skill of all employees, which is a strategic tool for the consolidation of the Company's market position.

To this end, the establishment of professional profiles specific to Gruppo Bonfiglioli, with the final aim of identifying those which, as a result of technological change and organisational changes, have been created with respect to professional profiles described in current CCNL (Private Sector Metalworkers) contract and with respect to those provided for in Complementary Company Agreements, which are recognised as not responding fully to existing specific professional competence and skills in the Company.

This will enable the parties to elaborate an agreed document ('Professional Grid') which will describe individual profiles and their responsibilities, bringing together all Company job profiles.

It is agreed, from this date, to go ahead with a survey of the organisational systems by homogeneous areas, starting from 'Assembly' and 'Offices' and then all other departments; the work, which will cover all Group Plants, will commence in June 1996, with a brief which will involve a common work group, broadly consisting of three persons per side (RSU delegates and representatives from Company Management), which will come into being according to an agreed calendar, committing itself from that date to meet at least one half-day per fortnight, and with the objective of concluding the work by the end of June 1997.

The activity of the work group shall have to enable the definition of professional profiles which may recognise all qualifications and skills, a factor critical to the success of the Company in bringing in the results and therefore one of the qualifying components of professional competence specifics.

Furthermore, the development of the integration and exchange of experience, based on the implementation of professional and technical 'tooling up', with reference also to the development of information technology, furthermore, know-how, officially recognised, realised in conditions of particular working and organisational autonomy, for which an extra payment ('professional evaluation component': EVP), which may take into account the effective specific professional content.

In this context, at the end of this work, the parties will evaluate the means of recognising professional competence and skills.

Until the described work is finished, verifications for promotion will be carried out on the basis of current Company agreements.



A very specific case is that of **DLG-Aalborg** in Denmark, where there is a detailed agreement on vocational training, relevant parts of which are quoted below:

§ 1 Intentions

With the aim to:

- further the development and welfare of the individual employee
- secure an optimal use of the production facilities by means of broad competencies and personal responsibility
- provide solid pre-conditions for flexibility and adaptability
- create the basis for new methods for production and job types founded on broad qualifications and skills

the DLG management and the club of hourly paid employees at DLG (*Landsklubben af timelønnet ansatte i DLG*) have signed the following agreement.

§ 2 Council for vocational training

A bi-partite Council for Vocational Training has to be established and has to include three representatives from the DLG management and three representatives from the club of hourly paid employees at DLG. Based on recommendations stemming from the Council for Vocational Training, DLG's management defines the general policies concerning training. These have to include:

b – an assessment of the general supply of relevant programmes/activities regarding vocational training. At the time of endorsement of this local agreement, DLG's board of directors has defined an average of 2½ days per year to be the appropriate quantity of training for each employee.

e – guidelines concerning vocational training for DLG's employees. From the start, the parties agree that provided local managers and employees make arrangements concerning vocational training programmes, the DLG will aim to expand the opportunities for the employees to return back to their jobs at DLG.

§ 3 Tasks

The Council for Vocational Training has to handle the following tasks:

- initiate plans and descriptions regarding specific training programmes for hourly paid employees at DLG
- initiate local plans concerning training programmes
- provide the company's employees with information on possibilities for vocational training

These tasks have to be carried out in cooperation between DLG's Personnel Service, the relevant trade union shop steward and local supervisors. In case of disagreements and problems regarding the wording of this agreement, these have to be dealt with by DLG's management and the club of hourly paid workers.

§ 4 Training structures

The Council for Vocational Training has to develop suggestions regarding coherent structures for vocational training, which are to focus on:

- introductory and basic common training programmes for all newly recruited employees
- training courses specifically aimed at the different sections/units within DLG (production, stock, transport, retail & sales, etc.)
- job-related training programmes, which enable the individual employee to perform specific job functions

The training programmes have to be carried out according to predefined periods of time and must take the available supply of training programmes into consideration. The agreement on vocational training implies that participation in formalized training programmes is mandatory for all newly recruited employees and an option for all current employees. However, current employees are obliged to participate in training courses in relation to changed legislation, introduction of new technologies, etc.

§ 6 Wages

The agreement on vocational training differentiates between either:

A: 'mandatory' training activities or activities which are required in order for an employee to perform a specific job

B: 'optional' training activities which by management and the individual employee are considered to be a 'good idea'

Re. A: the employee receives normal wage for 7½ hours per day. No additional wage compensations will be provided.

Re. B: the employee receives a maximum of 90.00 DKK per hour for 7½ hours.

In case participation in a training programme triggers off public compensation for lost wages (*løntabsgodtgørelse*), these funds will be allotted to DLG's management.

The final case in this section involves the small **municipality of Raisio** in Finland and is a rare example of an attempt to improve the quality of working life as part of the process of introducing a PEC. The background is set by the local partners negotiating cuts in staff costs in 1993 and 1994. In return for a guarantee on employment, employees consented to an agreement on voluntary unpaid work, exchange of holiday pay supplements for leisure and restraint from hiring substitutes. Subsequent survey findings suggested that the increased job demands and decreased job control was having a deleterious effect; over time, the situation got worse and long-term sickness and absences rose sharply among the older employees.

As a result, a wide-ranging organisational development process was introduced in 1997 to promote employees' involvement in both operational and strategic planning issues in the hope that greater job control would help to improve job satisfaction, health and productivity. Besides improving the quality of management and cooperative practices at the workplace, attention was also paid to the work processes so that customers would be better served and to respond to competitive pressures. Overall responsibility at the level of the municipality rested with the Development Committee as the official body for cooperation. The detailed work, however, was done in each sector of the administration, where groups, including an elected employee representative, were given responsibility for developing management skills and team work, as well as creating confidential industrial and social relations.

External flexibility of employment

As well as developments in the internal flexibility of employment (*see above*), there has been a growth in recent years in so-called 'atypical' or non-permanent forms of employment, such as contracting out, temporary work and fixed-term contracts. A number of agreements make provision for these different forms of external flexibility. Typically, they recognise the right of management to use such practices at the same time as they seek to set the conditions under which this happens.

For example, in the case of contracting out work, the agreement at **Howmedica** (Ireland) states that the company may contract out manufacturing work to vendors under the following circumstances:

- The permanent workforce do not have the capacity with reasonable timescale and overall levels to meet demand.
- To maintain an external source of product or services to ensure immediate availability to meet unexpected and significant increases in demand.
- Where the present or future work load in indirect activities cannot be met by the existing workforce, the hiring of contractors will be a logical alternative. This will have no effect on current or future manning levels.

The **Heineken** (Netherlands) agreement deals with both subcontracting or outsourcing and temporary work. In the case of the former, it states that 'no outsourcing will take place' in the



relevant departments for the period of the agreement's duration. Also, 'outsourced work will, if necessary, be insourced'. In the case of temporary work, the agreement states that this is to be used as little as possible. A temporary worker will be paid in the first 12 weeks of employment according to the conditions laid down in the industry agreement for temporary workers. After 12 weeks, or if within a 24-week period a temporary worker is employed for 12 weeks, the worker will be paid according to the conditions of the Heineken agreement. The use of part-time work is also covered in an appendix, but, according to the Dutch correspondents, this has had little impact.

In the case of fixed-term contracts, the **Zanussi** (Italy) agreement has some of the most detailed provisions. Fixed-term contracts are possible in the following cases:

- a intensification of production as a consequence of seasonal, cyclical or economic variations, or company needs linked to the launch of new products, international orders, special sales campaigns and urgent delivery deadlines;
- b debugging of new plants, or activities in general linked to technological, plant or production restructuring.

For cases referring to letter a), the maximum length of contract is nine months and for cases referring to point b), twelve months. The above-mentioned contracts cannot be renewed more than once and only for a duration equal to that of the initial contract. The number of workers which may be hired on fixed-term contracts under point a) cannot exceed 8 per cent of the total workforce of the production centre in question; the number of those hired on fixed-term contracts under point b) cannot exceed 10 per cent of the total workforce of the plant in question. Management must inform beforehand the joint Trade Union representatives of the numbers and types of contract concerned.

Employment reduction

Along with working time flexibility, the major way in which a lowering of labour costs has been achieved is through a reduction in employment. Employment reduction is usually present even where employment preservation is a prominent feature (*see Appendix B*). Indeed, in some cases, it is clear that redundancy and the handling of the terms on which it takes place are to be seen as the core elements of the agreements. In discussing the **Glanbia** case, the Irish correspondent makes the following comments:

While the job protection and job creation elements offered by the company qualifies this case as having an element of an 'employment pact', this was a minor part of the overall case. The main focus of the collective bargaining was concerned with the negotiation of terms for job elimination and this is the dominant way in which employment and competitiveness issues are dealt with in Irish industrial relations. We see from the above that the motives of both parties were strongly opposed, with the company being interested in achieving the required redundancies and the unions wishing to retain jobs. However, while there were clear differences of interest between both sides, the unions' approach was complicated by the fact that it was aware that the interests of individual union members were not necessarily congruent with the principled position the union wished to adopt. The solution to this dilemma, on the union side, was to opt for the traditional method for dealing with redundancies in Ireland, namely one of refusing to accept compulsory redundancies but agreeing to negotiate for compensation for voluntary redundancies. Management, for their part, accepted this broad approach and negotiated within this framework.

Rover (UK), disposed of by BMW in 2000, offers perhaps the most extreme case in employment reduction. The UK correspondents emphasise that, even though the 'New Deal' employment security agreement of 1992 had been maintained throughout the 1990s, several thousand jobs had been lost, most notably in the years 1992 and 1993 and more recently in 1998 and 1999. The Rover Group's annual employee headcount statistics since 1992 are given in Table 3.

Table 3 *Rover Group employee headcount, mid year*

Year	1992	1993	1994	1995	1996	1997	1998
Headcount	33,550	31,398	33,652	36,564	38,159	38,893	38,712
Change over previous year	-3,970	-2,152	+2,254	+2,912	+1,595	+734	-181

Source: Rover Group

At the beginning of 1999, steps were taken to secure 2,500 job cuts. In the event, by the time of the announcement of the UK Government's aid package on 31 March 1999, the workforce at the Longbridge (Birmingham) plant was reported to be down to 9,500, compared with 14,000 a year previously (as reported in *The Independent* of 1 April 1999).

A high proportion of those employees leaving Rover was accounted for by voluntary redundancy. Rover's own statistics on the main reasons for employees leaving the company show that, between 1994 and 1998, voluntary redundancies ranged from 32% to 45% of leavers each year. Voluntary redundancy schemes operated throughout this period, with the value and make-up of the ex-gratia element of the package being dependent on business requirements, such as the number of volunteers being sought and the category of employees targeted while maintaining a balanced workforce. Enhanced terms were payable in a number of circumstances, including voluntary redundancies effected by a defined date, voluntary redundancies among the shorter service population and plant closures. Rover's pension scheme also had a number of features designed to support early retirement, including 100% of accrued pension from age 55, where the employee leaves at the company's request (including voluntary redundancy), and a pension bridge of £1,500 per year payable from age 55 to State pension age, where the employee is leaving at the company's request. Retirement before age 55 was also facilitated.

Rover is not the only example of substantial employment reductions. In the case of **Lufthansa**, between 1992 and 1994 the workforce was reduced by 8,000 (2,000 in 1992 and 3,000 in each of the years 1993 and 1994), mainly by voluntary offers and increases in part-time employment, but also by redundancy where necessary. At **Post und Telcom** (Austria), following the negotiation of the social plan between management and the works council in 1997, some 4,500 took advantage of the measures on offer to leave the company (3,000 taking early retirement and 1,500 taking voluntary redundancy). At **Opel (General Motors)**, further cuts of between 3,000-4,000 jobs are envisaged by the year 2001, necessitating the inclusion in the latest 'site' plan of new company retirement schemes, guaranteeing 80% of former net income in the case of early retirement (*Vorruhestand*) and 85% in the case of partial retirement (*Altersteilzeit*).

A peculiar case of employment treatment is that of the Spanish company **Essa-Polinyà**, whose pact specifies that new employment is contracted depending on variation in demand and that a concrete percentage of employment may be reduced if the turnover level decreases. A period of pre-notice is required for this.



Employment preservation

A key component of many PECs, along with an assurance of no compulsory redundancy, is some form of employment guarantee. This may be open-ended or for a specific period; it may also be qualified by clauses dealing with exceptional circumstances. Sometimes, notably in the case of the auto companies, it may be linked to particular models and/or locations.

‘Employment security’ is a key feature of the UK agreements and these will be used to illustrate the complexity of the issues involved. Clause 8 of the original **Rover** ‘New Deal’ agreement stated that:

Employees who want to work with Rover will be able to stay with Rover. Necessary reductions in manpower will be achieved in future, with the cooperation of all employees, through retraining and redeployment, natural wastage, voluntary severance and early retirement programmes.

Rover management was careful to emphasise that this provision was not a guarantee of a particular job. The phrase ‘employees who want to work with Rover will be able to stay with Rover’ meant just that: employees could be asked to change job and location if necessary.

The ‘Way Ahead’ agreement of **Blue Circle Cement** perhaps best illustrates the complexity of the issues, as well as the logic. Thus, the introduction to the agreement links flexibility with security:

Way Ahead provides an environment in which our employees can develop, acquire additional skills, practise those skills and demonstrate maximum flexibility, whilst the company is committed to providing maximum employment security with harmonised terms and conditions of employment wherever possible.

On the specific issue of employment security, the agreement states:

Employment security is earned by all playing their part and is the driver which frees employees to improve the business and to change radically.

The company is committed to ‘right-size’ its operations through voluntary means. This is not won easily and it requires several factors to remain in place if this umbrella of protection is to roll on year after year:

- commitment of all employees to the achievement of the annual business plan goals and objectives;
- employees commit positively to training and development and practise new skills;
- employees commit positively to and demonstrate flexible working — no barriers, anyone can do anything providing they are competent and it is safe to do;
- there are no barriers to the operation of an ongoing voluntary redundancy programme within the agreed selection procedure;
- employees are willing to be redeployed to a suitable alternative job anywhere in the business unit and where appropriate volunteer to relocate to another unit;
- all vacancies will be filled with the best candidate from an unrestricted pool of applicants, i.e. equal opportunity. They will be assessed through a variety of methods, e.g. aptitude testing, skills assessments, qualifications, interviews, work record, references, etc;
- a three-year pay formula with a commitment to find an arrangement that would enable it to roll on year after year.

There are some exceptional circumstances when employment security is suspended and these require an understanding amongst the partnership:

- the closure of a site;
- any one partner feels that another has fundamentally breached the understanding and spirit of the agreement.

In all cases, the commitment is to resolve the issue with the minimum disruption and retention of maximum employment security.

A 'codicil' to the agreement states:

The financial status of the company is essential in maintaining the provisions of this agreement. It is accepted therefore that circumstances may arise as a result of significant capital investment or dramatic market changes which would render the security of employment prospects open to further debate.

The agreement also sets out the selection procedure to be used where staffing reductions are necessary. Temporary employees are the first to go and the use of contractors would be reduced to those with specialist skills or equipment not present within the company. Any changes involving a reduction in staffing levels are to be the subject of consultation with recognised trade unions, including the granting of voluntary redundancies and the redeployment of staff. Where a reduction in staffing levels becomes necessary, 'the objective is to select openly and fairly the best person for employment . . . there is no automatic right to selection for employment or redundancy'. The agreement stresses that 'the value of effecting redundancies by voluntary measures is recognised, and volunteers for redundancy from the total workforce will be invited'. It also sets out criteria for the selection of employees for redundancy.

If there are not enough volunteers for redundancy, the agreement provides that the reduction in staffing 'will be achieved by redeployment within the business unit or voluntary relocation where appropriate and cost-effective'. Using detailed performance assessments of each employee in the relevant area, managers 'will identify the employees who are to be redeployed, commencing with those with the lowest overall points rating'. Individuals have the right to appeal against redeployment decisions, but where a job 'is deemed suitable and reasonable, the displaced person shall not have the option of redundancy'.

Employment creation

Employment creation in general terms is not a major feature of most PECs. Apart from Bonfiglioli in Italy (where, in addition to the employment increase deriving from the new working hours over 6 days, the company committed itself to hiring a further 20 workers during 1995), the main exceptions are the French cases. Effectively, following the passage of the loi Aubry in 1998, each of the agreements is essentially a trade-off of reductions in working time for increases in the number of jobs. (*Details of the loi Aubry and loi Robien are given in Box 1 at the end of Chapter 3.*)

In paraphrasing the preamble to the **Air France** agreement, the French correspondent gives a flavour of what is involved:

The preamble sets out the *three-fold* framework for the agreement:

- *an increasingly competitive economic environment*, given that the anticipated growth in global air transport in the coming years (5% per year) will be accompanied by *an underlying fall in yield, forcing airline companies to implement major cost reduction programmes*.
- the company's strategic planning for the period 1999 to 2002 and the four key factors for development: *winning over customer preference, exploiting the specific strengths of the company, profitability in order to finance future developments, and acting in concert*.
- the Act promoting and establishing guidelines for the reduction in working time, the signatories holding the view that the reorganisation and reduction in working time should *be seen and serve as an opportunity to outstrip*

competitors as regards satisfying customer expectations (concerning schedules, availability, ability to react, price packages, etc.), to contribute to an improvement in individual and collective efficiency, and to make the staff as a whole the key to this measure — not to the detriment of working conditions but, on the contrary, by progressing towards working time which is better organised and therefore more satisfying.

The ensuing paragraphs in the preamble provide important insight into the impact on employment of the reduction in working time, the conditional nature of the undertaking to create 4,000 jobs and the method for implementing the agreement. It is clearly stated that a *reorganisation and reduction in working time, linked to the growth in business anticipated in the business reorganisation scheme and to wage moderation, should lead to the creation of 4,000 permanent jobs before the end of 2001. The signatories recognise that the sustainable nature of these jobs is inexorably linked to corporate competitiveness.*

The French correspondent goes on to add the following observations:

This highlights two of the fundamental principles underlying the agreement process. Firstly, and contrary to the interpretation which the public authorities will subsequently tend to give to it, the Air France agreement on the reduction in working time does not create 4,000 jobs. The signatories acknowledge, on the contrary, that the impact of the reduction in working time on the number of jobs is dependent upon the development of business and the impact of wage moderation. Secondly, the preamble states — in terms that some trade union signatories would have rejected until very recently — that the durable nature of jobs is conditional upon increased (and not just sustained) competitiveness.

More common are provisions to create jobs for specific categories of employees. A central element of each of the Spanish PECs, for example, is the transformation of precarious jobs into more stable ones, reflecting the Interconfederal Agreement for Job Security (AIEE) of April 1997. In the case of **Caixa**, the agreement opens as follows:

With the signature of [the agreement] at a confederate level, and the modification of the regulations' framework, conditions to develop an agreement at the company level are created. This agreement, which is included in the 'Labour Regulations' of the Firm, dated on November 14, 1997, after the AIEE, has the following features:

a) *Transformation into permanent of the apprentice staff:* The firm assumes the commitment to create employment through transforming apprenticeship contracts into open-ended ones. That is to say, after a year of the first apprenticeship contract, it turns into permanent employment. Thus, around 85 per cent of the 1,000 temporary contracted workers remain as permanent in the firm. This high percentage is also explained, first, because the contracted worker goes through a hard selection process and, second, because the firm is in an economical expansive stage.

b) *Fixed-term contracts because of production circumstances:* At least for three years, there is still the necessity to contract for a limited duration (temporary contracts). Also, there is the possibility of transforming these contracts of limited duration into open-ended ones; it is guaranteed that at least 80 per cent of these contracts will become open-ended, with the only requirement of a favourable labour report. The contract will be turned into open-ended without any probationary period and seniority will include time working as temporary.

Before transforming temporary contracts into open-ended, an evaluating tribunal will be created where major unions will be represented.

c) *Use of temporary employment agencies:* It is agreed to use the temporary employment agencies (ETT) with a limited character and only in the following situations: To perform a work or concrete service of a short duration; to face circumstantial demands of the market, work accumulation or an excess in orders, including those deriving from concentration of holidays in the staff. To substitute workers from the firm with the right of reservation of post. Any other use should be informed by a document sent to the signing organisations.

The ETT resource is generally used during the summer months, only occasionally and at present it has scarce importance.

d) *Applicability:* This agreement is valid until year 2000, December 31, and its effectiveness is 'erga omnes' in the sense that it affects all employees and not only the members of the signing unions.

In the case of **Damm** in Spain, the company assumes the contract renewal of up to 107 discontinuous permanent workers who are guaranteed six months of work per year, the annual establishing of beginning and end of incorporation into work and an annual bonus of 500,000

pesetas. When the framework agreement was signed, the number of discontinuous permanent workers was 170; the difference up to 107 was solved with voluntary compensated dismissals and, in some cases, involuntary dismissal.

In the appendix to the **Heineken** (Netherlands) 1998/1999 agreement, there are articles regulating subjects such as information and consultation on employment, priority of internal candidates for vacancies, positive action for female employment and the young unemployed, child care facilities, parental care leave and mergers. There is also provision for new employment for the long-term unemployed (with lower as well as higher education levels) and ethnic minorities on work experience schemes (20 in 1998, 20 in 1999 and 60 in 2000). Those on work experience schemes will have priority for the filling of internal vacancies if they qualify.

The **Zanussi** (Italy) agreement also has several clauses dealing with different groups of employees:

9. In the long term, young employees recruited on work/training contracts shall be integrated into Group companies through the conversion of their employment relationship into open-ended contracts. The wages of employees recruited on work/training contracts are made up by the minimum wage and the cost-of-living allowance, topped up with production bonuses as outlined in the sectoral collective agreement.

10. By means of fixed-term contracts and their conversion into open-ended contracts, it is agreed to increase the number of female employees and to work towards equal rights, creating equal conditions for all.

11. The parties have agreed to set up for a trial period (15 December 1997 – 31 December 1999) a maximum of 40 teleworking posts. The aim of the scheme is to promote and develop the enrichment of work, professional development and economic conditions and careers for expecting mothers and mothers themselves. The scheme is in fact to be set up in order to maintain the balance between family and work responsibilities, avoiding the need to suspend work for optional periods of post-natal leave of absence or long periods of absence for children's illnesses.

The Parties acknowledge the fact that teleworking represents a mere alteration in the sense of where work is carried out, but remains to all intents and purposes work under an employment contract. The company will bear the costs relating to the teleworking (for example, the use of space, electricity consumed, telephone expenses) by paying the employee a monthly all-inclusive lump sum.

The Zanussi agreement also incorporates an initiative, called Oikos, which involves making available (as an experiment, in some Group production plants with a high percentage of female employees and where conditions allow) centres set aside for children between the ages of 4 and 10 of women working at the plant. Working mothers may bring their children to the centres where they will be looked after by specialised personnel for the duration of their shift, without charge, at times when for family or personal reasons the mothers have no alternative. The scheme also extends to working fathers.

Investment guarantees

It is rare to get provisions that seek to underpin employment preservation or creation with guarantees of investment plans for particular activities or locations. Two main groups can be identified. The first are the automotive manufacturers, who have agreed to specific investments covering particular models and the accompanying locations. In the case of **Opel (General Motors)**, for example, the German correspondents list the specific provisions agreed as part of the 1999 negotiations, as follows:



Opel plant	Number of employees (at end of 1997)	Agreed provisions for the several production sites
Rüsselsheim	24,980	Safeguarding of the international development centre with at least 8,200 employees New investments of at least DEM 750 million to modernise the plant and to increase productivity until the year 2001 (for example, the building of a new paint-shop) Safeguarding of a production capacity of at least 275,000 cars per year
Bochum	14,630	Safeguarding of the production of the Astra model Keeping Bochum as the only west European production site of the Zafira model, at least until the end of the year 2001 Extending the provisions for additional night shifts until the end of the year 2000 Hiring of 150 new employees in the next three years
Kaiserslautern	4,780	Company works council and management declared that the new 'site pact' creates good conditions to build up a new engine plant, which would mean a new investment of DEM 450 million and would safeguard about 400 jobs Other measures should help to safeguard another 520 jobs

Source: Opel AG

The second group are former public utilities. In the case of Ireland's **Electricity Supply Board (ESB)**, the agreement was unique in addressing a range of business issues involving not only the company and unions, but also the Irish government. There were detailed provisions for the long-term viability of the ESB and precise provisions for future price increases up to 1998, as follows:

- 1996 2% increase
- 1997 1.5% increase
- 1998 3% increase

Due to the refusal of the government to sanction price increases, there had been inadequate provision for capital investment. The Cost and Competitiveness Review (CCR) agreement dealt with the long-term viability issues by providing for the following:

- a 5-year capital investment programme to the year 2000, providing for an investment programme totalling IR£1,482 million; and
- IR£200m over the next ten years in network renewal.

As in the case of **Alitalia** in Italy (*above*, under section 'Changes in pay systems and structures'), the ESB's commitment goes further to include provisions for a series of 'bilateral bodies aimed at global involvement of all personnel categories by means of the widening of discussions between the company and employee representatives is a key moment for the new structure of industrial relations'.

Employability

Employability is one of the four pillars of the EU's employment strategy (along with entrepreneurship, adaptability and equal opportunities). The idea came to prominence in the early 1990s and was a response to the considerable 'down-sizing' taking place, especially among managerial and professional groups, and concerns that the loss of career opportunities would have a damaging impact on the psychological contract. Instead of being guaranteed a career within an organisation, employees would be given the training and development opportunities necessary to prepare themselves for employment in other organisations should the current organisation no longer have need of their services. Considerable doubts have been expressed on the plausibility of expecting employers to train their workers for future employment and research in some countries shows there has been little take-up in practice (Rajan *et al*, 1999).

In the event, employability was not a major feature of the PECs studied. There was also a significant continuum. In some cases, there are relatively straightforward statements, dealing with training and development opportunities. Examples are Blue Circle Cement and Co-operative Bank in the UK and **Glanbia** in Ireland. In the latter case, for example, measures put in place to assist employees in gaining re-employment included:

- independent professional assistance to be made available to give financial advice on the redundancy package and advice on jobs outside Glanbia;
- assistance to employees in putting together CVs;
- advice on interview techniques and access to external job vacancies;
- the setting up of job centres, which make contact with local businesses seeking new employees, and presentations to prospective employers on the skills becoming available; and
- advice for employees in setting up their own businesses.

In other cases, there are extensive provisions in the PECs of certain countries, such as Austria, the Netherlands and Sweden, for what are, in effect, employment foundations, pools or companies.

In the Netherlands, **Stork** has established an internal employment agency (Stork Mobiel BV) whose basic task is to match supply and demand for flexible labour through the temporary posting of workers, provision of training and acting as an intermediary. Quoting from its mission statement, Stork Mobiel BV is intended to be a profit-making company:

Stork Mobiel is the organization of flexible labour capacity of companies by means of:

- to supply flexible workers (being Stork Mobiel employees);
- to act as an intermediary for the exchange of employees between companies;
- to act as an intermediary between companies and outside employment agencies;
- to train and educate employees and to provide consultancy for training.

If a company is in need of temporary workers:

- all vacancies are to be notified to Stork Mobiel and Stork Mobiel has the first right to supply candidates;
- all temporary overcapacity between companies will be regulated through Stork Mobiel.

In order to serve the decentralised company structure of Stork, a regional network of managers with consultants within the major companies has been established with clear targets for the future. The volume of numbers of full-time employees should reach 300 after a short period, 10 per cent of the total labour force of Stork. The number of postings on a yearly basis should be 750. Stork Mobiel BV also has three categories of employees, details of which are given below, along with arrangements for payment:

- Stork employees who in their own companies are temporarily surplus to requirements. They are transferred on a temporary basis to other companies, while keeping their permanent position with their own company.
- Workers from outside of Stork. These can be young workers on a training programme within Stork, temporary workers looking for a permanent position or people who only want to be involved on a project basis.
- Stork employees who will have a permanent position with Stork Mobiel. These can be redundant workers, but also workers who prefer different postings over a period of time instead of working for one company. Both have to apply for a position and will do so on a voluntary basis. Stork Mobiel will not automatically employ all redundant workers. It wants to position itself as a supplier of high quality labour and to avoid negative labelling.

4.2 Wages and conditions

The negotiations on wages and conditions are referred back to the normal process of collective bargaining between unions and the employer. These negotiations proved to be very difficult and at one particular point it looked as if the negotiators had reached the end of the road. The main negotiators are members of the steering committee for the project.

In the end, the negotiators reached a compromise on three regimes for wages and conditions, based on the three categories of employees distinguished at Stork Mobiel:

- For the first category (employees from inside Stork, but in their own company temporarily surplus to requirements), wages and conditions remain the same; they will continue to be covered through the engineering industry agreement. As such, they are not employed at Stork Mobiel BV, but at their own company.
- The second category (workers from outside Stork who apply for a position at Stork Mobiel) are offered a temporary position with the intent to offer a permanent position after a stipulated period of time (one year). There are training facilities in place in order to fulfil the criteria for promotion to a permanent position. Workers in a temporary position are not covered by the engineering industry agreement, but through the recently established industry agreement for employment agencies. Wages and conditions in the latter are lower.
- The third category of employees (permanent Stork Mobiel employees) are again covered through the engineering industry agreement. However, their wages and conditions are split into two parts: a fixed part and a flexible part. The fixed part stipulates subjects such as salary, working time, pension, holidays, educational leave. The flexible part is basically a working time account (it also contains a mobility premium). One part of the account is under the discretion of the employer: for instance, an employee is to take time off between two projects if required by management. The second part is under the discretion of the employee: time to be used for extra holidays, part-time work over a certain period of time, care leave or to be saved for early retirement.

Every employee will have a training and education plan.

In the case of **Telia** (Sweden), the agreement provided for the creation of a 'staff support' division with whose help redundant staff got further education and assistance in finding a new job within or outside Telia. Initially, all employees were put in the division and had to apply for jobs in the new organisation. Employees that did not get such a job had a time limit of three years during which time they were still considered as employed and received salary, but had to stay in the division to explore job possibilities and retrain as necessary.

A similar arrangement was adopted in the wake of the merger to form the **FöreningsSparbanken** in Sweden. The Swedish correspondents report that discussion took place between the two sets of management and all arrangements were voluntary for staff on the understanding that there would

be no employment in the bank itself. Employees were offered the choice of accepting the improved pension arrangements or of joining the 'resource bank', which would provide further education and other kinds of help in finding new jobs.

Employee representatives and company decision-making

A number of agreements make explicit provision for strengthening the role of employee representatives in company decision-making. In the case of **Alitalia**, for example, the agreement provides for:

The setting up of an industrial relations system based on the involvement of all categories of personnel; such a model should institutionalise processes of information and control regarding the measures included in the plan and provide for the creation of bilateral bodies which have to elaborate projects finalised to making decisions relating to specific matters of strategic value.

To this end, the Alitalia agreement established the following 'bilateral bodies':

- Joint committee for the verification of the implementation of the Alitalia industrial restructuring plan for 1996-2000;
- Commission for the evolution and development of routes and fleet;
- Commission for customer services;
- Commission for organisational structures and processes;
- Commission for staff training.

In the case of **Damm** in Spain, the agreement set up three new 'joint commissions':

- the Commission for Labour, Health and Absenteeism, with the functions of studying and proposing the adaptation of the Law of labour risks prevention and its regulations of development and taking part in the monitoring of absenteeism evolution and its reasons and proposing measures for improvement.
- the Commission for Training, with the purpose of detecting and proposing training needs, taking part in the elaboration of training plans, monitoring its right application and encouraging measures for the promotion of company training.
- the Commission for Improvement Teams, with the purposes of encouraging and proposing measures which enable enrichment in the tasks, as well as optimising professional development of workers in order to endow them with a higher professional capability through integration of multi-job functions and multi-areas, avoiding routine and lack of motivation at work.

Similar functions are performed at **Blue Circle Cement** in the UK by the 'Company-wide Action Team' (CWAT). Its history nicely illustrates some of the learning process involved in the negotiation of PECs. Initially, the discussions leading to what came to be known as the 'Way Ahead' agreement were confined to the top management and national union officers. However, the process was strongly criticised at a reportedly stormy meeting of trade union delegates in June 1996. It was eventually agreed that the talks should continue, but only on condition that the working group undertaking the discussions was expanded to include at least one shop steward from each of the company's business units. The result was an 'enabling agreement' on the formation of a reconstituted CWAT, the role of which was to come up with a draft agreement that would then be subject to the normal negotiating procedures. Subsequently, the CWAT was kept as a permanent structure to oversee the partnership arrangements within Blue Circle Cement.



Summary and conclusions

The central thrust of most of the PECs investigated here is employment preservation rather than employment creation. Indeed, other than the French cases, few examples of job creation are to be found, although a number of Dutch, Italian and Spanish PECs are characterised by provisions for particular groups, such as temporary employees, apprentices and women. Typically, PECs seek to minimise reductions, preserve and/or stabilise employment through provisions for no compulsory redundancy or guarantees of security. Mostly, the guarantees take the form of statements of principle. Very often, too, they are qualified by exceptional circumstances in business conditions. Few PECs are part of agreements on strategic company policy covering investment and R&D. In some cases, however, notably the automotive manufacturers and former public utilities, these employment provisions are accompanied by very specific investment guarantees.

PECs are also primarily concerned with the quantitative rather than the qualitative dimension of competitiveness. In other words, the main objective is typically to achieve a reduction in labour costs per unit rather than an improvement in quality of the product or service. Many agreements, it is true, provide for training and improved availability of hours. Even here, however, the primary aim seems to be to reduce the costs of production and/or service.

There is considerable variety in the way PECs achieve reductions in labour costs. Cases involving a reduction in pay are relatively rare, however, and no examples were reported of a reduction in the basic collectively agreed rates of pay. Where they do occur, reductions in pay come from reductions in company bonuses, reduced working hours and shift/overtime payments. The main vehicle for cutting labour costs involves a mix of reductions in employment coupled with changes in working time arrangements and the promotion of internal employment flexibility. External employment flexibility (in the form of the greater use of atypical forms of employment) appears to be relatively unimportant. The critical point is that some redundancy (almost invariably voluntary rather than compulsory) is usually present, even when a major objective is to preserve employment for the future.

In theory, it might be expected that there would be more cases of a trade-off of pay against employment. In practice, however, both employees and management are unlikely to find such a trade-off attractive. For employees, it means a reduction in the standard of living. For management, it means an increase in fixed costs and worries about loss of morale. Pay may not be the motivator that some believe, but it remains one of the critical 'hygiene factors'. Reductions in pay threaten to demotivate employees at a time when greater cooperation and commitment is wanted from them. Furthermore, in most cases, turnover rates are such that voluntary redundancy and early retirement can achieve the required reduction in employment. Indeed, the evidence suggests that many employees will wish to take advantage of a redundancy package on offer.

On the face of it, training and development do not loom as large as might be expected, which may reflect the fact that their importance is generally accepted and there is little need to make

specific provision for them. Where the upgrading of a workforce's skills is one of the features, management tends to prefer to invest in specific skills, rather than general ones. Training for employability is rarely a feature and, although there are specific examples, organisations with employment companies/foundations/pools tend to be, generally speaking, multi-employer in coverage and are to be found at regional and sectoral levels.

Some light has also been shed on several of the theoretical issues raised in Chapter 1. In the case of the 'concession bargaining' debate, it is clear that employee representatives have made major concessions in as much as they have agreed to significant changes in existing terms and conditions. Rarely, however, do these concessions undermine the terms and conditions in sectoral agreements. Significantly, too, the concessions are not one-way. It is impossible to judge the reciprocity involved, but in virtually every case management has also made concessions, including investment guarantees and commitments to a high-level involvement in policy development.

In the case of the 'insider-outsider' debate, it is clear that a major objective is to preserve the position of existing employees. Reductions in pay, which might have been an alternative to reducing employment, are rare and there a number of examples of the introduction of new starter rates that are lower than those for existing employees. Yet many of the agreements also display a marked level of altruism. A major feature in some cases is special treatment for disadvantaged groups, such as temporary workers, and efforts have been made to assist the long-term unemployed. Furthermore, where new starter rates have been agreed, employee representatives have minimised the period.

Finally, in the case of the 'convergence' debate, the findings confirm that the host country continues to have a marked effect on the contents of PECs, as well as their incidence. This is, above all, true of France. At the same time, however, there is also evidence of a strong sectoral effect. In some cases, too, notably in automotive manufacturing, there is strong evidence of a company effect. A range of similar practices is being introduced regardless of country, including working time corridors, annualisation of hours and team work, and making conditions of employment similar.

In considering the specific contents of PECs, there is a danger of neglecting one important notion. Many of the individual features of PECs may not necessarily be remarkable, although the provisions relating to employment may be new in their context. Taken together, however, the package of provisions involved in many PECs is impressive on account of both the range and depth of the coverage. Anyone studying the agreements cannot fail to be impressed by their comprehensive nature and the time and effort that must have gone into their drafting. Collective bargaining, it seems, is proving itself to be very capable of coping with the increasing complexities of managing the employment relationship, as well as continuing to provide a mechanism for dealing with issues of distribution. Indeed, given the sensitivity *and* complexities of the issues involved, it is difficult to imagine that the alternative processes (namely, legislation and management decision) could adequately deal with them.



Chapter 5

Parties involved in negotiating PECs

This chapter provides more information on the parties involved in the negotiation of pacts for employment and competitiveness (PECs). At first sight, this might seem a relatively straightforward matter. Besides the public authorities, the groups involved are employers' organisations and trade unions at sectoral level and management and employee representatives at company level. This does not tell us a great deal, however, especially in the case of company-level PECs. In the great majority of PECs at this level, the managers come from large organisations that are made up of a number of individual businesses. Many of these organisations are also part of multinational companies (MNCs) with operations in several countries.

The relationships between negotiators of PECs are therefore potentially important to the process of negotiation (*see Chapter 7*) — such relationships as, for example, between functional line managers and personnel managers, between local managers in different locations, and between local managers and headquarters' managers. The complex structures of the organisations also considerably complicate employee representation, with implications for the process of negotiation. Moreover, the basis of this employee representation is very different, reflecting both custom and the legal framework in different countries. In some countries, employee representatives are trade union-based, whereas in others they come from statutory works councils (*see Chapter 3*). Complicating matters further is the fact that, in several cases, public authorities have been involved in the negotiation of a number of PECs, either directly or indirectly, even though they have not been signatories to the agreements.

Management

There is a long-standing tendency in much of the literature dealing with industrial relations issues to see management as a monolith, driven by a common logic of profit maximisation or

cost minimisation. In practice, however, there is a growing body of evidence to suggest that this is far too simple a perspective. Management is not just a resource and a process, but also a group of people who are themselves employees (Harbison and Myers, 1959). Differences of interest can cut across functional, business and international boundaries.

Few of the project's national correspondents comment on the composition of the management team. Of those that do, it would be fair to conclude that most management teams involve a mix of line managers and personnel specialists. It is also clear that the lead can vary from organisation to organisation, involving either senior business managers (for example, Telia in Sweden) or specialist personnel managers. Nor is representation static. In particular, a change can be used to demonstrate the seriousness of a situation. Vauxhall (General Motors) in the UK provides a good example of this. In recent years, the Personnel Director usually led the management team in negotiations with trade unions; in the case of the 1998 agreement, however, the Chief Executive took the leading role, which was widely regarded, by both management and trade union representatives, as an indication of the seriousness of the situation.

Of critical importance to understanding the behaviour of these managers are the characteristics of the companies they represent. Most of the companies are large and complex organisations. Many of the PECs, therefore, have to cover numerous workplaces. In the case of banks, for example, this can run into several hundred locations. Even an airline, which might be thought to be a relatively homogeneous business, can have a substantial number (the Air France agreement, for example, covers no fewer than 26 establishments). Some companies are essentially a single business in operation, whereas others are extremely diversified. Many of the companies are also multinational in their scope. Some, such as Heineken and Electrolux, are primarily European-based, whereas others, such as Ford and General Motors, are truly global in their operations.

There have also been significant changes in the structure of organisations, reflecting the revolution in information-processing facilities. Three in particular are worthy of attention because they underpin what might appear to be a range of apparently unrelated changes.

- *Divisionalisation*: This involves the break-up of the large-scale hierarchical organisation into a number of semi-autonomous or 'quasi' businesses responsible for most, if not all, activities within their jurisdiction. Strategic management (in the sense of deciding the composition of the business' portfolio) remains at the centre, as does in most cases responsibility for the selection, development and reward of senior managers in the operating divisions. Responsibility for day-to-day operations and, in some cases, for strategic management (in the sense of medium and long-term planning) is devolved to the divisions. In short, most large companies are 'decentralised operationally, but centralised strategically' (Whittington and Mayer, 1994).
- *Devolved budgeting*: This involves the allocation of responsibility for managing activities within financial resources or targets to the lowest possible unit within the organisation. Individual businesses can be seen as profit centres or costs centres depending on the nature of their activities. Indicators targeted for budgetary purposes include sales, return on investment, unit labour costs, profit to sales ratios and various combinations of these.

- *Internal market*: This development is the greater application of market principles to decision-making, reflected in developments such as the externalisation of non-core activities. It involves seeing the organisation as an 'internal market'. Not only are 'services' traded between 'purchasers' and 'providers' to ensure that different groups are more responsive to the needs of each other and that activities are cost-effective. Perhaps even more fundamental for present purposes is the existence of an internal 'market' for investment, which means, in effect, that managers from individual businesses must compete for investment with each other in what can be a highly competitive process.

Together, the impact of divisionalisation, devolved budgeting and internal markets has been little short of revolutionary in the way large organisations are being managed. Above all, they involve a fundamental shift from the *management-by-task* characteristic of traditional organisational structures to *management by performance*. The revolution in information-processing facilities, made possible by the coming of the microchip and associated developments in computer software, have produced instruments of management control and coordination that are far more effective and efficient than hierarchy and bureaucracy. An organisation that can get data on sales and costs on a daily basis, for example, is in a position to do a number of things for which it previously needed substantial numbers of expensive managers. Senior managers have the capacity to collect and analyse data on performance practices and outcomes. The information gained from the 'coercive comparisons' can then be used to exert pressure on business unit management and to operate the internal 'market' for investment. Strongly performing sites can be 'rewarded' by investment, whilst poorly performing sites can be 'punished' and even closed. No self-respecting senior manager in the mid-1990s has to issue an instruction to get his or her way, as in the old days. Subordinates take heed of the implications of the performance data with which they are deluged or else suffer the consequences.

The potential industrial relations role of the management at the headquarters of multinational companies (MNCs) has, in particular, received considerable attention in recent years (*see, for example*, Marginson and Sisson, 1994, 1996a and 1998). In the face of the internationalisation of markets and spurred on by the creation of the Single European Market, MNCs have been adopting continent-wide strategies for production and servicing of markets. Emphasis has also been shifting from territorial forms of organisation, embracing operations within individual countries, to international forms responsible for a particular line of business across different European countries (such as international product divisions). This has led to the adoption of systems of performance control, covering indicators of labour performance as well as measures of financial and market performance. The resources available to large companies, and large MNCs in particular, give them enormous advantages in dealing with works-based and nationally-based employee representatives, leading to demands for greater information and consultation rights as available in the European Works Council initiative. Most companies have considerable resources at their disposal, making it difficult to escape the conclusion that there is a very asymmetrical bargaining relationship. Especially relevant, however, is information.

In key respects, too, MNCs are very different from recently privatised public corporations like Air France, making the bargaining relationship particularly asymmetrical. True, deregulation and

privatisation have imposed a set of market disciplines that were relatively unknown before, fuelling the pressures for restructuring. Yet these new companies continue to be responsible for the supply of an infrastructure service, such as electricity, gas, water, telecommunications or transport. They have also inherited a relatively established trade union organisation and collective bargaining structure. It is not just that the management of an MNC is usually relatively free of these kinds of constraints, but also that it has the capacity, at least in the medium term, to switch operations from one country to another — something that the coming of the Single European Market has facilitated.

Powerful though the large companies undoubtedly are, the complexity of the organisation creates potential sources of tension and conflict that still have to be managed. As in the case of employee representatives (*see below*), to overcome the potential conflicts of interest in multi-establishment organisations — in which a range of different workplaces and, sometimes, businesses are involved — senior managers appear to use two devices. One is to involve managers from the different subsidiaries in the planing and negotiation of the PEC. The other is to limit the scope of the PEC at the company level to key issues and principles, delegating responsibility for the detailed implementation to individual workplaces and/or businesses.

For example, at **Stork** in the Netherlands, in the wake of the agreement at company level, the process of redesign of work and organisation was decentralised to the business units. In the business unit of Zoeterwoude, working groups were formed which were responsible for developing proposals and these groups consisted of line management, employees, staff members from various disciplines (technical, financial and personnel), union delegates and works council members. After discussions with and agreement by top management, these proposals were formally sent to the relevant works council for advice.

Air France provides another example. A key element of *l'Accord pour un Développement Partagé*, reflecting the loi Aubry, is the objective of trading off a reduction in working time against the creation of 4,000 new jobs. Critically, however, the achievement of the objective depends on local agreements dealing with the flexibility of work organisation and working time in the 26 establishments of Air France. The French correspondent summarises the first chapter of what is essentially a framework agreement (*accord cadre*), as follows:

Reflecting the reasoning behind the framework agreement, Chapter 1 sets out objectives and principles underlying the decentralised negotiations. Corporate agreements should encompass the following principles:

- a reduction in working time for all categories of staff accompanied by control of the level of overtime;
- the creation of a significant number of sustainable jobs;
- the introduction of new forms of work organisation to take into account, insofar as possible, financial incentives for the reduction in working time;
- to endeavour, by means of changes and adjustments to work organisation, to achieve a significant reduction in the number of fixed-term contracts (except those linked to training) among company staff;
- to attempt to reduce significantly the number of workers in the company employed involuntarily on a part-time basis and for a fixed term.

Even in the case of MNCs, evidence suggests that management have learnt from experience that it does not pay to throw its weight around excessively. Often it is not as easy to switch operations



from one country to another as it might appear. Much depends on the nature of the operation and the market in which the company is involved. In the automotive sector, for example, particular marques have come to be associated with particular countries. The relationship between headquarters' management and national subsidiaries also has to be handled with great delicacy. For headquarters' management to issue instructions runs contrary to the principles and practice of managed autonomy, which has proved to be the most effective means of maximising performance.

In the case of PECs and MNCs, a further and fundamentally important implication is that two sets of negotiations are often going on more or less simultaneously. National managers are not only involved in negotiations with their employee representatives, but also with their headquarters' managers. 'Them and us', to use the English industrial relations expression, is not so much to be equated with management and trade unions: 'us' are local managers and employee representatives, 'them' are headquarters' managers and/or local managers and employee representatives from other countries. Also critically important is the fact that the ability of local managers to secure the agreement of their employee representatives is a necessary condition for success in their negotiations with headquarters' managers. As will be argued in Chapter 7, this means that both local managers and employee representatives are under considerable pressure to reach agreement. Indeed, it is this pressure which arguably is bringing about the shift in the relationship from distributive bargaining to integrative bargaining, with implications for the notions of partnership and cooperation.

Employee representatives

There are considerable differences in the employees' bargaining agent (*see Chapter 3*). For the most part, this follows tradition in each country. In the Scandinavian countries, Ireland and the UK, for example, employee representatives are trade union-based. Typically, in the case of large companies included in the case studies, the negotiating team responsible for the overall agreement will be made up of a mix of full-time trade union officials and the local representatives of the employees involved (shop stewards in the case of Ireland and the UK). Where negotiations are delegated to the establishments, they are likely to be the responsibility of local representatives rather than full-time officials.

In Austria, Germany, the Netherlands and Spain, the main actor is likely to be the works council or workers' committee, the main exception being those companies, such as Lufthansa and Volkswagen, not covered by sectoral agreements. A central council or committee drawn from the works councils may also be directly involved. In Austria, Germany and the Netherlands, works councillors are typically active members of trade unions, which helps to ensure close liaison.

In Spain, the workers' committees responsible for negotiating agreements are typically made up of representatives of two trade unions (CCOO and UGT), which usually operate with a joint action programme. There can be more unions involved, however, as was the case at La Caixa (where five unions were involved) and at Ford-Valencia (six unions).

In France, employee representatives come from those trade unions deemed to be nationally representative. As the French correspondents remind us, at the national level there are no fewer than five confederations recognised, along with their counterparts that cater for managers (*les cadres*). One result of this system is that, depending on the company, there can be considerable competition between trade union representatives.

A special mention needs to be made of the French process of *mandatement*, which was introduced by the law of 11 November 1996 and made one of the instruments of implementing the 35-hour working week. In brief, the process allows for the signature of agreements by one of the participating unions, even though it may not be represented in the particular workplace. This was the situation in one of the small companies investigated in this project, which has been labelled XYZ.

In Italy, the employee representatives signing pacts are typically the Joint Union Committee (*Rappresentanza Sindicale Aziendale*), where the three main trade union confederations are represented. In some cases, such as in banking and Alitalia, additional professional autonomous associations may be involved to cater for specific groups, such as pilots.

Much has been made of the dangers inherent in fragmentation and ‘micro-corporatism’ (*see, for example*, Crouch, 1995; Regini, 1990; Treu, 1988). It is also certainly true that the segmentation of union representativeness has sometimes resulted in inter-union disputes that have considerably complicated matters. Such was the case with Ford-Valencia in Spain in 1998, when the competition between no fewer than six unions in the workers’ committee elections delayed the possibility of an agreement, eventually leading to the intervention of the regional government to mediate in the dispute.

In most cases, it seems, there are dangers in employee representatives (whatever the source of their legitimacy) losing touch with their members, or some section of their members, in the conduct of the negotiations. Even in Sweden, the national correspondent reports that, in the case of Telia, some members accused their representatives of being little more than ‘errand boys’ for management. One trade union official involved in the negotiations at Hyder in the UK expressed the basic dilemma as follows (IPA, 1997):

Partnership does mean a different, sometimes a more challenging, role for the trade unions. It is easy to confront to say NO. It is far more difficult to create a new role working with employees and the company to develop a better future, not only for ourselves but more importantly for our customers.

In general, however, the picture is not so dire. Certainly, collective bargaining does tend to decentralise, but in the sense that it adapts to the specific economic situation of companies and by means of complementary agreements or pacts, which have the tendency to reinforce the ‘autonomy of parts’. This does not necessarily mean the appearance of new bargaining actors. In the majority of cases, the employee representatives involved in the negotiation of PECs are tied into the accepted framework, which may be trade union or works council-based. This is also true where there is further decentralisation — to individual workplaces or joint committees given specific responsibilities. Significantly, too, there is a long tradition of bargaining activity in



which these representatives have been involved, whether in the form of the independent company bargaining in Ireland and the UK, or the supplementary works and company bargaining characteristic of Denmark, Germany, the Netherlands and Sweden. To put it another way, it would be wrong to see PECs encouraging new parties that threaten the established systems: the employee representatives involved in the negotiation of PECs are very much part of these systems.

It would also appear that the problems of fragmentation may have been overstated. As already touched on in the case of management, the parties representing employees tend to develop practical solutions to the potential problems. In the case of companies where a works council and a union have a close working relationship, the same individual often doubles as a union activist and a works councillor. Even in cases where unions may appear to be in competition with one another for members and influence, close working relationships can be developed where there is a common interest.

Public authorities — ghosts at the bargaining table?

In accounting for variations in the incidence and contents of PECs, there has been a tendency to focus on the differences in the role of the public authorities from one country to another, reflecting the specific economic, social and legal contexts (*see Chapter 3*). There are, nonetheless, marked similarities in the basic types of role that the public authorities can play, regardless of country. It is these basic types that will be examined here. Chapter 8 gives further examples of the actual role the public authorities played in the negotiation of a number of PECs in this report.

At the risk of oversimplification, five main types of role may be identified on the basis of the case studies and national overviews:

- legislator
- social partner
- monitor
- honest broker
- financier

Role of the ‘legislator’

For the most part, the critical role of legislator has been exercised indirectly, reflecting the view that management and trade unions should have greater autonomy in decision-making about the labour market. Governments have sought to improve the context in which PECs take place with the passage of amendments to existing legislation and/or new measures. Examples are to be found in each of the 11 countries investigated: for example, in Austria (the law on working time), Denmark (measures to promote training and life-long learning), Finland (the law giving greater decentralisation in local government), Italy (measures to promote job security agreements), the

Netherlands (measures targeted at disadvantaged groups in the labour market), Spain (the legislation of 1997 encouraging the promotion of permanent employment contracts) and Sweden (changes in the Employment Security Act in 1996). There are even examples in the UK where the tradition of ‘voluntarism’ has perhaps been most strongly entrenched (for example, the setting up and funding of such initiatives as ‘Investors in People’ and local Training and Enterprise Councils).

The most obvious example of the direct impact of the role of the legislator is to be found in France. In each of the cases provided by the French correspondents (Air France, EDF-GDF, Souitch, the anonymous XYZ and the textiles sector), the catalyst for the negotiation of the agreements was the loi Aubry, providing for the introduction of the 35-hour working week.

Role of the ‘social partner’

Many of the legal initiatives cited above have resulted from a dialogue with the social partners about the measures they deem necessary to promote greater flexibility and competitiveness in the labour market. It is important to note that this is not just a phenomenon in countries such as Austria, Denmark, the Netherlands and Sweden, where there is a long tradition of national social dialogue and where the critical role that governments play in this area helps to explain the relative absence of company-level PECs. It is also true of countries such as Ireland, Italy and Spain, where comparable developments are more recent. In both cases, government support for multi-industry agreements has been fundamentally important in promoting the decentralisation of collective bargaining, deemed necessary to achieve greater flexibility.

Role of the ‘monitor’

In each country, it is the responsibility of the judicial system and/or specialist agencies to ensure that existing regulations are upheld and that the making and administration of agreements is done in a peaceable fashion. The relevance of this to the negotiation of PECs can be seen in a number of cases cited in this report. For example, at Philips in Austria, an application had to be made to the local authorities to give special permission for work to be done on Saturdays since labour laws forbade it. At Damm in Spain, the local court opposed the initial version of the agreement on the grounds that the provision of a two-tier pay structure violated the law providing for equal treatment. At Howmedica in Ireland, it was the intervention of the Labour Court that eventually led to the agreement.

Role of the ‘honest broker’

In most countries, there is some form of publicly sponsored advisory service available to help the social partners improve employment relations. This role is evident in a number of the cases cited here. Thus, in France, ANACT (*Agence Nationale pour l’Amelioration des Conditions du Travail*) played an important role in helping the parties at Air France to reach agreement. The same is true of the Irish Productivity Centre in the case of Howmedica. In the UK, ACAS (the Advisory, Conciliation and Arbitration Service) was responsible for some of the preparatory work leading to the partnership arrangements introduced at Blue Circle Cement.



Role of the ‘financier’

Examination of the case studies suggests that the ‘financier’ role is important to the negotiation of PECs in three main areas:

- *financing of measures aimed at promoting labour market flexibility* — for example, the financial incentives in France to introduce the 35-hour week or the financial support for training in Denmark.
- *recapitalisation of former publicly owned enterprises prior to privatisation* — for example, Air France and Alitalia. As the Italian correspondent reports, such recapitalisation was considered a ‘necessary condition in order to achieve economic and financial equilibrium and company development’.
- *specific financial intervention in crisis situations* — for example, in the UK it was government financial aid of £152 million that finally set the seal on BMW’s £1.7 billion investment in Rover’s Longbridge operation in 1999.

Summary and conclusions

Compared to the sectoral level, where the parties are the traditional employers’ organisations and trade unions, the situation at company level is more complicated. Typically, the managers involved represent large companies that are not only multi-establishment, but also multinational in their coverage. For their part, employee representatives can be trade union officials or works councillors. In both cases, therefore, the relationship between the local representatives and the wider organisation is important. In particular, it helps to explain a number of features of PECs, such as their framework nature and their involvement of a wider range of participants than has usually been the case with more traditional forms of collective bargaining.

The fact that the managers come from large companies, and often large multinationals, means that there is an inherent asymmetry to the bargaining relationship, especially since, in some countries, employee representatives may have difficulty in overcoming differences of interest between workplaces and the fragmentation of competing trade unions. Yet it would be wrong to see the relationship simply in terms of local managers imposing the instructions of headquarters’ managers on the proceedings. The way large companies are run means that local managers have to compete for investment with other workplaces within their own organisation, in what is essentially an internal market. They have considerable operating autonomy in how they do this, although they have to work within increasingly tight budgets. In practice, therefore, local managers are under great pressure to reach agreement since their own future is likely to be inextricably bound up with the business. A divide-and-rule approach rarely makes sense.

Further complicating matters is the role of the public authorities. Although they are not usually directly involved in the negotiation of PECs, several roles have been identified — the ‘legislator’, ‘social partner’, ‘monitor’, ‘honest broker’ and ‘financier’ — giving public authorities the potential to have an important influence on both the context and the process of negotiations. The

effect is usually to add to the pressure on the parties to reach agreement and to reduce the abuse of any imbalance in the bargaining relationship.



Chapter 6

Motives in negotiating PECs

Chapter 5 introduced the three main parties involved in the negotiation of pacts for employment and competitiveness (PECs) — management, employee representatives and the public authorities — and highlighted some of the nuances of the internal relationships in the case of the first two. This chapter explores in more detail the motives of these parties for becoming involved in the negotiation of PECs.

In the case of management and employee representatives, two sets of considerations merit attention. The first is the specific objective that these two parties sought to achieve in the negotiation. This helps in understanding better the contents of PECs (*see Chapter 4*). The second consideration is the underlying reasons why the parties resorted to collective bargaining as a means of achieving their objectives. Other things being equal, it might be thought that management, far from going out of its way to get the agreement of employee representatives, would have wanted to take action unilaterally. In principle, the reasons why employee representatives might want to get involved are clearer. Yet, given the redundancies involved in many cases and the uncertainty of the future, the disadvantages might be thought to be at least as great as the advantages, if not greater.

Specific objectives of Management

Reduce costs

Although there are elements of the qualitative dimension to many PECs, management's main emphasis has been on the quantitative side — typically in reducing costs, thus reflecting the increase in competitiveness deriving from the Single European Market and from globalisation. In practice, given the overcapacity that often exists, this means reducing the level of unit costs for

existing or shrinking levels of output rather than expanding output. Other things being equal, reducing costs is especially important for companies performing intensive activities in manpower since their level of competitiveness relies basically on the compared labour costs. Even in the case of service activities (which might be expected to base their competitive capacity on knowledge, occupational qualification, quality, research and technology), reduction or moderation of costs has become an important matter.

In practice, reducing costs has often involved reducing the number of jobs (*see Chapter 4*). There are other options. For example, the employer could reduce the pay of some or all employees (as was the case at Philips in Austria) and/or reduce the number of hours worked (as at Volkswagen). Reducing pay runs the risk of poor morale, while the kinds of arrangement introduced at Volkswagen were extremely complex and assumed a temporary pause. The project's German correspondents report on the Volkswagen arrangements as follows:

Cutting working-hours for the purpose of enhancing job security would be recommendable mainly for enterprises facing problems of short-term cyclical needs or of longer term restructuring. In the first case, such measures would take the place of short-time work or dismissal for cyclical reasons and subsequent renewed recruitment. In such situations, working-hour cuts would represent mainly a strategy of 'ultima ratio', where the full range of traditional adjustment measures has already been exhausted with the exception of dismissal.

To solve structural employment problems, temporary working-hour cuts cannot only replace, but also complement short-time work schemes at the end of the legally allowed period after it has turned out that structural problems are continuing and that dismissal is too expensive because of excessive redundancy-scheme costs or that enterprises are not prepared to part with the vocational skills, abilities and know-how of their human capital resources urgently needed for managing the required structural change. To that extent, temporary working-hour reductions are recommendable mainly for firms with a skeleton workforce with outstanding operations-specific qualifications. Where a company plans to dismiss workers employed for long periods of time, they would be facing excessive costs because length of service is a major criterion governing the level of severance pay under redundancy schemes.

Promote flexibility

A second major motive for management in negotiating PECs is to promote flexibility. As well as facilitating reductions in employment (for example, at Irish Cement and Blue Circle Cement in the UK) or avoiding redundancies (for example, at Volkswagen), changes in both working time and functional or task flexibility can make a direct contribution.

The Austrian correspondents quote Leinholz (1997) to explain management's logic in adopting a variable working week at **Philips**:

It is thus important that we here in Lebring can satisfy the wishes of the market, i.e. our customers' wishes, with a modern, future-oriented and, above all, perfectly functioning production. On the other hand, however, we are confronted in the CMT market with a constant and deepening decline in prices, which again reduces our sales prospects. This means in the first place being able to react rapidly to the respective market demand, i.e. producing more just when the market demands it, and reducing production if the demand is not quite so high. The only real chance of meeting these demands for us here in Lebring is precisely the model of flexible working hours that, after lengthy negotiations with the works council, we now want to introduce.

Our aim is to further develop CMT production; we would like the approval from Philips for further CMT lines. However, investments are increasingly critically appraised by the company management. Before we receive approval for further development of the plant and the money for it is made available, there is a detailed investigation of just how economic, profitable and future-oriented production here really is. And we need the flexible working hours' model for this objective too.

We have to show that we are in the position to organise production here in Lebring in such a way that it is modern, crisis-proof and suited to the market. In short, that it makes sense to continue investing in this location. That means,

therefore, that the introduction of the flexible working hours model not only represents a chance of getting approval for a third and fourth CMT line, but that it also represents a precondition for *guaranteeing the existing production and thereby the existing jobs*. [Correspondents' emphasis]

Apart from this, I am personally of the view that, with the redistribution between temporary workers and permanent staff established in the framework of the flexible working hours' model, we have found a good solution which will help to improve the relationship between the 'old' and then the 'new' permanent workers. Because it will not be enough just to produce flexibly and economically, but in my view it is also necessary to do this as a team. Together. And so I want to achieve the position *where permanent staff and temporary workers become one unit* which complement each other well. In this respect, too, it seems to me that the flexible hours' model, as already mentioned, is the right and important step. [Correspondents' emphasis]

On the last point, finding a solution to the 'temporary worker problem', the motives of management coincided with those of the works council, which was otherwise somewhat sceptical on the introduction of a flexible seven-day week. As a result, the works council made its agreement dependent on a reduction in the proportion of temporary workers. Above and beyond this, the works council hoped that the introduction of two additional shift groups, instead of only the one proposed by the management, would mean a further cut in hours to 32 hours a week — a hope that was not subsequently fulfilled.

In a number of cases, the vehicle for introducing greater flexibility of working time has been the annualisation of hours. Examples include two cement manufacturers (Blue Circle Cement in the UK and Irish Cement) and two automotive manufacturers (Opel and Volkswagen in Germany). The basic principle is that working time is defined in terms of the year rather than the week. Management is therefore better able to match working time to fluctuations in demand for products and services. Typically, employees have received greater security of earnings and a reduction of overtime working in return.

A feature of several Irish and UK agreements has been the encouragement of forms of team-working. In Ireland, team-working was a key element at Howmedica (*see Chapter 4*). In the UK, it has featured in several phases of the agreements at Rover. In each case, besides promoting a culture change in the direction of continuous improvement (*see below*), the aim has been to achieve benefits by encouraging greater flexibility of individuals between and within traditionally prescribed job definitions, together with a reduction in the number of layers of management.

Change the culture

Several aspects are involved here, centred around a desire to make employees more aware of the competitive pressures under which the organisation has to operate. This figures prominently in a number of cases. In some companies, it involves changes to the pay system. For example, the performance pay system, WageSystem 90, introduced at **Danfoss** is explained by the Danish correspondents as follows:

The intention . . . is to create the incentives for a more 'result-orientated attitude among the employees and reward those results, which further the goal achievements of the production section/the company'. The allocation of the wage pool has to take place on the basis of predefined result parameters, which contribute to the goal achievement of specific production departments within Danfoss. These predefined result-orientated parameters have to be measurable in quantitative terms and must apply for a specific period of time. They have to be unanimously defined and developed in cooperation between management and employee representatives.

Naturally, one precondition for implementing an arrangement like WageSystem 90 is that the work within production leaves the employees with high degrees of autonomy to organize their own work. A second precondition is that the employees within production are functionally flexible and perform several job functions in relation to the manufacturing of a product. Thus, the way of organizing the production flow at Danfoss' manufacturing sites has very little to do with the Fordist ways of organization (semi-skilled labour, conveyor belts, etc.). Quite the contrary, Danfoss' products are knowledge-intensive and require well-elaborated and relatively broad qualifications among

the employees who produce them. The employees have to be able to substitute one another in different job functions so that time-off, taken by one employee, does not lead to idle production and reduced capacity.

The introduction of share-ownership has a similar logic. It features in several agreements in Ireland (for example, Electricity Supply Board, Howmedica and Irish Cement), as well as in those of Air France and Alitalia. Apart from any intrinsic motivation that it may bring, share-ownership is also one of the most powerful communication devices for reminding employees of some of the harsher realities of the swings and moods of the stock market and the need to improve performance.

A second aspect is the promotion of continuous improvement. This lies behind the emphasis in a number of cases on the importance of workers updating their skills and acquiring new ones so that the organisation is more easily able to adapt to changing demands. Examples include DLG-Aalborg and Danfoss in Denmark, Essex Communications in Finland, Bonfiglioli in Italy and Rover in the UK. Similarly, a number of initiatives involving the direct participation of individual employees are intended to encourage workers to make ongoing contributions, in the forms of suggestions and recommendations, to the continuous improvement of products/services and processes. For example, as well as its advantages in terms of flexibility, the team-working that companies such as Howmedica in Ireland and Rover in the UK have introduced is seen as a way of encouraging employees to take responsibility for, and ownership of, their work.

A third aspect is the promotion of a greater customer orientation. This is most obvious in those sectors where employees are in direct contact with external customers or the public, as in airlines and banks. It must be remembered, however, that customers can also be internal and this has become a critical element of the 'internal market' in many large organisations (*see Chapter 5*), whereby the trading of 'services' between 'purchasers' and 'providers' within an organisation is designed to ensure that different groups are more responsive to the needs of each other, as well as helping to make transactions more cost-effective.

Underlying considerations

In examining the underlying considerations of management's willingness to negotiate over employment and competitiveness, the cynic might say that, in many cases, management did not have a great deal of choice in the matter. The practical reality is that many of the changes that management has been seeking to introduce involved the terms and conditions of existing collective agreements and/or works agreements. In most countries, these terms and conditions cannot be changed unilaterally without the agreement of the signatory trade unions. The legal status of works agreements means that, in theory, there are fewer restrictions on management's unilateral action. Discarding them would, nonetheless, be a big step to take.

The situation facing the management at **Ravensburger** in Germany illustrates these points well. Management could reduce bonuses over and above the rates of pay in the collective agreement at the sectoral level, but it could not change the working hours in that agreement by a works agreement. Even withdrawing from the employers' organisation did not help matters in the short term; the company was deemed to be covered by the terms of the agreement until its expiry in

the sector as a whole. Further complications arose when the management tried to enforce the changes it wanted by seeking to incorporate them into the individual contracts of employment. Legal opinion was that, while non-union members could be asked to sign away the rights laid down in the collective agreement, union members could not. One outcome was that management felt obliged to negotiate a company agreement with the union in order to maintain the overall framework.

The two Swedish cases, **Telia** and **FöreningsSparbanken**, offer another type of example. Effectively, the agreement of the unions was necessary to get around the strict application of the legal regulations of the Security of Employment Act. This establishes the right of precedence to re-employment. Under the Act, the companies would not be able to keep the employees that they needed or to recruit new people with the competence that was missing. Instead, in both cases, previous experience of making redundancies on the basis of the Act suggested that there would be considerable ill will on the part of employees, not to mention a bad press — both of which management was anxious to avoid.

A further consideration, often of particular concern to local managers, embraces Ireland and the UK where management is not so tightly constrained by the law. The worry is that unilateral action may lead to industrial action. Such action, even if it was unsuccessful in stopping management's plans, could nonetheless be extremely costly, possibly disrupting operations throughout the group as a whole. It would also be likely to reflect badly on management, perhaps leading to headquarters' managers deciding that the operation had no future. Thus, local managers have often as much vested interest in ensuring the long-term future of the operation as other employees (*see Chapter 5*).

Even where the prospect of industrial action is remote, there may be concern for the impact of management decisions on employee morale. Low morale is likely to damage efforts to achieve high levels of performance. Fundamentally important here, as commentators in both the USA (Cappelli *et al*, 1997) and Europe (Herriot *et al*, 1998) have recognised, is that intensifying competition requires management both to minimise costs *and* to promote the cooperation and commitment of the workforce necessary for continuous improvement. As will be revealed later in the comments of an employee representative (*see below*), considerations such as absenteeism, safety and customer relations are ongoing concerns, but can become especially acute in closure situations. In these circumstances, the legitimacy of management decision-making can be profoundly important, helping to explain why managers would want to get the agreement of employee representatives. The alternative, of attempting to proceed unilaterally, is likely to lead to far greater demoralisation of the workforce, as well as possibly inviting organised resistance, neither of which is likely to be perceived sympathetically by major customers or headquarters' management. The effect is to force local managers and employee representatives into close cooperation, helping to account for the shift in emphasis from distributive bargaining to integrative bargaining.

Specific objectives of Employee Representatives

Preserve employment

Understandably, given the context in which most PECs have taken place, preserving employment is the primary objective of employee representatives. Depending on the situation, this can mean one of two things. Firstly, it may mean seeking to ensure that the company stays in business. For example, as the UK correspondents report, officials of the Transport and General Workers' Union explained that, in responding to the Rover management's 'New Deal' proposals, they wanted to give 'the last British motor manufacturer a fighting chance to survive' (IRS, 1993). Weighing heavily with the union was an appreciation that closure would not only mean substantial job losses at Rover itself, but also among its members in the many associated businesses in component manufacturing, delivery, sales and service.

Secondly, preserving employment may mean minimising redundancy in cases where closure is not an issue or has been dealt with for the immediate future. In practice, this typically involves responding to management's alternative proposals to redundancy or trying to persuade management that there are alternatives. These alternatives may take the form of some reduction in pay of either the existing or new staff, or different forms of flexibility that will secure the levels of cost reduction management is looking for (*see above*). In short, the inclusion of much of a PEC's contents is driven by the desire to minimise redundancy.

Prevent compulsory redundancy

It seems that it has become an almost standard requirement of employee representatives negotiating PECs that there will be no compulsory redundancies. Any reduction in employment must be achieved by means of voluntary early retirement and voluntary redundancies. Indeed, this appears to have become the norm and one which managers also recognise.

Improve terms and conditions of redundancy

Given that redundancy features prominently in many PECs, it is hardly surprising that a major motive of employee representatives has been to seek to improve the terms and conditions under which it takes place. In some cases, particularly some of the Irish agreements (*see Chapter 4*), the main emphasis is on the level of redundancy payments. However, the more experience the parties have of negotiating PECs, the more the emphasis switches from the level of redundancy payments to other issues such as opportunities for relocation and packages that make relocation possible. Another area of growing attention is the provision of training and development opportunities, coupled with outplacement services, to assist employees in the process of securing alternative employment. In some cases, such as Stork in the Netherlands, what in effect are employment companies have been set up within the organisation to help employees make the transition, as well as to allow businesses in the group to re-hire if and when circumstances change.

Employment guarantees

A key objective of employee representatives in most cases has been to secure some guarantee of



future employment. This seems to be true of those agreements where the survival of the business is at stake or at least a key component of the issue. There are often complicated issues involved to do with the nature of the undertaking, reflecting the nature of the activity. In the case of the automotive sector, for example, the target has been to achieve commitments on levels of production and/or investment plans for particular locations. In other cases, such as cement, the vagaries of the market make such investment guarantees more difficult to achieve. The same appears to be true in some of the services sector cases, such as banking, where employment guarantees are typically qualified by provision for exceptional circumstances.

Achieve long-term objectives

In the majority of cases, employee representatives have used the opportunity of negotiating a PEC to seek to advance other issues that they may have been seeking from management for some time. The following list is not exhaustive, but will give an idea of what can be involved:

- harmonised conditions for 'manual' and 'non-manual' employees (for example, Blue Circle Cement and Hyder in the UK);
- a reduction in working hours (for example, Air France and EDF-GDF in France; Hyder in the UK);
- more flexible working hours (for example, Essex Communications in Finland; La Caixa in Spain);
- the transformation of precarious jobs into more stable ones (for example, La Caixa, Damm, Ford, Essa-Polinyà and Sony in Spain; the Co-op Bank in the UK);
- targeting of specific groups for new jobs, such as youth, women and the unemployed (for example, Heineken in the Netherlands; Zanussi in Italy; Lufthansa in Germany);
- control of subcontracting (for example, Blue Circle Cement in the UK; Heineken in the Netherlands; Zanussi in Italy);
- encouraging the acquisition of skills that will improve an employee's prospects of employability (for example, Essex Communications in Finland; Volkswagen in Germany; Bonfiglioli in Italy);
- encouraging forms of direct participation that improve the quality of working life (for example, Raisio in Finland);
- strengthening the role of employee representatives in company decision-making (for example, by introducing 'bilateral bodies or commissions' (Alitalia); 'joint commissions' (Damm in Spain); 'company-wide action teams' (Blue Circle Cement in the UK)).

Underlying considerations

There has been criticism of employee representatives for entering into agreements over competitiveness and employment. For example, in a hard-hitting attack on the kind of arrangements entered into at such companies as Blue Circle Cement and Hyder in the UK, one commentator (Kelly, 1999) has recently argued that there is 'very little evidence of any significant increase in trade union influence in company decision-making'. Kelly reckons that

the rate of job loss at Blue Circle Cement and Hyder is actually greater than that in their non-partnership competitors. Pay and conditions are also 'no better'. He continues:

Social partnership is a recent expression of an old and well-tried employers' strategy. Right-wing union leaders are persuaded to support restructuring of industry under the guise of some rhetoric about co-partnership, mutual gains, common interests and the like.

In turn, they then try to neutralise any resistance from their members by persuading them that cuts are unavoidable, that any fightback is therefore doomed to fail, and that in any case industrial cooperation is the pattern of the future. And just in case the partnership rhetoric does not do the trick, managers can accompany it by threats against workers and their unions.

In the light of these and other criticisms, it might be asked why employee representatives go ahead and negotiate with management. It is abundantly clear that it is not a matter of the politics of employee representatives. A study of the five UK agreements detailed in this report (let alone those from the other countries) suggests that employee representatives reflecting a wide range of political views have been involved.

Arguably, an assessment of the costs and benefits of involvement leads employee representatives to the judgement that, at the very least, engagement is the lesser of two evils. The great fear is that one or more workplaces will be closed with a loss of jobs, for which employee representatives will take the blame. Even if workplaces are not closed, they may be starved of investment, which may mean a slow and demoralising decline. Conceivably, there may be a case where management is bluffing — for example, management cannot afford for business reasons to close the operation. However, in the case of multinational companies (MNCs) especially, these cases are likely to be few and far between. Most MNCs can service their markets from other locations. Indeed, this is one of the logics of much of the restructuring taking place in the wake of the creation of the Single European Market. The prospect of government coming to the rescue is also increasingly remote in most countries. The widespread criticism of the German government's decision at the end of 1999 to support Holzmann, the ailing construction company, is evidence of this.

The practical implications of a policy of non-engagement are also not to be underestimated. Effectively, employee representatives forego the opportunity to extend the bargaining agenda to issues that may have been long-standing aims of their organisations, such as the quality of working life, training and development of staff and involvement in business planning. Even if they turn out to be of only short-term benefit in a particular company, they may nonetheless help to establish important precedents for the wider trade union movement. Of even more immediate relevance is that, by refusing to negotiate, employee representatives run the risk of being accused of abandoning their members precisely at the time they are most in need of representation. Other things being equal, employees might expect their representatives, at the very least, to reduce the number of job losses and/or improve on management's initial proposals for redundancy payments and other arrangements.

Some of these points have recently been made by one of the senior shop stewards involved in negotiating the **Blue Circle Cement** agreements in the UK (Warren, 1999). Responding to the



criticism of his union's involvement in the organisation's highly publicised 'partnership' arrangements, he states:

Like it or not, job losses are a reality that all companies have to tackle. No-one claims that partnership will halt job losses, although some deals have prevented compulsory cuts in some organisations. But partnership does offer an effective vehicle for union influence and input into company decision-making . . .

He cites the initiatives taken by the 'Company-wide Action Team', involving shop stewards and managers, following the announcement of the closure of two workplaces in 1999 which led to the loss of 250 employees:

Meetings were held at both sites to allow employees to raise their concerns, and a programme was developed for those who wished to remain with Blue Circle. Training was stepped up to allow all employees to develop computer skills and update their qualifications. An allowance of £300 could be used for any training the company itself could not provide.

These efforts were supplemented by a generous relocation package, financial advice, and a programme for those unable to relocate. Local companies were invited to see for themselves the skills and experience that Blue Circle employees had to offer, backed by job fairs, advertising and a video. Finally, consultants were engaged to help with CVs and interviewing skills.

This comprehensive package meant that only 13 out of 250 people affected signed on as unemployed when the works closed at the end of May. A total of 76 people and their families were relocated to other works at a total cost of £2.5 million.

He goes on to emphasise that both sites maintained their safety records and full production until they closed, with absenteeism at virtually zero. All of their 1,000 customers also remained with Blue Circle Cement. He concludes as follows:

How far would the alternative get us? I believe that a return to 'class struggle' rhetoric and workplace relations dominated by active opposition would not achieve much. Nor would it attract much support from employees, judging by the level of interest in such strategies.

Indeed, trade unions' own opinion surveys show that partnership addresses the agenda that most concerns people at work. Furthermore, most partnership agreements are subject to workplace ballots — in which employees can decide themselves whether to endorse or reject them.

In this way, partnership can also help unions to check that they are in touch with the aspirations of their members. If they fail to meet these needs, unions risk losing both support and influence.

Public authorities

Governments throughout the EU have been concerned about employment and the implications of the wide-ranging restructuring that the greater economic integration of Europe, coupled with globalisation, is bringing about. Evidently, in general terms, the public authorities share the main aspirations of the other parties in negotiating PECs — preserving/creating employment and yet promoting competitiveness at the same time. The public authorities also play a number of roles that can critically bear on the context in which PECs may be negotiated, ranging from the 'legislator', through the 'social partner', 'monitor' and 'honest broker', to 'financier' (*see Chapter 5*).

It is important to understand why the public authorities might seek to promote company-level collective bargaining in particular as a method of dealing with restructuring. As the concept paper suggested (Sisson *et al*, 1999), possible motives are:

- to require the social partners to take greater responsibility for employment issues; and
- to encourage the process of social dialogue between the social partners.

The underlying considerations of policy-makers across the EU can be gleaned from public documents, such as the European Commission's report on the *High level group on economic and social implications of industrial change* (European Commission, 1998b). This report argues that the nature and extent of change varies significantly between sector and sector, and between company and company, the implication being that there are limits to what can be achieved at EU or national levels. A constant refrain in the report is that the role of the authorities of the Member States and the EU is to make sure that the right infrastructure is in place — 'they should not intervene in a way which could delay necessary changes'. The 'main responsibility for anticipating change' must be shouldered by companies and social dialogue is fundamental to the process. The report states:

Top-performing companies have a good social dialogue with their employees because motivated people are the vital component for commercial success. Regular, transparent, comprehensive dialogue creates trust . . .

The systematic development of social dialogue within companies, nationally and at the European Union level, is fundamental to managing change and preventing negative social consequences. Social dialogue ensures a balance is maintained between corporate flexibility and workers' safety.

Support for company-level PECs does not, of course, mean that public authorities abandon other means of promoting employment and competitiveness. Neither does it mean that the role of collective bargaining at other levels will no longer receive support. Indeed, national agreements have been the instrument of decentralisation in many countries (Denmark, Finland, Ireland, Italy, Spain and Sweden), leading to descriptions such as 'centrally coordinated decentralisation' (Ferner and Hyman, 1992) and 'organised decentralisation' (Traxler, 1995).

This support does mean, however, that management and employee representatives are expected to play their designated roles. The key significance of this is to contribute to the already considerable pressures on them, discussed in previous sections, to behave responsibly and to seek agreement. Proof of this is to be found in the significant impact that the public authorities have had, in their roles of 'monitor' and 'honest broker', on the process of negotiations in a number of cases studied in this project (*see Chapter 7*).

Summary and conclusions

Both management and employment representatives have a number of specific motives for negotiating over employment and competitiveness. For management, the agreements that result provide an opportunity to reduce costs, improve flexibility and change the culture of the organisation to reflect increasing competitive pressures. For employee representatives, negotiations make it possible to seek to preserve employment, minimise and improve the terms and conditions of redundancy, secure greater employment security and achieve longer term objectives (such as a reduction in and greater flexibility of working time, better training and development opportunities, improvements in the quality of working life and greater involvement in strategic decision-making).



Underpinning these specific objectives are a set of underlying considerations that, in effect, are forcing management and employee representatives into closer cooperation. Indeed, it is difficult to escape the conclusion that, in most cases, both parties believe they have little option but to negotiate given the need for restructuring. Management feels it needs the agreement of employee representatives to change the terms of existing collective agreements and to help maintain the morale and commitment of the workforce. Employee representatives feel they have to negotiate in order to secure the best set of arrangements for their members, often in extremely difficult circumstances.

There is also pressure on management and employee representatives to reach agreement from the public authorities, reflecting differences in the nature and extent of change from sector to sector and company to company. The responsibility of the public authorities, it is increasingly argued, is to set the appropriate infrastructure for managing change; the responsibility to manage the actual change within that framework lies with the social partners.



Chapter 7

Process of negotiating PECs

This chapter focuses on the process involved in negotiating pacts for employment and competitiveness (PECs). Inevitably, the subject matter is more intangible than either the contents of or the motives for PECs. Examining the process involved is important, however, because it can make a considerable contribution to our understanding of PECs. Attention to the point of departure is important for clarifying further the motives of the parties in negotiating PECs. Establishing where the initiative came from offers another opportunity to clarify the respective roles of management and employee representatives. Information about the number of agreements allows us to grasp the complexity of PECs, as well as, in many cases, their historical development.

A focus on the conduct of negotiations enables us to see whether the process involved in reaching PECs is essentially different from that involved in more traditional forms of collective bargaining — whether, in particular, PECs involve a shift in emphasis (in the terms of Walton and McKersie’s framework) from distributive to integrative bargaining. Also important are the roles of headquarters’ management and the public authorities. Most PECs, as previously mentioned, involve multinational companies (MNCs) and thus it is important to know about the nature and extent of their involvement. Similarly, it is important to have information about the role of the public authorities, not only in initiating PECs but also in the conduct of the negotiations, be it direct or indirect.

The point of departure

As will be clear from previous chapters, some PECs reflect changes in the legal or national collective bargaining context. The most obvious example of changes in the legal context is that of

France, where the passage of the loi Robien and loi Aubry have been important catalysts. Spain provides several examples where changes in national collective bargaining have led to national agreements dealing with employment and collective bargaining.

No one can be sure whether or not these agreements would have been concluded if the government had not intervened. In the case of France, there are grounds for doubt given the opposition of French employers to the principle of trading reductions in working time for creating jobs. In the case of Spain, however, both employers and trade unions had reasons for wanting to shift from temporary to permanent employment.

Need for restructuring

A common point of departure are changes in the competitive position of an organisation, leading to the perceived need for restructuring. This may be due to long-term developments in the business or because of a merger or because of new financing arrangements brought about by privatisation. For example, in 1990 **Heineken** Nederland BV announced a major reorganisation with redundancies of 700 workers, reflecting a large financial loss due to a decrease in market share and high production costs. A three-day wildcat strike occurred in the breweries and the unions won a court case against Heineken. The result was a commitment to a new reorganisation plan and greater cooperation between the social partners.

Sweden supplies us with an example of a merger. In 1992, when Sparbanken Sverige was established, some 4,000 employees were given notices of dismissal, following the Security of Employment Act, but it led to an expensive and painful situation where the wrong people left the company. This situation was still a fresh memory when Föreningsbanken and Sparbanken merged to form **FöreningsSparbanken**, the Swedbank, in 1997. Neither management nor union wanted to give the staff notice of dismissal following the Security of Employment Act. This would have meant that the rule 'Last in First out' should be applied. Since the employees of the Swedbank had all worked there for a very long time, this rule would not have been fair to apply. Also, neither of the banks that had merged wanted to experience traditional reductions of the staff again.

In 1991-92, crisis and impending privatisation came together in the case of **Lufthansa**. Losses amounted to about DEM 4 million per day. Employee and management morale were at their lowest. Privatisation activities came to a standstill. There were numerous reasons for the crisis. At the beginning of the 1990s, like other industrialised countries, Germany was hit by a recession. Furthermore, a fundamental structural change had taken place in the air transport business, starting in the 1980s with the deregulation of the US airline industry and continuing with the increase in competition on the North-Atlantic lines and globalisation. The third stage of the liberalisation of the air transport services in the EU started in 1993 and was completed in 1997. In contrast to the French and Southern European airlines (which followed the strategy of demanding and receiving public subsidies in order to finance price competition and contain social conflicts), the change process at Lufthansa was different and included the following three phases:



Phase 1 (1992-95)	Operative reconstruction
	<ul style="list-style-type: none"> • Stretching out of depreciation • Selling of assets • Reduction in capacity • Reduction in workforce • Increasing productivity
Phase 2 (1993-96)	Structural reconstruction
	<ul style="list-style-type: none"> • Process-oriented optimisation • Reduction of stages of production • Business areas
Phase 3 (1994-99)	Strategic reconstruction
	<ul style="list-style-type: none"> • Completion of privatisation • Establishment of cooperation and partnerships in all business areas

Whose initiative?

In many cases, establishing the precise initiative for an agreement is difficult. In the case of **Volkswagen**, there was a decline in sales in 1993 and the central works council asked management for a ‘personnel scenario’ covering employment effects of recession, plus measures to fight the productivity deficit. Management responded with the proposal for the 4-day week (see Chapter 4). Arguably, either of the two parties could feel justified in claiming that the initiative was theirs in these circumstances.

Perhaps the most noticeable point, however, is the key role played by management. Traditionally, in forms of distributive bargaining, it is the trade union that takes, and is expected to take, the initiative in formulating claims and demands, while the management is largely reactive. This reflects the mutual recognition implicit in the process of collective bargaining and which is often enshrined in the earliest agreements, such as the national compromises in Denmark and Sweden in 1896 and 1906, respectively, or the provisions for avoiding disputes in engineering in the UK in 1898. In principle, management grants recognition to a trade union for the purposes of negotiating particular terms and conditions of employment. In return, the trade union accepts the right of management to make other decisions, including the size of the workforce, more or less unilaterally.

In the case of many PECs, however, it is management who initiates the discussions. Sometimes this is direct and sometimes it is indirect, as when managers wish to make fundamental changes which, in turn, lead to the acceptance of the need to reach an agreement. Also important is the fact that, as well as seeking to negotiate changes in the terms and conditions of employment covered by traditional collective bargaining, management is often willing to go further and include items that were previously regarded as falling within its prerogative, such as future investment or monitoring the implementation of changes in work organisation.

There are, of course, exceptions to test this rule. The relative absence of PECs in Austria, Denmark and Sweden has already been commented upon. The national correspondents in these

countries have implied that management has less need to negotiate PECs than in, for example, Germany and the UK. At the risk of oversimplification, the argument put forward is that management's right to manage is accepted and the logic of the market has been internalised. Management, therefore, does not need the legitimacy that an agreement brings. For their part, trade unions feel sufficiently confident of their position in terms of ongoing recognition and involvement in national agreements and/or legislation that they also do not feel a need. It is only where there are pragmatic considerations — as, for example, in Sweden where both parties have a strong interest in using collective bargaining to avoid the full rigour of the legal process governing redundancy — that an agreement is likely (and even in these cases, it could be argued, the outcomes are not technically 'agreements'). In short, similar situations are being handled in different ways depending not so much on the institutions but the wider framework of shared understandings.

Another possibility starts from a cross-national, rather than an ethnocentric, perspective and emphasises the costs to management of *not* negotiating. Legislation in Germany and the Netherlands, for example, sets out a procedure that effectively encourages formal agreements — presumably if the works council withholds its agreement, management could be in trouble. In Ireland and the UK, there are no such procedures, but there is the possibility of industrial action, which could be embarrassing to management in terms of overall capabilities within the view of headquarters' management. In Scandinavia, there is not the same kind of legal precision accompanying workplace activity and there is less of a tradition of taking industrial action at company and/or workplace level than in Ireland and the UK.

Different generations — different emphases?

Another aspect to the point of departure is the generation of the PEC. This is an important influence on both content and process. A comparison of Irish, Italian and Spanish agreements, on the one hand, with those of Germany and the UK, on the other, will help to illustrate the point. The Irish, Italian and Spanish agreements tend to be what might be described as 'first generation'. By comparison, several of the German and UK agreements date from the early 1990s. In the case of Rover (UK), the history of such agreements goes back even further.

Two examples that illustrate the complexity, as well as the timescale, involved are given in Boxes 2 and 3 at the end of this chapter. The first involves **Lufthansa**, the privatised German airline. The second concerns the UK's **Hyder**, which began life in 1989 as one of the original privatised water companies (Welsh Water) and which quickly expanded into a general utility company, taking over, among other organisations, the company responsible for distributing electricity in South Wales (SWALEC).

One implication is that the focus of a PEC can be very different, even though the subject matter can be similar. A comparison between British and Irish agreements helps to illustrate the point. In companies such as Blue Circle Cement and Rover in the UK, agreements such as the 'Way Ahead' and 'New Deal' have taken place against a background of a long history of redundancy. The handling of redundancy and the payments to be made are no longer a major issue. Rather, it



is the issue of employment security that has been dominant in recent years. By contrast, in the case of Irish agreements, it is the handling of redundancy and, in particular, the terms and conditions of the redundancy package that are the key issues. The Irish correspondent makes the point in commenting on the case of **Glanbia**, as follows:

While the job protection and job creation elements offered by the company qualifies this case as having an element of an ‘employment pact’, this was a minor part of the overall case. The main focus of the collective bargaining was concerned with the negotiation of terms for job elimination and this is the dominant way in which employment and competitiveness issues are dealt with in Irish industrial relations. We see from the above that the motives of both parties were strongly opposed, with the company being interested in achieving the required redundancies and the unions wishing to retain jobs. However, while there were clear differences of interest between both sides, the unions’ approach was complicated by the fact that it was aware that the interests of individual union members were not necessarily congruent with the principled position the union wished to adopt. The solution to this dilemma, on the union side, was to opt for the traditional method for dealing with redundancies in Ireland, namely one of refusing to accept compulsory redundancies but agreeing to negotiate for compensation for voluntary redundancies. Management, for their part, accepted this broad approach and negotiated within this framework.

The timing of specific changes can also be affected by the generation of the agreement. A comparison between two companies in the same country, the UK’s **Rover** and **Blue Circle Cement**, is insightful here. Rover agreed to introduce employment security as early as 1991, while it took Blue Circle Cement several years to do the same. Blue Circle Cement management, it seems, had to go through the same kind of learning process that their Rover colleagues had several years before to learn the lesson — namely, that there are considerable limits to the extent of the cooperation and commitment employees are likely to give without some guarantee of employment security.

As with the Lufthansa and Hyder cases cited, it seems that, having once negotiated a PEC, the parties are likely to do so again and again. An important implication is that the range of issues likely to be included in collective agreements increases as the parties learn about the gaps in their arrangements and/or recognise the need to go further in recognising one another’s demands. Thus, in the case of both Lufthansa and Hyder, subsequent phases have included the reform of pay systems and structures, as well as further refinements in the nature and extent of any employment guarantees (*see Boxes 2 and 3, respectively, at the end of this chapter*).

It is also significant that, depending on the company’s ongoing economic situation, the emphasis of the PEC can change considerably. Lufthansa and Volkswagen in Germany offer perhaps the best illustrations. In both cases, the original PEC was born out of crisis and involved major reductions in employment (Lufthansa) and pay (Volkswagen). Having helped to overcome the immediate crisis, the emphasis in the subsequent phases of these PECs has shifted to include improved pension and early retirement arrangements.

Conduct of negotiations

Genuine negotiations?

One of the concerns expressed about PECs relates to the conduct of the negotiations. The worry is that, instead of being ‘genuine’, the course of negotiations is dominated by management’s position and employee representatives are confronted with a ‘take it or leave it’ approach.

Certainly this is possible. The most obvious example is that of **Ravensburger**, the games manufacturer, which became something of a *cause célèbre* in Germany (see Box 4 at the end of this chapter).

In the case of **Howmedica** in Ireland, the new management first attempted to impose its preferred system of 'world class manufacturing' without the involvement of the trade union. It then tried unilaterally to introduce technological change, which was the subject of a Labour Court hearing. Genuine negotiations only began following the Labour Court's recommendation that a broader agreement should be attempted and the process facilitated by a member of the staff of the Irish Productivity Centre.

In the main, however, this type of 'take it or leave it' situation is the exception rather than the rule. Typically, negotiations take place over proposals put forward by management and/or claims from employee representatives. Working parties are often set up to sort out implementation details, where proposals and counter-proposals are considered. Where pay negotiations are at company level, as is the case in the UK, they tend to be part of the negotiation also. Evidently, in many cases, employee representatives feel they have little alternative but to negotiate. Once started, however, it seems that the negotiations are genuine. Even in cases such as **Philips** in Austria, where pay cuts were involved, the negotiations are described both by the management and the works council as 'tough but fair'. The Austrian correspondent paraphrases the description of the negotiating process given by the works council:

One point of conflict . . . was the shift plan, or rather the working hours associated with the introduction of flexible seven-day working. The works council had had a shift plan worked out by experts at the Technical University of Vienna that was tailor-made to the requirements of the employees, and went into the negotiations with management with this plan. In contrast to the shift plan finally agreed, according to the wishes of the works council not just one, but two additional shifts would have been added to the existing three shifts (three times eight hours). This would have increased the number of shifts to five. The weekly working hours would in consequence have been reduced to 32 hours a week, not as is now the case from 38.35 to 36.43 (for 'old permanent workers'). ['Old permanent workers' means the workers who were already employed at Lebring before the flexible seven-day-week model came into force. New workers were taken on on the new terms.] The staff were prepared, according to the works council, to accept a loss of earnings in return (the hours reduction finally agreed was with no loss of earnings). A second additional shift would have meant the employment of 140 more workers. The proposal was rejected by the management on grounds of cost.

A second point of conflict was wage levels. The management had originally demanded that the works council should agree to a reduction in earnings on the basis of the cut in weekly hours from 38.5 to 36.43. The works council was obstinate on this point and pushed through a cut in hours with no loss of earnings (one year later there was a voluntary wage cut of 15 per cent without a cut in hours).

The works council, in contrast, did not achieve its demand for double time for Sunday working. The management was only prepared to grant time-and-a-half and a 25 per cent time credit. In the 1980s, Sunday working in Lebring was still paid as double time.

In relation to the temporary workers, there were also diverging views originally, but on this point agreement was reached relatively quickly. One reason for this could have been the fact that the management themselves saw the high proportion of temporary workers as a problem. This would seem to be supported at least by the following sentence in the agreement: *'The allocation of permanent workers must ensure that the skills necessary for production are available in the Saturday and Sunday afternoon shifts'* (in which temporary workers are increasingly employed).

After the management had broadly pushed through the controversial points, the works council assessed the result in all as not exactly an employee-friendly solution. The agreement was nevertheless confirmed in a ballot of employees in November 1997, not least because of the threatened closures of the site, and subsequently signed by the management and the works council.



Negotiations of PECs can be fairly lengthy, even setting aside long breaks between phases. Negotiations at Ford in Spain, for example, started in January 1998 and were not completed until the end of October of that year. At Essa-Polinyà in Spain, the negotiation process lasted seven months, while in the case of Telia in Sweden, it was only slightly less — at six months.

The intensity of negotiations is another feature. The second ‘Site Pact’ at Opel (General Motors) in 1998 involved eight negotiating rounds of one or two days. If anything, the following negotiations at **Vauxhall (General Motors)** were even tighter. Nine days of major meetings were scheduled over a possible 19 working days, compared to over three months of negotiation which would otherwise be expected for the new pay settlement. The timetable of negotiations, involving the Joint National Committees for ‘blue collar’ (JNC) and ‘white collar’ or staff (SJNC) workers, is set out by the UK correspondents in Table 4. It clearly says a great deal about the complexity of the issues that had to be dealt with, as well as the pressure the negotiators were under to reach agreement.

Table 4 *Schedule of formal negotiations at Vauxhall (General Motors), UK*

JNC/SJNC	JNC	SJNC	SJNC & JNC	JNC
19 March	8 April	14 April	15 April	16 April
25 March	9 April			
26 March				
1 April				

An absence of overt conflict

An interesting point is that very few of the agreements result from a situation of overt conflict. True, as will be clear from the previous discussion, some of the organisations have a history of conflictual relations in the sense that there have been disputes involving strikes and other forms of industrial action. In some cases, too, there was industrial action in the build-up to the negotiation of the PEC (in the case of Howmedica in Ireland, for example, there was an unofficial four-hour stoppage, but this was over management’s attempt to implement a redundancy programme unilaterally). In no cases, however, were agreements negotiated in the immediate context of industrial action.

It could be contended that the situation is such that employees and their representatives do not feel they have the power to take industrial action. Equally plausible, however, is that management does not push employee representatives to the brink by adopting a ‘take it or leave it’ approach. A key point to remember is that the managers involved feel under considerable pressure to achieve an agreed outcome (*see Chapter 5*). Industrial action is likely to be perceived unsympathetically by both major customers and headquarters’ management, and, of course, their own careers may often be inextricably bound up with the future of the operation.

‘Integrative’ rather than ‘distributive’ bargaining?

Perhaps the best way to understand the process that is typically involved in the negotiation of PECs is to think in terms of the model of ‘integrative bargaining’ suggested by Walton and

McKersie (1965) — *see Box 5, at the end of this chapter, for an outline of their analytical framework*. The popular perception of most industrial relations negotiations is that ‘distributive bargaining’ is involved. The term itself refers to the activity of dividing limited resources. It occurs in situations in which one party wins what the other loses; negotiations over a pay claim perhaps offer the best example. In many situations, however, things are much more complicated than this and negotiations can take the form of a ‘positive-sum’ rather than a ‘negative-sum’ game. By reaching agreement, in other words, both parties may be able to secure mutual gains.

There is certainly a strong element of *quid pro quo* and problem-solving about the process of negotiating PECs, which is characteristic of integrative bargaining. The signs are that the two sides do not feel that they have got everything they wanted. By the same token, it seems that, in most cases, employee representatives feel that they have achieved something in the negotiations.

Significantly, too, many of the mechanisms of integrative bargaining are to be found. These include joint working parties and facilitators, as well as legitimating devices such as benchmarking, drawing attention to self-evident truths (which nonetheless have to be seen to be appropriate in the situation) and continuous review of progress.

Some examples will help to illustrate. At **Blue Circle Cement** in the UK, despite initial trade union scepticism, management and employee/union representatives began meeting in January 1996, not through the normal negotiating machinery but in the form of a special working group in the hope that adversarial bargaining stances could be avoided. These discussions produced an agenda of issues needing to be addressed in approaching the company’s restructuring targets.

At **Stork** in the Netherlands, the discussion between the unions and central works council led to a special project, *Mobiel 2000*, with a steering committee and several working parties. The steering committee comprised 2 managers from the (five) business units (one acting as chairman), 2 managers from corporate level (finance and P&O), 2 trade union officials and the chairman of the central works council. In addition, a manager of one of the companies was appointed as full-time project coordinator. Two external consultants were added to the project. Working groups were established on flexibility, training, communication, and wages and conditions. The Dutch correspondent explains that:

The project is organised in this way in order to secure a good relationship and involvement of both line management and employees in the 86 companies. Also it is separated from the normal process of collective bargaining, though the P&O manager and the two trade union officials are the key players in the latter. Later in the process, at the time when wages and conditions have to be negotiated, this subject matter is referred back to the process of collective bargaining.

In the case of the **Electricity Supply Board (ESB)** in Ireland, the Cost and Competitiveness Review (CCR) initially involved management and trade unions. Both parties nonetheless felt it was essential that the government join the process because of the way in which its policy impinged on the operations of the company. So, what started out as a bi-partite process was quickly converted into a tri-partite one. The examination itself was undertaken by a working group, with representatives of ESB management, unions (11 involved in the process) and



government, supported by McKinsey, one of the world's major consultancy firms. Initially, the CCR process involved the following:

- A complete benchmarking exercise, identifying best cost producers in Europe and the USA.
- A comprehensive 'bottom up analysis of the costs in the ESB versus costs in other utilities'.
 - This involved looking at diverse areas of the business and examining other companies, such as transport companies, etc.
 - In the case of electricity businesses, the CCR process involved matching the ESB performance against so called 'peer plants'. These were plants which had the same type of plant, the same type of fuel, the same age, the same operating regime, etc.

Although there would appear to have been a shift from adversarial to cooperative relationships, it is important to keep things in perspective. As the Irish correspondent reports:

In a small number of cases, the approach has been *partly* one of partnership. The ESB and Telecom are the two most highly developed examples of this partnership approach. However, one cannot accept at face value the claims that these cases solely involved a partnership process. Roche and Turner (1998) note that in the ESB case that 'such was the scale of the changes involved . . . relations between the parties increasingly pivoted on category-level bargaining of a traditional and adversarial kind'. They note that workers 'looked to their unions to drive the best possible deal on severance payments, working practices and related matters'.

The case studies in this study support a *sedimentary model* of the effect of partnership rather than either an *erosion* or *replacement model*. The evidence is that partnership acts to supplement the established adversarial bargaining processes rather than replace or transform it. The partnership processes are most evident at the earlier stage, when information sharing and defining of the problems to be addressed take place. When this is done adversarial bargaining tends to take centre stage. That this is the case is not to be decried as the additional sharing of information and problem-solving adds sophistication and depth to the eventual agreements. It may also give the parties a greater ownership to those agreements, although this can falter as in the ESB and Howmedica cases when either side regard the agreements as theirs to implement. The use of adversarial bargaining remains appropriate when it comes to the trade-offs involved in the inevitable 'cutting a deal'.

In practice, of course, distributive and integrative bargaining inevitably get mixed up. Some distributive bargaining is involved, for example, in the case of the size of the pay increase or the amount of reduction in bonuses. To draw on the language of the Walton and McKersie framework (*see Box 5 at the end of this chapter*), there are attempts to seek to structure attitudes to their advantage. Threats and bluffs abound.

One of the best examples comes from **Opel (General Motors)** in 1997-98, the details of which are given in the section below called 'Role of third parties/Headquarters' management'.

One agreement or several?

As well as there being more than one generation of PECs, in some cases there are also several agreements comprising the PEC, usually distinguished by different subject matter. Good examples are **Danfoss** in Denmark and **Heineken** in the Netherlands (*see Boxes 6 and 7, respectively, at the end of this chapter*).

The historical sequencing of agreements is relatively easy to explain. The parties frequently feel a need to go back and review what they have done in the light of a changing situation. An important implication, other things being equal, is that, once they have negotiated a PEC, they are likely to do so again.

It is not clear if the specialisation of agreements by subject matter is significant and none of the national correspondents for this project commented on it. One possibility is that it reflects the general expectation of greater detail. If the expectation is that things are spelt out in great detail, then it sometimes becomes easier to do so in more than one agreement. Another possibility is that it reflects degrees of explicitness about trade-offs. Having one package agreement clearly indicates that it is a question of a package in which items are mutually interdependent. In the case of several agreements, it is less clear that there is an explicit trade-off.

Role of third parties

Among the third parties involved in the negotiations of PECs are the headquarters' management of multinational companies (MNCs) and the public authorities (*see Chapter 5*). Here we examine the ways in which their roles can influence the process of company-level negotiations.

Headquarters' management

It is clear that in several MNCs the catalyst for the negotiation of a PEC was the decision or pressure from the headquarters of the parent company. Examples include Philips in Austria, Ford in Spain, Vauxhall in the UK and Opel in Germany (both General Motors), and Zanussi in Italy. There was rarely anything as crude as a direct instruction, however, reflecting the organisational processes described in Chapter 5. Typically, the need for national managers to take the kind of action involved in the negotiation of a PEC came from a review by headquarters of future investment plans and/or the existing cost structures across its businesses.

Two examples will serve to illustrate. In the case of **Vauxhall** in the UK and **Opel** in Germany (both General Motors), one of the triggers for the agreements was 'Vision 96', prepared by the Chairman of GM Europe in 1992. In this, he proposed the introduction of the system of work organisation and associated personnel management practices that had been experimented with at the General Motors – Toyota Nummi 'greenfield' joint venture in California. This was followed by the 'template study' of 1997, in which an international group compared labour costs in the General Motors operations across Europe, including the Eisenach site in East Germany. The implication was that those sites wishing to maintain investment and employment would have to show a clear determination to make themselves the best in the group.

In the case of **Zanussi** in Italy, the stimulus came from the announcement by top management of the parent company, Electrolux, that it intended to undertake a group restructuring process, involving the closure of numerous industrial plants with major employment cuts. Effectively, the national companies in Electrolux were invited to take part in what the Italian correspondents describe as a process of 'international bidding', in which headquarters' management would represent a 'jury without appeal'.

Ford-Valencia is an example of the way in which the 'coercive comparisons' that the process of 'international bidding' for investment within the internal market of the MNC makes possible have their effect. The proposal to incorporate working on Saturdays, to accommodate the

manufacture of the new 'Focus' model, was initially rejected by the unions (since the Saturday rest-day was considered as a major achievement of the 1970s). There followed a lengthy dispute of eleven months, which also reflected the problem of the representativeness of the six unions involved in the workers' committee. With the dispute carrying on so long and spreading, management threatened to transfer manufacturing of the Focus model to Saarlouis in Germany where, it was argued, there was already greater working time flexibility, together with a better qualified workforce, a more flexible working organisation and union representation that was more concentrated, more 'cooperative' and more committed to dialogue and negotiation.

Perhaps the most graphic example of 'coercive comparisons' in operation is provided by the discussion of the process of negotiation involving General Motors operations in Germany (Opel) and the UK (Vauxhall), since it is possible to tell the story from the perspective of the two countries. The German correspondents report on the **Opel** situation as follows:

Since the early 1990s, Opel Germany had to cope with the increasing importance of Europe-wide comparisons and benchmarking regarding costs and productivity within the GM concern and also within the European car industry. Although cross-country comparisons existed before, this trend has become more pronounced during the 1990s. Pressure stems especially from international studies such as the so called 'template study' on work organisation, model production sites such as Eisenach or NUMMI (GM/Toyota cooperation) against which policies and developments are judged, and competition from production sites in low cost countries. An example is the Opel factory in Hungary, where the share of labour costs in total production costs is very small. Although productivity is lower than in western Germany, in the continuous process of process optimisation, given equal capital equipment and utilisation, labour costs may be decisive. In return, where capital costs are fixed, it is the labour costs which may be flexible.

After the first site pact was terminated at the end of 1997, negotiations for a new pact started on 12 March 1997. The initiative to conclude a further site pact came from management with the clear objective of avoiding redundancies. During the negotiations, Opel management announced that job guarantees could be given only in exchange for further more substantial cuts in labour costs, including further reduction of the current wage drift between collectively agreed and company payments. The negotiation process was interrupted twice. For the first time when the works council called the demands of management a 'horror catalogue' and demanded a detailed and long-term personnel planning policy. In September 1997, the negotiations became deadlocked because management set up an international working group to compare the labour costs of the German Opel plants with other GM plants in Europe (which issued the so-called 'Template Study'), without involving the company works council.

After eight negotiation rounds of one or two days, an agreement was finally signed on 20 January 1998. A few days before, on 7 January 1998, the chair of GM Europe, Louis R. Hughes, announced that the current 86,000-strong workforce in GM's European subsidiaries would be reduced by 20%-30% within the next five years. This would mean a loss of 17,000-26,000 jobs all over Europe and a possible loss of 9,000-14,000 jobs in Germany alone. Mr Hughes' announcement made clear that the negotiations on the new site pact were under strong pressure to avoid massive redundancies.

The UK correspondents describe the situation from the perspective of **Vauxhall**:

An additional pressure for Vauxhall in recent years has been sterling's continued relative strength which has added to the perception of the UK as a high cost country. It was widely reported that the Vectra model was up to 30 per cent more expensive to produce at Luton than in Germany as a result of productivity differences and the exchange rate. The exchange rate has become increasingly important because Vauxhall's exports have grown in the 1990s. Over half of all output is now exported. Concerns over the exchange rate were also heightened by the ambivalence of the UK government over economic and monetary union (EMU).

In this context, the negotiation of flexibility agreements in early 1998 at the GM subsidiaries Opel in Belgium and Adam Opel in Germany signalled that any rationalisation would likely concentrate GM's operations on the continent. Managers and employees were also aware that the lower levels of legal and social protection in the UK would make it relatively easier and less expensive to implement redundancies at Vauxhall. Recent threats to major long-established UK plants in other companies (such as Ford Halewood and Rover Longbridge), and in other countries (particularly the closure of Renault's Vilvoorde plant), were also relevant.

Of the two plants, Luton was most at risk. In 1997 Vauxhall completed a £300 M investment in Ellesmere Port for the new Astra, which was expected to remain in production for at least six years. This followed a £200 M investment

in the engine plant in 1992/93. Although the company had also invested £160 M to modernise the Luton plant before production of the Vectra in 1995, this was not enough to guarantee production of its successor model from around the year 2001-2003. It remained an old plant, with the disadvantage of having to operate on four separate floors. And, unlike the northern factory, it was also not in a region which qualified for government investment grants.

The decision on location for the successor to the Vectra was expected in the Spring of 1998. By the new year, GM had already made certain commitments to Belgium and Germany but remained silent about the future of Luton. In fact, even with any replacement model, union leaders feared that Luton could remain vulnerable to closure in the longer term, and Vauxhall executives had been pressing GM to make Luton an additional site for the next generation Corsa, at the time built in Spain and Germany. However, in January 1998 it was announced in the context of an expected downturn in European demand that GM had no immediate plans to add the Corsa model to the Vectra at Luton. Taken together with the agreements in the Opel plants, it appeared there was no guarantee that Vauxhall cars would always be manufactured in the UK.

... This announcement was made in the new year of 1998 and came as a shock to the unions. The uncertainty that it introduced was immediately compounded by the announcement of the German and Belgian flexibility agreements. This quickly moved the situation from one of bitter disappointment at the failure to capture the additional investment, to a genuine fear that GM was considering in its review of the Vectra replacement model a two-plant rather than three-plant strategy, cutting the Luton plant entirely out of its plans.

The unions were 'absolutely convinced and in no doubt' that the risk to Luton was very real. It was also felt that since Vauxhall UK was an integrated operation, any closure would also place a question mark over the long-term future of the company's other operations. So in early 1998 the issue for both management and unions was 'a shared agenda' of securing the long-term viability of the company on which employment security was based.

The wage negotiations which were due in the Autumn of 1998 were brought forward and combined with a focus on plant productivity. Following the first in a series of informal discussions with the union General Secretaries and National Officers in mid-February, the negotiation process began in earnest with a formal meeting on 9th March. A deadline was set to complete negotiations by mid-April in order to fit into wider decision-making schedules within GM Europe.

The timetable for meetings was therefore very compressed, especially given the serious nature of the issues. Nine days of major meetings were scheduled over a possible nineteen working days, compared to over three months of negotiation which would otherwise be expected for the new pay settlement.

At 1 April meeting, the Managing Director was able to provide an additional assurance that on the basis that an acceptable agreement was reached the replacement to the Astra would be sourced, at a similar level of capacity, at the Ellesmere Port Plant from around 2004 to 2010. This was designed to give the workers at Ellesmere Port a direct interest in a successful outcome to the negotiations. It was also important for management to lever the flexibility agreement secured a few months earlier at Luton into the other plant, as well as to reconfirm the 1997 Luton deal in the absence of the additional model.

The seriousness of the negotiations was symbolised by the Managing Director, Nick Reilly, taking the chair rather than the Personnel Director, as was normally the case. Each party essentially recognised the reality of each other's position so no major barriers as such were reported. Management and unions alike were concerned to reach an agreement which would satisfy GM and be acceptable to the workforce. Both sides said that safeguarding jobs 'drove everything' and that negotiations were 'businesslike', 'focused' and conducted through 'mature discussions'. The deadline of 21 April also helped concentrate minds.

Public authorities

As well as helping to shape the context through their 'legislator' role (for example, in France) and/or their 'social partner' role (for example, in Spain), the public authorities were also directly involved in the process of negotiating PECs in a number of the case studies investigated in this project (*see Chapter 5*). Thus, the negotiation of the agreement at **Howmedica** in Ireland illustrates both the 'monitor' and 'honest broker' roles that the public authorities can play. In this case, management initially attempted to introduce the changes it wanted unilaterally, which was successfully resisted by employees. An attempt to impose technological change in the same way led to a hearing before the Labour Court. Its recommendation was that the parties should seek to resolve their differences in terms of the negotiation of a broader agreement. This process was subsequently facilitated by a member of the staff of the Irish Productivity Centre (IPC), which is a government-sponsored body charged with helping the parties to improve their work organisation.

Another case of the ‘honest broker’ role in action is that of **Air France**. The involvement of the *Agence Nationale pour l’Amelioration des Conditions du Travail* (ANACT) was not only seen as important by both senior managers and trade union representatives in demonstrating a commitment to make progress. In producing a report summarising the key issues and positions of the parties, ANACT also provided a relatively objective basis, along with a set of common terms, from which the parties could start serious negotiations. As the French correspondents explain, ANACT was able to do this successfully because the parties respected it both for its *savoir faire* and its independence, management and trade union representatives being on its administrative board.

The **Rover** case in the UK offers perhaps the best example of the ‘financier’ role of the public authorities. It illustrates both the benefits and drawbacks of such a role. It was government financial aid of £152 million that finally set the seal on BMW’s agreement to invest £1.7 billion in the Longbridge operation near Birmingham in the Midlands in 1999. Indeed, in the final stages of the discussions leading to the agreement, the negotiations appeared to be as much between BMW management and the UK government (in the person of the Secretary of State for Trade and Industry) as they did between Rover’s management and unions.

In this case, the follow-up was most illuminating. Perhaps not surprisingly, government financial involvement encouraged other automotive manufacturers to look for similar assistance. Nissan was said to be seeking up to £100 million to develop a new generation of vehicles for its Sunderland plant, while Ford wanted money to help fund a restructuring of its engine plant at Bridgend in South Wales (Bannister, 1999). Meanwhile, encouraged by BMW’s competitors (such as Porsche), the European Commission said that it would launch an investigation to see if the financial help contravened EU rules. Whether or not the delay that inevitably resulted was a factor in BMW’s decision in March 2000 to abandon its plans for recovery is a matter for debate. There is, nonetheless, consensus that the delay added to the uncertainty about the future of Longbridge.

Summary and conclusions

Most PECs have taken place against a background of crisis. Often this has reflected a company’s competitive situation, although deregulation and privatisation have been a considerable spur in the case of formerly public-owned utilities, such as airlines and energy suppliers. Even parts of the public services have been affected.

Management plays a key role in the introduction of PECs, often initiating the negotiations and having its own bargaining agenda. Few PECs, however, appear to be ‘imposed’. Admittedly, in many cases, employee representatives feel they have little alternative but to negotiate. That said, once negotiations are started, most appear to be ‘genuinely negotiated’, requiring considerable time and resources on the part of both management and employee representatives. Indeed, in many respects the process involved in negotiating PECs has all the characteristics of integrative bargaining as identified by Walton and McKersie. This means that PECs are likely to involve a number of mechanisms to avoid the overt conflict that can occur in distributive bargaining, such

as joint working parties and a willingness to exchange different heads of agreement. By the same token, integrative bargaining does not exclude the use of some of the tactics of distributive bargaining. Examples include the use of the media to structure attitudes. Being integrative, however, means that resort to industrial action is rare.

It seems that, once management and employee representatives have negotiated a PEC, they are likely to do so again. Several of the companies, most notably those in the auto industry, had been involved in a number of generations of agreements going back many years. The generation of agreements is one of the key influences on the process and is inextricably linked to the different emphases of the contents of PECs. Other things being equal, the more agreements, the more likely the introduction of new contents. One implication is that it becomes less likely that management will 'go it alone', even if it has the power to do so. Legitimacy is one of the key rationales for management, as observed in Chapter 5.

In the case of MNCs, the potential for headquarters' management to play one unit off against another is clearly there. Arguably, one of the logics of having an internal market is the opportunity that it brings of being able to use ongoing comparisons of costs and quality to promote continuous improvement. Yet it is something that has to be exercised with caution. Moreover, local management has to be given some freedom to negotiate with their employee representatives. Otherwise, the exercise would be shown to be a pointless charade. In addition, too blatant an exploitation of the internal market is likely to encourage the trade union demand that headquarters' management is likely to be most loathe to accept — namely, that there should be cross-national collective bargaining to deal with the managers who are actually making the decisions.

Although the cases are relatively few, involvement of the public authorities in their 'monitor' and 'honest broker' roles would appear to be very positive, being especially helpful in getting negotiations off the ground where there is a legacy of suspicion and mistrust. The case of **Rover** in the UK also suggests that willingness to contemplate public subsidies in the 'financier' role can be critical in specific situations. Here, however, a great deal of caution has to be exercised. Essentially, two-way negotiations can become three-way, with the public authorities drawn in and potentially exposed to blackmail.



Box 2 Major collective agreements at Lufthansa in the 1990s	
1990	<ul style="list-style-type: none"> • Major salary adjustments for ground and cabin staff associated with the introduction of a two-tier pay structure • New working time structures for cockpit staff to increase productivity
1991	<ul style="list-style-type: none"> • 6-month suspension of pay scale increase for all staff and compensation through lump sum payments instead
1992	<ul style="list-style-type: none"> • 12-month wage freeze for all staff • Working time annualised • Reduced salary structure for cockpit staff • Reduced salary development • For cabin staff, a new salary structure and a transition period with a 3-year pay freeze • For ground staff, adjustment of shift allowances made and overtime pay reduced • Models for socially acceptable workforce reductions
1994	<ul style="list-style-type: none"> • Provisions on the protection of acquired rights for staff being transferred to new subsidiaries • Postponement of salary increases by 6 months • Framework agreement on converting Lufthansa's State-run pension plan into a more flexible company pension fund
1995	<ul style="list-style-type: none"> • Cabin staff may be paid according to a two-tier system, depending on country of origin. Stewards hired abroad are subject to the same employment conditions as those employed in Germany, except for the wages, which shall be fixed according to the local going rate, even if both groups of employees are on the same plane. However, the share of stewards employed abroad may not exceed 10% of all stewards employed at Lufthansa.
1996	<ul style="list-style-type: none"> • 27-month agreement increases pay by 1.7%, plus lump sum payment • Additional measures to safeguard employment • Agreement on semi-retirement for the Lufthansa Group's employees in Germany immediately the Act on Semi-Retirement became law (<i>Tarifvertrag Altersteilzeit</i>)
1999	<ul style="list-style-type: none"> • Pay rise of 3.5% and a share for employees in company profits in the 1998 business year

Box 3 Phases of the Hyder 'Partnership' agreement

Partnership 1 — 1990

This introduced the following key features:

- replacement of the traditional annual pay negotiations by an objective formula (embracing the November RPI percentage; links with the local labour market undertaken by an independent organisation (Cardiff Business School); and a profit-related component);
- a new single table representative council supported by joint 'issue' groups;
- new working time arrangements involving greater flexibility, a form of annual hours arrangements and a reduction in the working week for 'manual' and 'craft' employees;
- the harmonisation of working conditions, policies and procedures of all employees;
- the introduction of monthly pay through credit transfer for all employees;
- a commitment to introduce a new pay structure;
- a range of measures to improve productivity through greater flexibility; and
- a no compulsory redundancy policy.

Partnership 2 — 1993

This introduced the following key features:

- introduction of a jointly-prepared unified pay structure for all employees;
- performance appraisal and new understandings on performance management;
- provisions for handling reductions in the workforce, including opportunity for employees to leave at mutually acceptable dates; recognition of the need to consult and involve employees on how jobs would be managed in the future;
- further refinements to the pay formula; and
- a renewal of the employment security provisions.

Partnership 3 — 1995

A distinguishing feature of this phase was its preparation. To ensure future developments matched needs, senior personnel managers and full-time officers carried out a series of 'road shows', meeting small groups of employees covering over 75% of the workforce. The agenda embraced a review of developments and the concerns of employees, the identification of issues. The continued uncertainty about the nature of partnership resulted in a restatement of the basic principles:

'What you give — sharing responsibility for continued improvements in performance. Dwr Cymru [Welsh Water] can be assured that everyone shares the responsibility in meeting our business objectives and improving the highest levels of customer service.

'What you get — the benefits of Partnership are that our people have continuing employment and pay security with good conditions of employment.'

The employment security provisions were put on an ongoing basis to help alleviate fears about their regular review. The position of temporary staff was also addressed through new review procedures.

The 1998 agreement ('Working Together')

This extends the basic principles of previous agreements to the newly acquired electricity supply and distribution business (SWALEC), seen as vital to preparing for some challenging business issues needing to be faced over the next five years, e.g. open competition in electricity in 1998, regulatory reviews in electricity and water in 1999/2000, ongoing competition in the open gas market and completion of the 'Green Seas' policy in water and the associated costs of achieving 'European Blue Flag' water quality standards. In the case of a major event, for example, significant regulatory intervention, change of government policy, serious loss of market, all parties are committed to work closely together to reduce the impact on key elements of the agreement, which could include the right of either side to give appropriate notice of termination.

Source: Thomas and Wallis (1998); IRS (1993)



Box 4 The Ravensburger case (1997)

Against the background of downward developments in the market of games industries and decreasing profit margins at Ravensburger, the company management started to demand substantial reductions in labour costs in 1996. As a first result, several voluntary company payments above the collectively agreed rate were reduced. On 10 April 1997, after several talks with the works council the management announced for the first time in public that it wished to introduce a 'pact for the safeguarding of production sites' (*Bündnis zur Standortsicherung*) as a 'preventive initiative for the maintenance of national and international competitiveness'. The core of the management's proposal was an unpaid working time extension from 36 to 39 hours per week. In return, the management offered to make no redundancies for economic reasons until June 2000, to increase the number of vocational trainees and to introduce a new performance-related annual bonus system.

For the adoption of the new 'Ravensburger pact', the management further concretised its proposal on 16 April 1997. According to this the provisions of the new company pact should be introduced into the employees' individual work contracts, which meant that every employee personally had to accept the company pact.

Since the Ravensburger management signalled that it would further pursue its strategy, the IG Medien made their protests public and got a broad resonance in the regional as well as the national German media. The member of the national IG Medien board, Sybille Stamm, even wrote a letter to the German president, Roman Herzog, to explain the incidents at Ravensburger and to protest against the 'violation of collective agreements' at Ravensburger. Later on, the protest of IG Medien was supported by various other trade unions and civil organisations. The District organisation of the German Federation of Trade Unions, DGB (*Deutscher Gewerkschaftsbund*), for example, issued a resolution in which it strongly rejected the planned 'violation of collective agreements' and accused Ravensburger of 'blackmailing' its workforce. According to the DGB, a three-hour extension of working time at Ravensburger might be equivalent to 100 new jobs, which could have been created by the company. A similar argumentation could be found in an open letter written by representatives from the Catholic Church, who pointed out that in times of mass unemployment 'an extension of working time is not acceptable for ethical reasons'.

According to the German Works Constitution Act, it is not allowed for works councils to conclude a works agreement on issues which are normally regulated by collective agreements. It was not, therefore, possible to introduce the 'Ravensburger pact' by a works agreement. Instead, the management proposed quite early that every employee should give his or her support to the pact by introducing its provisions to the individual works contracts.

In the run-up phase to the voting process, many employees felt very much under pressure to accept the 'Ravensburger pact'. IG Medien had claimed that it had received more than 80 announcements from Ravensburger employees saying that their supervisors had put pressure on them to support the working time extension. There was, for example, a letter to IG Medien signed by 48 female employees in which they accused some managers of unfair practices in order to get their support for the company pact. Even the company's management board itself declared in an open letter to its workforce that it felt regret for the fact that some managers had threatened employees with negative consequences if they were not willing to accept the company pact.

Box 5 Walton and McKersie's analytical framework

Labor negotiations, as an instance of social negotiations, is comprised of four systems of activity, each with its own function for the interacting parties, its own internal logics, and its own identifiable set of instrumental acts or tactics.

We shall refer to each of the distinguishable systems of activities as a *subprocess*. The first subprocess is *distributive bargaining*; its function is to resolve pure conflicts of interest. The second, *integrative bargaining*, functions to find common or complementary interests and solve problems confronting both parties. The third subprocess is *attitudinal structuring*, and its functions are to influence the attitudes of the participants toward each other and to affect the basic bonds which relate the two parties they represent. A fourth subprocess, *intraorganisational bargaining*, has the function of achieving consensus within each of the interacting groups.

Distributive bargaining is a hypothetical construct referring to the complex system of activities instrumental to the attainment of one party's goals when they are in basic conflict with those of the other party. It is the type of activity most familiar to students of negotiations; in fact, it is 'bargaining' in the strictest sense of the word. In social negotiations, the goal conflict can relate to several values; it can involve allocation of any resources, e.g., economic, power or status symbols. What game theorists refer to as fixed-sum games are the situations we have in mind: one person's gain is a loss to the other. The specific points at which the negotiating objectives of the two parties come in contact define the issues. Formally, an *issue* will refer to an area of common concern in which the objectives of the two parties are assumed to be in conflict. As such, it is the subject of distributive bargaining.

Integrative bargaining refers to the system of activities which is instrumental to the attainment of objectives which are *not* in fundamental conflict with those of the other party and which therefore can be integrated to some degree. Such objectives are said to define an area of common concern, a *problem*. Integrative bargaining and distributive bargaining are both joint decision-making processes. However, these processes are quite dissimilar and yet are rational responses to different situations. Integrative potential exists when the nature of a problem permits solutions which benefit both parties, or at least when the gains of one party do not represent equal sacrifices by the other. This is closely related to what game theorists call the varying-sum game.

Attitudinal Structuring. Distributive and integrative bargaining pertain to economic issues and the rights and obligations of the parties, which are the generally recognised content of labor negotiations. However, we postulate that an additional major function of negotiations is influencing the relationships between parties, in particular such attitudes as friendliness-hostility, trust, respect, and the motivational orientation of competitiveness-cooperativeness. Although the existing relationship pattern is acknowledged to be influenced by many more enduring forces (such as the technical and economic context, the basic personality dispositions of key participants, and the social belief systems which pervade the two parties), the negotiators can and do take advantage of the interaction system of negotiations to produce attitudinal change.

Attitudinal structuring is our term for the system of activities instrumental to the attainment of desired relationship patterns between the parties. Desired relationship patterns usually give content to this process in a way comparable to that of issues and problems in distributive and integrative processes. The distinction among the processes is that whereas the first two are joint decision-making processes, attitudinal structuring is a socioemotional interpersonal process designed to change attitudes and relationships.

Intraorganisational Bargaining. The three processes discussed thus far relate to the reconciliation process that takes place between the union and the company. During the course of negotiations another system of activities, designed to achieve consensus within the union and within the company, takes place. Intraorganisational bargaining refers to the system of activities which brings the expectations of principals into alignment with those of the chief negotiator.

. . . In a sense the chief negotiator is the recipient of two sets of demands — one from across the table and one from his own organisation. His dilemma stems from conflict at two levels: differing aspirations about issues and differing expectations about behavior.

Source: Walton and McKersie (1965)



Box 6 *Collective Agreements at Danfoss (Denmark)*

During our interviews and research at Danfoss, we have not been able to find any single local collective agreement which specifically aims at integrating and striking a balance between employment protection and improved competitiveness. However, the Danfoss case displays a cluster of several related local collective agreements, which on an overall basis resemble what could be termed an employment pact, which is aimed at improving the performance of Danfoss and thus securing employment within the company.

During the 1990s, several local agreements between management and labour have been bargained at Danfoss which have been aimed at integrating conflicting elements, such as improved competitiveness and improved job security for Danfoss' employees. Although these agreements do not oblige Danfoss to maintain a specific amount of jobs and a certain rate of employment, these local agreements have been able to create more favourable framework conditions for the way in which Danfoss' production can be organised. Also, these local agreements have contributed to an improved job security for major parts of those Danfoss employees who work in the production/manufacturing sections of the company. However, these agreements do not contain any explicit provisions concerning employment protection.

This cluster of local agreements predominantly consists of four interrelated local agreements which have been negotiated during the early and mid-1990s, as follows:

- a local productivity orientated wage system (WageSystem 90) (from 1991);
- a local agreement concerning flexible working time (from 1976 and renewed in 1997);
- a local framework agreement concerning variable working week (from 1997);
- a local agreement concerning conditions of employment (job security/dismissals) (from 1997).

From report of the Danish correspondents, Foundation's PEC project (2000)

Box 7 *Total number of agreements at Heineken (The Netherlands)*

- the collective agreement with a special appendix on employment;
- the social plan 'Rowor' on the transfer of workers due to organisational reasons;
- 'People make Heineken' in 1992, on changes in work organisation and skill levels;
- the additional social plan for 'People make Heineken' for 1992-1997 and its subsequent renewal for 1998-2002;
- an additional agreement for the testing of workers' skill levels for working in teams.

From report of the Dutch correspondents, Foundation's PEC project (2000)




Chapter 8



Effects of PECs

Unlike ‘social pacts’, which have been the subject of assessments in a number of countries (as in Finland, Ireland, Italy and the Netherlands), technical evaluations of company-level pacts for employment and competitiveness (PECs) are virtually non-existent. Several factors help to explain this situation:

- Differences in the nature and extent of collective bargaining over employment and competitiveness make it difficult to assess the precise number of agreements and compare the situation of companies and industries covered by PECs from being compared with that of companies and industries not signing them.
- PECs are usually recent and so the hindsight necessary for measuring the long-term differential impact they could have exerted on levels of competitiveness and employment is lacking, along with other aspects of performance and working conditions.
- PECs are signed in a variety of economic and social contexts and it is difficult to clearly distinguish their specific effect from the web of interdependent factors that determines how a company or industry may fare. It is virtually impossible, in particular, to say what would have happened if there had been no agreement.
- In most countries, PECs have been ‘a leap in the dark’ for both management and unions. The negotiators have often been criticised by members of their own camp for the compromises to which they have agreed. Except in cases where the results were obviously beneficial for everyone, the actors involved have had no interest in having a technical assessment carried out, perhaps for fear of demonstrating that the agreements involved ‘losers’ as well as ‘winners’.
- Management and employee representatives can have different views on the effects of PECs. This was very much the case with Howmedica, for example, where the Irish correspondent

reported that ‘there are differing perceptions between the industrial relations’ actors of the effect of the agreement’.

By definition, information from those directly involved in the negotiation of PECs can tell us virtually nothing about their impact on the economy as a whole. In particular, they cannot tell us whether PECs represent ‘zero-sum’ games, where the positive micro-economic impact on employment is obtained only at the expense of employment in competing companies, or ‘positive-sum’ games, in which new forms of management of staffing levels leads to an increase in activity with a knock-on effect on the rest of the economy.

Even so, there is information in the case studies here and the commentaries of the national correspondents that makes it possible to draw some tentative conclusions in a number of key areas where PECs might be expected to have had an impact. Attention is paid not only to specific areas (such as flexibility, quality of working life, security and employability), but also to the path of organisational development.

- *Impact on employment and competitiveness* — at the heart of the PECs’ phenomenon.
- *Impact on pay and working conditions.*
- *Impact on collective bargaining*, where the focus is the decentralisation of collective bargaining that the negotiation of PECs encourages and the debate over whether or not the negotiation of PECs is leading to more cooperative relationships, sometimes known as partnerships.
- *Extent to which PECs are encouraging a convergence of approach* in dealing with a number of the key aspects of work organisation and conditions of employment.

Impact on employment and competitiveness

Although there is little or no hard data, it is fair to assume from views of the parties involved and/or the comments of the national correspondents that the negotiations of PECs has helped to improve the competitiveness of the organisations concerned. This has often come immediately from a reduction of costs and/or improvements in flexibility — two of the main objectives which management seeks from the negotiation of an agreement (*see Chapter 5*). The extent to which a change in culture has been involved (management’s third main objective) is not so clear-cut, although there are a number of specific references.

In the case of the **Hyder** agreements, for example, the UK correspondents quote a range of benefits embracing all three objectives, as cited in a joint publication by two of the PECs’ main architects, the manager and trade union officer (Thomas and Wallis, 1998):

- a greater ability to respond to customers’ needs as a result of flexible working and the establishment of a 24-hour call centre;
- improved quality, reflecting the fact that the teams which run the water and sewage treatment plants are better qualified and ‘empowered’ to take immediate action in key areas;



- significant reductions in costs as a result of the reductions in employment leading to lower prices;
- high levels of customers' standards as measured by the regulatory authority in the 'good' to 'very good' category;
- the practice of continuous change accepted;
- a willingness to work with contractors, agency and temporary staff, which had been the source of major problems in the 1980s.

Examples of the contribution of specific changes come from the Danish correspondents reporting on the agreements at **Danfoss**. In the case of the agreement on a variable working week, they conclude that:

The framework agreement on a variable working week allows more work to be carried out by the same workforce during peak periods. As stated in §§ 1 and 2 of the agreement, such situations involving overtime work *cannot* be cashed as 'overtime payment' (*overtidsbetaling*). Instead, the amount of surplus hours have to be exchanged with time-off from work at a later stage when external demands regarding high levels of production capacity level down and leave more room for employees to leave work for some time. Hence, the framework agreement allows Danfoss to get more work carried out without having to pay costly additional wage compensations. The agreement is therefore highly favourable to Danfoss' competitiveness. By applying the provisions of the agreement, much more work can be carried out and the labour costs can be kept at a relatively low level.

They go on to quote the Personnel Director of Danfoss:

. . . the previous agreement says +37 hours and -10 hours. The reason for introducing the new framework agreement was that we had realised that situations could occur in which we encountered fluctuations in our labour demand — seasonal fluctuations, sudden orders or new contracts which force us to produce more . . . In such situations we need to be able to gear up our production capacity . . . or the opposite, when we run out of orders. And in such situations the previous conditions — +37 hours and -10 hours — were too narrow for us. They were not broad enough. And that is the reason why we have termed this agreement 'framework for flexible working week'. We are now able to go as far as +85 hours or down to -15 hours. In other words, each single employee in production has 100 hours at his/her disposal which we can utilise in order to make ourselves more flexible and thereby be able to respond quickly to sudden market fluctuations.

In the case of the **DLG-Aalborg** agreement on training and development, the Danish correspondents cite the following contribution:

- The agreement has helped DLG-Aalborg implement and draw optimal profits from investments made in new technology.
- Implementing the contents of the agreement is relatively costless for DLG in terms of costs and expenses used for vocational training. Mainly funded by the state, DLG only has to contribute with modest resources in order to achieve an 'upgraded' workforce.
- Increased functional flexibility which contributes to decreased levels of overtime payment. The training programmes have created the basis for a workforce in which each employee can carry out a broader range of job functions. Excessive quantities of (costly) overtime hours may thereby be avoided.
- The option of publicly financed training programmes has enabled DLG to 'park' slack labour resources in a favourable way in terms of costs.

Looking across the PECs investigated as a whole, two things are clear. The first is that in a number of cases, the negotiation of the PEC is seen as critical to short-term survival. This is, above all, true of the subsidiaries of multinational companies (MNCs) such as Opel and Vauxhall, Philips (Austria), Rover (UK) and Zanussi (Italy). In these cases, it can be argued, the

negotiation of the PEC was effectively the quid pro quo for a stay of execution or new investment safeguarding some employment which otherwise might have been lost.

In the case of **Philips**, for example, the Austrian correspondent reports that, according to the management:

. . . the agreement had a clearly positive effect on the balance of the plant. He cannot or does not want to go into specific figures. The agreement and the flexibility related to it, however, certainly represented an important contribution to the plant's competitiveness and thus to guaranteeing the site and the jobs.

In the case of **Opel**, the German correspondents report a similar view:

Asked for a statement to the question what might have happened if there had been no site pact 2, management answered that the production location of Rüsselsheim would not exist in its present shape — investment would have been lower, resulting in lower levels of capital equipment and productivity. There would eventually have been a faster speed of personnel reductions — 'plants of this kind would not be fit for survival'. By this, management was referring to the shape and organisation of the Rüsselsheim plant which has grown more or less organically since World War II, and thus has disadvantages over greenfield sites.

A second point to be made on the impact of PECs on employment and competitiveness is that the scope to go beyond the handling of the short-term crisis and to contribute to the medium and long-term competitiveness of the company is not something within the control of those negotiating the PEC. Many may start out with this ambition, but few are able to achieve it. The reason is that the scope for making this kind of contribution very much depends on the sector and the companies' market position within it, with ownership, products and prices being especially significant (*see Chapter 3*).

A comparison of Lufthansa and Volkswagen, on one hand, and Philips (Austria) and Rover (UK), on the other, is useful. In each case, it can be argued, the parties have developed a relationship of trust based on joint problem-solving. At **Lufthansa** and **Volkswagen**, relative business success has given the parties the opportunity to move beyond the handling of crises to embrace issues such as share-ownership, greater working time flexibility for employees and variable retirement arrangements. In contrast, at **Philips** and **Rover**, relative business failure has meant that the parties have found it much more difficult to move beyond the handling of crises.

Impact on pay and working conditions

Mixed experience

There are a small number of cases only in which employees have suffered a reduction in pay as the result of the negotiation of a PEC (*see Chapter 4*). In these cases, with Philips in Austria and Volkswagen in Germany being the ones most directly affected, it means that employees were tending to have to work harder for less pay, although in the case of Volkswagen they were having to work fewer hours. Elsewhere, for example at Irish Cement, employees working long hours of overtime also suffered a reduction in their take-home pay as the result of the introduction of the annualisation of working time. Again, a reduction in working time was involved, but the trade-off was not necessarily something that was to every employee's liking.



In some cases, changes in working time arrangements were seen as a step backwards for employees, rather than forwards. Philips (Austria) again provides us with an example. According to the works council, the introduction of the flexible 7-day week was reckoned to be a significant worsening in comparison to the previous arrangements. The main disadvantage was that, because of the specific shift rhythm, workers had to go directly from the night shift into the 2-day free shift (or 3-day shift once a month).

Equally, however, employees have experienced considerable advantages from the negotiation of PECs. In the case of **Hyder**, for example, the UK correspondents paraphrase the conclusions of two of the agreements' main architects (Thomas and Wallis, 1998) — *see also their comments on competitiveness, above*:

Amongst staff, support for the partnership agreements has steadily grown, with the majorities accepting each successive agreement becoming progressively larger. Attitude surveys undertaken before the 1993, 1995 and 1998 agreements have consistently found that the most important priority of staff is job security. The no compulsory redundancy policy has provided staff with increased assurance about their future, in a labour market context which has seen continuing and substantial job loss in traditional industries such as coal and steel. At times, also, the company has posted out work to maintain employment at locations. The pay formula has also produced a measure of future certainty for staff. Harmonisation and team-working have meant that all staff are treated the same, and many have acquired an increased degree of both discretion and responsibility.

Other agreements provide examples of specific benefits. The transformation of temporary jobs into permanent ones was a major achievement of each of the Spanish agreements — those at La Caixa, Damm, Ford, Essa-Polinyà and Sony in Spain. It was similarly seen as a benefit of the Co-op Bank in the UK.

Some agreements have also brought reductions in working time. As well as the exceptional French cases, examples would be Volkswagen in Germany and **Bonfiglioli** in Italy. In the latter case, for example, in return for the extension of the production cycle (from Monday 6am to Saturday 10pm), the union obtained a considerable reduction of working hours. Working three shifts, the average weekly working hours were reduced from 31.5 hours to 30 hours. Furthermore, employees are paid for 40 hours and, in addition, get a bonus for shift work and work on Saturday.

The changes in work organisation are also seen as bringing benefits. The main union FNV at Heineken's Bondgenoten plant in the Netherlands complained about the slowness in the change in management culture. Nevertheless, they welcomed the improvement of the quality of work in the teams. Similar views were expressed about the changes in work organisation at Raisio municipality in Finland.

More expectedly, the training and development opportunities that many PECs have brought have been commented upon. In the case of **Howmedica**, the Irish correspondent reports:

The craft union representative considered the provision of information technology to be beneficial and instanced the fact that PCs were attached to work stations and that training in the use of PCs and in team courses was given as beneficial. He said that it was possible to discuss with one's department manager ways to further increase one's skill levels and that led to higher skill levels which were beneficial. Overall he expressed concern at the future due to the Stryker take-over. In common with the SIPTU representative, he considered that the employees were in a better position with the agreement than without it.

The benefits for management of the agreement at **DLG-Aalborg** in Denmark have already been quoted. For employees, the Danish correspondents suggest the agreement also brought considerable benefits, as follows:

. . . through intensive courses at local vocational training facilities, the blue collar employees have gained new qualifications which provide them with the ability to carry out a greater variety of job functions within the production plant. Furthermore, being employed in a sector in which new production technologies and new work organisation have been implemented recently, the traditionally unskilled workers have, through vocational training courses, improved their own personal chances for staying in jobs.

Greater segmentation?

Understandably, most of the emphasis has been on the effects of PECs on the workforce as a whole. A fair question to ask is whether there are particular groups of employees or potential employees who suffer disadvantage as the result of the negotiation of PECs.

Looking at the internal labour market, it could be argued that, in several cases, it is new starters who lose out. There are several cases, including Damm in Spain, Vauxhall (General Motors) in the UK and Zanussi in Italy, where double pay scales have been introduced, even for limited periods (*see Chapter 4*). Significantly in the case of **Damm** in Spain, the Court made a declaration against the introduction of a different wage for workers performing the same job on the grounds that this was against the basic principle of equality before law. Following this decision, the management and workers' committee decided to maintain the arrangement. In order to avoid its legal opposition, however, they disguised it in the form of an 'ad personam' wage supplement, only paid to those workers who were in the company before the agreement's signature.

In their report on **Danfoss**, the Danish correspondents suggest that the various agreements dealing with pay, working time flexibility and training and development have also tended to reinforce the distinction between 'core' and 'periphery' workers:

On one hand, Danfoss aims at maintaining a high-skilled functionally and temporally flexible core-labour force which can be utilized in situations where increases in demand and production capacity suddenly appear. Sustained by the agreements on 'flex-time', 'variable working time' and 'white-collar status', this core-labour force is expected to be able to work intensively during peak periods and take time off from work once these sudden peak situations level out again. By keeping such a functionally and temporally flexible workforce intact and granting it relatively favourable conditions of employment, Danfoss is able to meet peak periods without exposing this group to numerical flexibility.

On the other hand, Danfoss also maintains a periphery labour force which can be applied during periods where sudden production demands cannot be sustained by ordinary overtime work and intensive flexibility. The periphery workers are seldom employed for more than a couple of months and therefore never attain the favourable conditions of employment which is granted for those employees who enjoy high rates of seniority at Danfoss. They can generally be characterized as a numerically flexible workforce which can be applied during peak situations where the core-labour force, despite the expanded options for applying temporal flexibility, is unable to work the necessary amount of time.

Considering the relationship between the internal and the external labour market, there is an argument that PECs benefit the employed 'insiders' at the expense of the unemployed 'outsiders'. Theoretically, in the circumstances in which most negotiators of PECs find themselves, they should have reduced pay rather than employment. The problem is that the assumption that lies behind this viewpoint, that labour is simply a factor of production which can be bought or sold like any other, is seriously flawed. As Brown (1995) states:

The market for labour is fundamentally different from markets for non-human beings. This is because the act of hiring an employee is not sufficient to ensure that the job in question gets done in an acceptable way . . . The employee has to be motivated — by encouragement, threats, loyalty, discipline, money, competition, pride, promotion, or whatever is deemed effective to work with the required pace and care.

It is hardly surprising that both managers and employee representatives were unenthusiastic about reducing pay. The maintenance of pay levels, it can be argued, was necessary to secure the cooperation and commitment of the remaining workforce necessary for continuous improvement.

It is also important to note that PECs do not just seek to promote the interests of ‘insiders’. Indeed, many of the PECs studied here could be said to display considerable altruism. Often negotiators have made a particular point of seeking to improve the position of ‘disadvantaged groups’ (see *Chapter 4*). In the case of Heineken (Netherlands), there was provision for positive action on employment for females, youth, the long-term unemployed and ethnic minorities. In the case of Zanussi (Italy), it was young employees and women who were specifically targeted.

Impact on collective bargaining

The structure of collective bargaining

There are three main concerns which may be identified in the comments from the case studies and the national reports of our correspondents:

- The increasing decentralisation of collective bargaining that PECs encourage brings about greater fragmentation and may eventually lead to the so-called ‘Americanisation’ of industrial relations, in which sectoral agreements are replaced by company ones (Martin, 1999).
- PECs are encouraging forms of ‘micro-corporatism’, in which interests of local workers (the ‘insiders’) take precedence over the ‘outsiders’, threatening to raise conflicts between local employee representatives and trade union officials (Treu, 1988).
- PECs are also encouraging a form of ‘regime competition’, in which workplace is forced to compete against workplace (Hyman, 1994; Streeck, 1992, 1998).

Each of these concerns is considered in more detail in the light of the evidence available from the case studies and other research.

Company versus sectoral bargaining

Greater decentralisation of collective bargaining clearly raises questions about the role of sectoral agreements. Arguably, too, there is a potential clash of interest between management’s desire for greater flexibility as against employees’ desire for rights, due process and procedures. No less an authority than the European Commission, in its Green Paper *Partnership for a new organisation of work*, has talked in terms of the need to move from compulsory systems to more flexible frameworks (European Commission, 1997a).

Patently, this is a major issue and only some brief observations can be offered here. The first point to note is that it is not just negotiations over employment and competitiveness that are bringing about decentralisation. To paraphrase Marginson and Sisson (1996b), three main sets of considerations appear to be important (*see also* Dore, 1987; Katz, 1993; Streeck, 1987):

- **The development of organisation-based employment systems:** This reflects the intensification of international competition, characterised by uncertainty and rapid shifts in demand, from the late 1970s onwards. Increasingly, management have been pressing to introduce employment and work practices which are tailored to their own business requirements and which are difficult to cater for in agreements concluded at multi-employer level. Many also feel that the adversarial relationship often accompanying the negotiation of multi-employer agreements — including national strikes and lockouts in some countries — sits uneasily with the culture change that they are seeking to bring about.
- **The changing nature of control systems within companies:** Aided by the revolution in information technology, the emphasis has shifted from systems of administrative to performance control, such as the achievement of budgetary targets, where responsibility and accountability are devolved to the business units at lower levels of large organisations. These systems of ‘managed autonomy’, in which central management maintains control through an extensive web of formal and informal performance measures, place a premium on the bottom-line responsibility of individual business unit managers for labour as well as other costs. Continued reliance on multi-employer bargaining is called into question because its role in determining labour costs runs counter to the logic of devolved budgetary responsibility.
- **A shift in bargaining power:** As a result of the changing economic and political context, many of the benefits which management traditionally perceived multi-employer bargaining to have offered no longer appear as persuasive. Management feels less need of the protection from trade union pressure to shape the wage-effort bargain within the workplace. At the same time, the pressure not to concede general improvements in pay and conditions that increase costs has increased significantly as competition intensifies. Furthermore, the opening up of international markets means that, for many medium-sized, as well as large, employers, multi-employer bargaining within the national economy no longer provides a minimum which removes labour costs from competitive pressures.

Confirmation of some of these points is to be found in the case studies and the commentaries. For example, the Finnish correspondent explains the background to the decentralisation of collective bargaining which led to the negotiation of the agreement at Raisio municipality in the following terms:

In 1993, local bargaining rights were substantially increased by way of delegation clauses for sectoral collective agreements. In the municipal sector, the new general agreement transferred bargaining rights to the local level to a larger extent than in any other branch. The contextual factors behind the delegation of authority were manifold: deep recession with substantial differences in economic developments by sectors, regions and companies; tough pressures of competition due to rapid internalisation of business operations and national preparation for European economic integration; strong demands for local-level bargaining that accentuated in the dispute about tripartite principles and the universal applicability of collective agreements in spring 1993; and finally, pursuit for more cooperative industrial relations in progressive companies.



Fundamentally important is that the kind of detail involved in the negotiation of PECs cannot be dealt with at higher levels. Indeed, it cannot even be dealt with at the company level in many cases. Interesting here is that most of the agreements that are multi-establishment also make provision for further decentralisation within the company to individual workplaces and/or business units. As Chapters 3 and 5 have indicated, major examples include Zanussi and Air France, where 18 and 26 separate bargaining units, respectively, were involved.

Decentralisation also brings two other benefits. Firstly, it makes it possible to widen the scope of joint regulation. Other things being equal, sectoral agreements tend to reflect the lowest common denominator. Otherwise, it is very difficult to get many employers, especially SMEs, to agree. Secondly, it involves many more of the people (managers and employees) who are directly involved in implementing the results of collective agreements. In that sense, it might be said to be encouraging greater democratic decision-making.

This does not mean, however, that there is no role for sectoral agreements. As well as the traditional function of establishing a minimum floor of standards, sectoral agreements also have an important role to play in establishing guidelines for company-level negotiations. A number of the case studies in this report are clear proof of this. Perhaps the most obvious examples are to be found in Spain. In incorporating provisions for the shift from temporary to permanent jobs, each of the agreements at La Caixa, Essa, Ford, Sony and Damm was in effect implementing the provisions of higher level agreements reached at the national level in 1997. Indeed, the Spanish correspondents suggest that these company agreements might be described as ‘improvement pacts’ in as much as they are able to go beyond the provisions of higher level agreements.

In the circumstances, the real challenge, which the negotiation of PECs suggests can be satisfactorily resolved, is to combine a decentralised negotiation, in companies and workplaces, together with negotiation at superior levels. It implies not only a redistribution of current levels of collective bargaining and its contents, but also a new way of understanding negotiation: at superior levels, it should establish large parameters which are considered of wide application at the same time that it orientates and encourages the reaching of agreements at lower levels. It is an articulation of collective bargaining which has to combine the different scopes in which it happens, a fact that means generating new habits regarding it, at the same time that it implies a new distribution of responsibilities inside organisations, of employers and unions: between base organisation and superior levels.

Workplace versus union?

The potential for a division between workplace and union is clearly there. Perhaps the most obvious example in practice is that of **Ravensburger** in Germany. Essentially, management was able to force through an agreement with the works council in the teeth of vigorous opposition from IG Medien, which was the union signatory of the sectoral agreement.

The approach of management at Ravensburger was not at all typical of the conduct of negotiations of the PECs investigated here (*see Chapter 7*). More generally, there were no reports

of major problems. In several cases, there was a long tradition of bargaining activity at company level in which local employee representatives and trade union officials had developed a mutually supportive relationship (*see Chapter 5*). Much of this experience, it seems, has rubbed off onto the actors in companies where company bargaining is a relatively recent phenomenon. In cases where employee representatives are union-based, bargaining has typically involved a mix of local employee representatives and full-time officials. In cases where employee representatives are works council or workers committee-based, the individual representatives are typically also trade union members and rely on the external trade union for advice and assistance where appropriate. Also important is that while, in theory, management might be expected to exploit the potential, in practice it makes little sense to do so if management wants to reach a viable agreement.

That said, the negotiation of PECs clearly presents fresh challenges. One of the aspects widely reported in the case studies is the challenge to unions, either in their bargaining strategies or in their union agendas. Effectively, in most agreements, unions are involved in the future of the company and its strategies, adopting commitments not just to defend economic rights (distributive bargaining) but also to defend the maintenance of the company, its competitiveness and the quality of employment. Thus, with the PEC, representatives of workers and unions include in their agendas targets and matters which had scarce or no presence in previous years and, in order to deal with them, therefore, the need of acquiring new habits is raised, besides negotiating knowledge and experience in these fields. In different agreements (*see, for example, the French company Souitch, Appendix B*), unions have had to widen their agenda towards more global objectives than the traditionally demanded ones, acquiring comprehension of aspects related to living quality at work and problems related to competitiveness of companies.

At the same time, union involvement in these matters is in some cases reflected as an increase in the union's capacity to influence, as seen in the case of Telia (Sweden) where 'the unions have never had so much influence in the company as during these three years'.

Workplace versus workplace?

It is the challenge of workplace against workplace that represents the greatest practical threat. Some form of 'regime competition' appears to be intrinsic to the way that large companies are run. In effect, there is an 'internal market' for investment, with 'better' and 'worse' performing workplaces being 'rewarded' and 'punished', respectively.

There is also evidence of the principle in practice. The most obvious cases are the ones already cited in Chapter 5 — Ford, General Motors and Zanussi. In each case, management and employee representatives have been invited to compete with their counterparts elsewhere for investment. An important result is a greater standardisation of practices and conditions around management's preferred position.

Interestingly, however, these cases involve MNCs and workplaces in *different* countries. None of the national correspondents reported examples of similar levels of 'regime competition' between different workplaces in the *same* country, although the German correspondents raised the



possibility in connection with Opel. This may reflect the fact that the process of ‘regime competition’ is less within individual countries — perhaps because workplaces are responsible for different sets of operations or involve fairly homogeneous services, as in the case of banks, which require a geographical network. Also important, however, may be the lack of any overarching representational and bargaining arrangements, where the machinery exists to avoid conflicts of interest such as this. It remains to be seen if the arrival of European Works Councils, where some of the key individuals will meet and get to know one another better, brings about any significant change in this situation.

The process of collective bargaining

Our attention now turns to perhaps the most difficult question to answer — whether the shift from distributive bargaining to integrative bargaining involved in the negotiation of PECs is bringing about a fundamental shift in the process of collective bargaining. This question is difficult to answer for many reasons. As previously pointed out, collective bargaining has always involved a mix of conflict and cooperation. It is also widely accepted that the process can differ from country to country and from level to level.

At the risk of oversimplification, the adjective ‘adversarial’ has been used to characterise collective bargaining in Ireland and the UK, along with France, Italy and Spain, albeit the significance attached to collective bargaining has differed significantly between these countries. By contrast, the notion of ‘cooperation’ has tended to be associated with the process in Austria, Denmark, Germany and Sweden. Similarly, sectoral-level collective bargaining between employers’ organisations and trade unions is more likely to be described as ‘conflictual’ than company-level collective bargaining between management and works councils; indeed, the legislation covering relationships between management and works councils typically enjoins the parties to work in a relationship of ‘peaceful cooperation’. In several cases, the national correspondents from Austria and Germany make the point that the relative success that the parties there have had in reaching agreement on PECs depended on the high levels of trust and cooperation that had *already* been achieved over many years. The correspondents in Denmark and Sweden said much the same in discussing the relationship between management and local trade union representatives in these countries.

The evidence from the case studies confirms the complexities of the issues. Several of the correspondents suggest that there has been a significant change in the relationship. In the case of **Air France**, for example, the French correspondent observes that:

It is considered that the effect of decentralisation in the negotiation introduced a radical change in a company which up to then had been extremely centralised and which scarcely had had any kind of formal culture about collective bargaining . . . in a company which had always been used to an omnipresent hierarchical control and where rules for management of employment matters regarding staff had a uniform characteristic and a basic symbolic unification considering the strong difference between wages, of contradictory treatment from the general management in the establishments — ‘You’re autonomous!’ — it is an authentic cultural revolution.

In other cases, the national correspondents suggest that the mutual sharing of information and the need to arrive at joint definition of problems has helped to build trust, thereby strengthening the

culture of negotiation. The overall effect is to make it possible to raise and resolve issues that otherwise result in conflict. For example, the UK correspondents quote both senior managers and shop stewards in **Blue Circle Cement** in contrasting the 'old way' of handling redundancies with the new 'partnership way', in which the plant closures have been dealt with reflecting the spirit of the 'Way Ahead' agreement. Previously, 90 days' notice of the redundancies would have been given in line with statutory requirements and formal consultation carried out with recognised unions, but there would have been no offers of redeployment and all employees would have been made redundant. In this case, however, both management and unions make the point that, as a result of the partnership agreement, detailed discussions at all levels within the company have taken place about the way in which the closures would be handled and the consequences for the employees concerned. The principle of relocating employees was aired at an early stage.

Equally important to note is that the attempt to negotiate a PEC does not always have a positive impact on relationships. The clearest example is that of **Ravensburger** in Germany. The German correspondents conclude their discussion of this case as follows:

According to the works council and the trade union, Ravensburger had lost a lot of its traditional trustful and cooperative working relations. The 'Ravensburger pact' created a significant division of the workforce between those who supported and those who were against the pact . . . Even the management recognised that the 'Ravensburger pact' had led to a lot of trouble within the company and established a 'project group for the improvement of the working climate'.

In the case of **Howmedica** International in Ireland, both management and employee representatives continued to have very different views about the most appropriate form of their relationship. To paraphrase the Irish correspondent, the union very much preferred the tried and trusted collective industrial relations processes and was very suspicious of management's attempt to seek to change this. Meanwhile, management tended to see participation and involvement very much in terms of individual employees and was unhappy with the continuing intrusion of industrial relations considerations into the workings of the agreement.

There are also questions about the extent of the change beyond the immediate participants. In the case of **EDF-GDF**, the French correspondent points out that:

The contents of the framework agreement and the introduction of new principles for social dialogue depend to a great extent on the attitudes of local hierarchies. However, all observations indicate that they are lost and overwhelmed by the speed of changes encouraged by the leading ones.

In several cases, the national correspondents report opposition to the changes on the part of employees. Even in Sweden, for example, some members had complained about the way the union took care of the situation. In the case of **Telia**, for example, there were complaints that the union was little more than the company's 'errand boy', while in the case of **FöreningsSparbanken**, some argued that the union was in the 'leading strings' of the bank.

There is evidence that external circumstances, over which the principal actors in the company have little or no control, can play a fundamental role. The earlier comparison of Lufthansa and Volkswagen, on the one hand, and Philips (Austria) and Rover (UK), on the other, is insightful



here. In each case, it can be argued, the parties had developed a relationship of trust based on joint problem-solving. At **Lufthansa** and **Volkswagen**, relative business success has given the parties the opportunity to move beyond the handling of crises. In contrast, at **Philips** and **Rover**, relative business failure means that the parties have been unable to make that step. Indeed, BMW's announcement in March 2000 of its decision to sell off the bulk of its Rover operations (without any prior warning, let alone consultation) has engendered considerable bitterness that could have wide-ranging repercussions for the negotiation of PECs in the UK in the future.

Position in the market is an important aspect as far as attainment of PECs is concerned. A leading company in its market share has a superior capability to movement compared to subsidiary companies or companies that are placed in further links in a subcontract chain.

Growing convergence?

Besides displaying strong country effects, PECs also reveal powerful sectoral and company influences. This raises the possibility that PECs are encouraging not only a greater convergence of approach, but also the standardisation of some of the conditions of employment from one country to another. The most obvious examples would include overtime corridors, annual hours agreements and team work in some of the larger companies, reflecting the need to respond better to variations in demand. This tendency to rationalise and harmonise may be particularly observed in the automobile industry, where companies have suffered a similar and deep restructuring in the organisation of their productive process due to the introduction of just-in-time (JIT) production systems, which enable them to be more sensitive to variations in demand.

Research has highlighted the role MNCs, in particular, play in encouraging the harmonisation of production processes and work organisation. Two types of 'isomorphism' have been identified (Dimaggio and Powell, 1983). The first, *competitive isomorphism*, assumes a system of rationality that emphasises market competition. As McWilliams (1992) reminds us, in the case of factor prices such as pay, there are a number of reasons for thinking that a single market will encourage greater harmonisation:

- the greater transparency of a single currency, which will encourage the use of pay comparisons;
- increased labour mobility, which will help bring supply and demand into better balance;
- increased trade in goods, which will 'create pressures for the prices of inputs that go into making these goods to equalise *even if these inputs themselves are not traded*' (*ibid.*, author's emphasis); and
- greater capital mobility, which is likely to lead to convergence of efficiency-adjusted labour costs and also in levels of efficiency as investors can invest/disinvest to produce goods in the low/high labour cost countries.

The second type, *institutional isomorphism*, involves three main mechanisms which influence decision-making in organisations:

- coercive mechanisms, stemming from macro- and micro-political pressures;
- mimetic mechanisms, pushing managers to adopt standard ('fashionable') responses to uncertainty; and
- normative mechanisms, associated with the 'professionalisation' of management.

In the first instance, managers may find themselves constrained to adopt standard arrangements by the detail of employment legislation or the terms of collective agreements. Equally powerful may be the 'coercive comparisons' that are applied by headquarters' management in MNCs (*see Chapter 7*).

Mimetic mechanisms are increasingly intrinsic to managing large organisations in situations of uncertainty. As Marginson and Sisson (1996a) state:

A growing number of MNCs have put in place management systems and structures to diffuse best examples of working and employment practice across sites in different European countries. Such systems include the regular convening of meetings of production and personnel managers from sites in different countries, rotation of managerial personnel from one site to another, compilation of manuals of best practice and the assignment of a corporate management task force with a specific remit to identify and diffuse examples of best practice across sites (Coller, 1996). The emphasis is on implementing work and employment practices tailored to the business requirements of the MNC on a site-by-site basis.

In the circumstances, the logic of individual managers pursuing 'best practice' solutions is very powerful. The designation 'best practice' gives solutions significant legitimacy, especially if they come to be incorporated into the prescriptions of consultancy and professional organisations, thereby attaining the normative status associated with DiMaggio and Powell's third institutional mechanism cited above — 'normative mechanisms'. Legitimacy in this context can be both a powerful tool in helping managers to win over uncertain employee representatives, as well as management colleagues, and a solid defence against criticism from headquarters' management in the event of something going wrong.

One interesting implication takes us to the heart of the debate about convergence and diversity in industrial relations. It would seem to be increasingly necessary to make a distinction between company-level activity and the wider industrial relations system. Patently, there continues to be considerable differences in the wider industrial relations system, reflecting the wider economic, social and political context. At company level, however, it is the similarities that are most impressive. This is, above all, true of companies in particular sub-sectors such as airlines or automobiles, where a combination of product markets, technology and work organisation appears to impose a powerful set of constraints on the actors' strategic choices.

Summary and conclusions

Although the difficulties in analysing the effects of PECs make it difficult to make a definitive judgement, some things are clear. In terms of the central issue, employment and competitiveness, many of the parties feel that PECs have made a positive contribution. In many cases, they have safeguarded jobs in return for improvements in key areas of flexibility, such as pay, working time



and work organisation. In some cases, there has been a price to pay in terms of a worsening of some of the conditions of employment. At the same time, however, as well as saving jobs, PECs are reckoned to have had positive effects in areas such as greater working time flexibility for employees, greater security and autonomy, and improved opportunities for training and development.

It is also clear that PECs are not a sufficient condition for competitiveness. In some cases, for example, Lufthansa and Volkswagen, PECs have made a significant contribution to overcoming a crisis and building for the future. In others, such as Philips and Rover, the PEC helped to deal with the immediate crisis. But in the case of Rover, it does not appear to have been enough — not, it would seem, because of any deficiencies in the PEC, but primarily because of the failure of customers to buy the products in sufficient quantities.

There are also winners and losers as a result of the negotiation of PECs. Whereas existing staff have benefited to some degree, new recruits have often suffered, though usually for relatively short periods. Sometimes improvements in conditions have benefited one group more than another. Several agreements, however, show altruism in seeking to help disadvantaged groups. Arguably, more jobs would have been created or saved had there been a greater willingness on the part of the ‘insiders’ to reduce the level of pay. This seems to have rarely been seriously considered because of the need to maintain the cooperation and commitment of the existing workforce.

Turning to collective bargaining, it is undoubtedly true that PECs are leading to the greater decentralisation of collective bargaining, intensifying worries about the possible ‘Americanisation’ of European industrial relations. PECs are only one manifestation of the decentralisation taking place, however. Moreover, although decentralisation increases the stresses and strains within trade unions and can pitch workplace against workplace, there are benefits in terms of the scope of collective agreements and the involvement of a wider group of managers and employee representatives in their negotiation and administration. There is also a key role for higher level agreements to play in establishing guidelines for company bargaining, as well as continuing to establish minimum standards.

Other things being equal, the successful negotiation of a PEC forces parties to adopt a more integrative approach to collective bargaining, which has led to new relationships. It remains to be seen, however, whether the shift from distributive bargaining to integrative bargaining involved in the negotiation of PECs will bring about a fundamental shift in the process of collective bargaining. Much depends on the specific circumstances, of which perhaps the most critical is the business situation. All things considered, however, it is probably best to see collective bargaining continuing to involve elements of both distributive and integrative bargaining.

Finally, there is some evidence of PECs encouraging standard approaches and conditions, such as working time corridors. Arguably, however, it is not so much PECs that are to blame — they are simply the vehicle for this development. Rather, it is the process of ‘mimetic isomorphism’ in the

larger companies that provides the impetus; their striving to achieve best practice and the pressures of their internal markets for investment are likely to produce this effect regardless of whether or not a PEC exists.




Chapter 9



Practical lessons of PECs

It is not easy to draw lessons from the cases studies in this report about the ingredients that make for ‘success/failure’ in the negotiation of PECs. The process of their reporting and selection means that, by definition, most of these PECs would be regarded as successes. Failures rarely receive the same level of publicity and so tend not to appear in the frame for selection.

The national correspondents have highlighted a number of considerations that they believe important. Others are implicit in their analyses. It is, therefore, these that form the basis for the following discussion.

Prerequisites

There would appear to be three main prerequisites for the negotiation of PECs:

- **A consensus about the need for change**

Unless there is a measure of consensus about the need for change, the basis for negotiations, let alone an agreement, will be missing. It is here that the discussion in *Chapter 3* of the features of the three main sectors in which PECs are to be found takes on a special significance. In each of the sectors — manufacturing, banks and recently privatised public corporations — there are pressures for change that are extremely difficult for anyone to ignore. In manufacturing, they come from intensifying international competition; in banking, from technological change and deregulation, leading to intensifying competition; and in recently privatised public corporations, from deregulation and a fundamental shift of emphasis from State regulation to market regulation. Needless to say, the more these circumstances come to be accepted as requiring change, the more difficult it becomes for anyone to ignore them.

- **Extended mutual recognition**

The second prerequisite takes us back to *Chapter 1* and Traxler's discussion of 'social pacts'. Management has to recognise the full implications of collective employee voice. In effect, this means involving employee representatives not only in the negotiation of the terms and conditions of employment, but also in issues that have traditionally been perceived to lie within the area of managerial prerogative, such as business planning. For their part, employee representatives have to recognise the pressures managers are under to make changes and be willing to become involved in helping to implement them.

The significance of this extended mutual recognition cannot be underestimated. For many managers, it means being willing to have their views subjected to criticism and challenge. It may mean having to admit that their analysis of a particular situation is wrong. It also means there is no going back without losing trust and goodwill, on which morale so depends. For employee representatives, it means getting involved in what the Dutch correspondent describes as 'dirty hands' work'. In most cases, it is likely to involve agreeing to redundancies and major changes in working arrangements. In some cases, it may mean backtracking on major principles, such as a single rate for people doing the same or similar work, or payments for overtime and particular forms of shift and night work.

- **The need for quid pro quos**

The third prerequisite is implicit in the other two. It is that there have to be concessions on both sides. In the context in which the typical PEC is negotiated, this has a special relevance for management, above all in situations where survival appears at stake. Inevitably, there is a temptation for management to emphasise the sacrifices that employees will have to make and to ignore the need for employee representatives to have something other than survival to show their members in return. Unless managers are willing to meet some of the aspirations of the employee representatives, however, there is unlikely to be the basis for agreement. This would be akin to the 'concession bargaining' of the USA and is likely to invite the response that managers should try to go ahead and live with the consequences of introducing the changes unilaterally.

A problem-solving approach

There have been several references in previous chapters to the contrast between distributive and integrative bargaining. It has also been argued that in key respects PECs are to be seen as a form of integrative bargaining (*see Chapter 7*). An important implication for managers is that they understand this involves three key steps:

- joint discussion and identification of the problem;
- joint gathering of information about and discussion of different alternative solutions and the consequences; and
- a willingness to jointly evaluate the alternative solutions and come up with a mutually acceptable solution.

A key assumption is that management does not act as if it had fixed ideas about the solutions and refrains from 'jumping the gun' in their implementation. The cases in this report where they have done otherwise, such as Howmedica in Ireland or Ravensburger in Germany, have resulted in considerable embarrassment, even if, as in the latter case, management may appear to have been successful in imposing its preferred solution.

Another important implication is that the parties have some appreciation of the techniques of integrative bargaining. One of these is a willingness to contemplate a wide agenda of issues, which makes trade-offs more likely. Other things being equal, the success/failure of PECs in the short run will be influenced by the *scope* of the negotiations: the more items included, the greater the chances of success. The German correspondents make the point nicely in summing up the reasons for the 'success' of the negotiations at **Lufthansa**:

What contributed to the success of the restructuring process and the employment measures were (1) the fact that management strategy, personnel policy and labour relations, including the collective agreements, went hand in hand and were closely linked, and (2) that traditionally cooperative, consensual and relatively peaceful labour relations at Lufthansa smoothed the whole process of implementation.

Another technique is to widen and deepen the committee structure that normally handles negotiations. Several instances of this are to be found in the case studies, including Blue Circle Cement and Vauxhall (General Motors) in the UK and Zanussi in Italy. The 'Mobiel 2000' project at **Stork** in the Netherlands will be used to illustrate this point, however. The composition of the steering committee was two managers from the (five) business units (one acting as chairman), two managers from corporate level (finance and personnel), two trade union officials and the chairman of the central works council. Two external consultants were also added, along with a manager of one of the companies who worked as full-time project coordinator. Working groups were also established to look in detail at the issues of flexibility, training, communication, wages and conditions. The Dutch correspondent explains the significance of this:

The project is organised in this way in order to secure a good relationship and involvement of both line management and employees in the 86 companies. Also, it is separated from the normal process of collective bargaining, though the P&O manager and the two trade union officials are the key players in the latter. Later in the process, at the time when wages and conditions have to be negotiated, this subject matter is referred back to the process of collective bargaining.

Outside agencies can also be used to facilitate a problem-solving approach. This is, above all, true of government agencies that enjoy the trust and respect of management and trade unions. The involvement of agencies such as ACAS in the UK, ANACT in France and the Irish Productivity Centre in Ireland has been especially helpful in situations where the parties have been seeking to develop a problem-solving approach for the first time (*see Chapters 5 and 7*). This may take the form of workshops, where the problems and their underlying causes can be discussed in a calmer atmosphere than has been possible in the past, as well as seeking guidance on getting joint groups to work effectively and gathering information about the solutions arrived at in other organisations (*see, for example, ACAS, 1999*).

Importance of involvement and participation

A corollary of what has been said so far is that agreements at higher levels can at best establish guidelines and parameters for workplace negotiations. By implication, the people, managers and employee representatives, who are going to have to live with the outcome of any agreement also have to be involved.

The Dutch correspondent illustrates the importance of local involvement in the case of **Heineken** in the Netherlands, where the agreement provided for the delegation of the process of redesign of work and organisation to the decentralised level of the business units:

At decentralised level, the relationship between management and works councils develops into something different. For the works councils, the title 'People make Heineken' is more than a pretty slogan. This theme is implemented both at the level of the work organisation and at the level of consultation with the work councils. They become involved in crucial organisational issues at an early stage. The works councils call this, without scruples, the 'dirty hands' model'. Instead of waiting and resisting, they participate. Management and works councils develop a more open and businesslike approach. Also the relationship between works councils and their electorate (the workers) deepens. The works councils organise special meetings and also attend if relevant *het werkoverleg* in the departments.

The Dutch correspondent also contrasts developments at the local level with those at the company level:

This process of change does not occur at the central level between management and unions. The central level remains a classical bargaining relationship. Both unions and management, each in their own way, strive towards an open relationship and a dialogue, but up to this day, this has not occurred. Part of the background are differences of opinion on the involvement of unions in organisational matters (as distinct to the role of the works councils) and the interpretation of some of the agreements on employment.

The Irish correspondent also gives us a fascinating insight into the demotivation that can occur when the principle of involvement and participation is not carried through, as in the case of the Electricity Supply Board (ESB) in Ireland:

On the negative side, the union representative indicated that there had been difficulties in relation to implementation in some of the business unit areas within the ESB. He indicated that up to the signing of the agreement it had been a joint process, with both parties having joint ownership of the agreement. When it was signed, however, this all changed as the platforms for negotiations and for issue resolution were dismantled as soon as the CCR [Cost and Competitiveness Review] was over by the management in the power generating section. He described what happened in the following terms: it was like 'taking the ball and stuffing it up your jersey. The agreements, up to the time they were signed, were *our* agreements and suddenly became the *management's* agreements and they were now telling everybody how to implement it'. While this had happened in some areas, it did not happen in the other areas. He said there had been a very large measure of joint implementation in other areas and 'a lot of the difficulties, that would have been anticipated, never evolved because the management and the unions agreed jointly . . . on how they would implement them'. As a result, the union representative indicated that 'the ESB have now seen the errors of their ways . . . and a lot of the machinery that we had for dealing with the CCR is now in the process of being put back in place'.

Importance of communications

The critical importance of communications is a recurring theme in any discussion on the management of change. Several of the national correspondents drew attention to it specifically in their overall evaluations of the PECs in their studies. In discussing the **Lufthansa** case, for example, the German correspondents made the following point:

During the restructuring process at Lufthansa, elaborate communication and participation structures, most elements of which had specifically been developed, significantly contributed to communicating and legitimising the restructuring measures and finally to making the whole process a success. During the process, employee representatives have been informed and consulted about steps to be taken. The trade unions and the works councils made suggestions, also in the context of the restructuring process. They also had a considerable influence on the contents of the agreements.

In discussing the case of the **Co-op Bank**, where the nature and extent of communications does not appear to have been of such a high standard, the UK correspondents draw attention to the danger of forgetting the wider constituencies, who may see things rather differently:

Although circumstances provided both the Bank and BIFU [the union] with motives to enter into an innovative agreement that incorporated a renewed employment security guarantee, there was no inevitability about the process. Indeed, just seven or eight years ago, both sides acknowledged that relationships between them were poor. Key individuals, on both the management and trade union sides, committed to a different, partnership approach were influential. Obstacles to a successful outcome to the negotiating process were more apparent within the wider management and trade union constituencies than between the parties directly involved in the negotiations.

The point applies no less to trade unions than it does to management. In the case of **Telia**, for example, the Swedish correspondent makes a specific point of asking whether or not, with the virtue of hindsight, things could have been done better. Paraphrasing one of her trade union respondents, she writes:

There was one thing though that [he] thought they could have done better. The cooperation between the local branch of the union, which made the deal, and the union representatives, out in the workplaces, did not work, especially in the beginning. The reason could be that too little information had been given to these union representatives about the reasons for the agreement. Besides, it was the union representatives out in the workplaces that had to deal with the members and had to face their disappointment and complaints directly. This problem existed in all three unions. The thinking was much further on the local branch of the union than among the union representatives on the floor.

A need for realism

A strong message coming through from the cases involved in second or third generation PECs is the need for everyone involved to be realistic about what can and cannot be achieved with the negotiation of PECs. The changes required in the role and style of both managers and employee representatives are especially fundamental, as Thomas and Wallis (1998) frankly admit in their appraisal of the implications of having partnership arrangements (*see Box 8 at the end of this chapter*). Thomas and Wallis were the main architects in the Hyder agreements in the UK.

The feasibility of trying to build long-term relationships in the midst of so much uncertainty is especially fraught. In particular, there is a need to appreciate that no agreement, however sophisticated, can ‘buck the market’, to use a much-hackneyed phrase. In seeking to draw lessons from the Rover experience, an editorial in the *IPA Magazine* (2000) makes the point:

First and foremost, Rover offers a sobering reminder that no amount of employee commitment will alter the basic economics of an industrial sector. Car capacity in Europe was always going to be slashed, and Rover plants were inevitably going to fall victim to some extent.

There is a second stark reality that needs to be faced, too. If the product is not right, high-standard employment practices cannot redeem a situation. In the end, the company collapsed because British customers did not want to buy the cars that Rover was making.

The list of lessons from the Rover experience drawn up by the editorial of the Involvement and Participation Association (IPA) appears in Box 9 at the end of this chapter.

The UK correspondents also remind us that David Bower, a former Personnel Director of Rover and one of the architects of the original 1992 'New Deal' agreement, has acknowledged that 'job security must be an illusion to some degree — even in times of stability' (Bower, 1996). He is, nonetheless, strongly of the view that companies must not abandon the challenge of providing the kinds of employment security that PECs seek to achieve. In his view, such agreements 'help reassure employees that management is alive to their concerns' and can be 'the key to employee commitment'. He believes that employees have realistic expectations and know that agreements on employment security cannot be a 'watertight guarantee'.

The point is profoundly important with wide-ranging implications. Management must not promise what it cannot deliver. The greater disillusion comes from broken promises and a failure to communicate (which many commentators see as the main reasons for the bitterness associated with developments at Rover) rather than the need to re-address the issue of competitiveness. Equally, management must not give up on the attempt to maximise the security available to employees. It is the key to maintaining the much-needed cooperation and commitment of employees.

Prevention better than cure

As previously mentioned, the Swedish correspondent made a specific point of asking whether or not, with the virtue of hindsight, things could have been done better (*above*). An especially insightful response came from one of the managers at **Telia**, who responded that the task of restructuring would have been easier had they done more 'preventative' work beforehand. He was thinking specifically of training and development to improve the competence of employees.

Training and development is the fundamentally important area. Such is the pace of change, in markets, technology, operating systems and the like, that few organisations can realistically hope to keep their workforce fully equipped with the necessary skills without it. Most fundamentally, training and development are the basic building blocks of the 'learning organisation', which many commentators see as the real key to developing competitive advantage. Following Keep (1989), there are also strong grounds for contending that training and development deserve to be viewed as 'the vital component' in managing employment relations. Management commitment to training has a critical symbolic value. Where managers fail to train, they send a message suggesting that labour is easily dispensed with and of little value. Where significant training is undertaken, they confirm a commitment to employees who are more likely to feel valued. Depending on its nature and extent, training may also make a significant difference to the employability of employees, should their existing jobs become redundant.



Box 8 *Some of the key implications of 'partnership' agreements*

For management:

- a willingness to commit the act of faith that the benefits would outweigh the costs;
- a need for a change in management style — from being decision-makers to facilitators;
- a need for greater openness;
- a need for a change in approach to trade unions — from seeing them as part of the problem to part of the solution;
- employment security has removed the elimination of poor performers through the redundancy route leading to extra strain on the performance management system;
- greater activity has led to expectations of greater reward.

For trade unions:

- the nature of partnership restricts the number of opportunities for trade union officers to demonstrate publicly their value to their members;
- opposition for opposition's sake has to go, to be replaced by a recognition that the long-term interests of members are best served by helping the organisation to be more successful;
- acceptance of the need for joint communication;
- trade union officials and senior management representatives have to let go of some of the reins of their power;
- full-time officials, in particular, can expect to face charges that they are in 'management's pocket'.

Based on Thomas and Wallis (1998)

Box 9 *Lessons from Rover (UK)*

The New Deal agreement signed at Rover eight years ago [1992] was vaunted as a model of future UK workplace relations. It set out an agenda that offered a radical departure from the past: employment security in return for plant-wide flexibility; a shared commitment to achieving product excellence and high performance; and major strides in development opportunities for all.

The New Deal survived the vicissitudes of the 1990s, not least the traumatic events of 1998 when radical restructuring and job cuts were agreed. Surveying the wreckage of what is now left, some learning points clearly emerge about the realities of today's workplace — and especially the future of partnership-style employee relations.

First and foremost, Rover offers a sobering reminder that no amount of employee commitment will alter the basic economics of an industrial sector. Car capacity in Europe was always going to be slashed, and Rover plants were inevitably going to fall victim to some extent.

There is a second stark reality that needs to be faced, too. If the product is not right, high-standard employment practices cannot redeem a situation. In the end, the company collapsed because British customers did not want to buy the cars that Rover was making.

A third intriguing lesson brings us to the debate about stakeholding. Would a change in the Companies Act — to force companies to have regard for all their stakeholders — have changed the outcome at Rover? Will Hutton, now leading the Industrial Society, argued recently that there was little hope for any sustainable workplace partnership in the UK unless businesses were forced to take the stakeholding perspective seriously.

Unfortunately this argument fails to convince in the case of Rover. Forcing a business to account for the external cost of its actions could be applied in some cases, such as Barclays' recent closure of some of its rural branches. However, this argument would not carry much weight with BMW's decision to mount what is, in effect, a fire sale.

The fourth and final lesson applies to the personnel and trade union communities and is quite simple. What does the Rover saga tell us about the influence that employees had during the process? What does it tell us about 'employee voice'?

Through the trading of claim and counter-claim, several stark facts emerge. German workers always knew more of BMW's thinking than their UK counterparts because German law gave them greater access to the board of the company.

They also knew what was happening at an earlier stage, and on at least one occasion in 1998 their representatives had a crucial influence on a key policy decision, when the German works council prevented an earlier attempt to close down Rover.

One commentator could not avoid pointing out to industry secretary Stephen Byers that if the UK had accepted the information and consultation rights proposed by Brussels, then he might have learned sooner and more accurately what was going on within the senior management of BMW.

Greater transparency might not have saved Rover. An enhanced role for employee representatives to put over the views of the workforce might not even have saved jobs at Longbridge. But surely a more open and informed debate over the last ten years would have created a more realistic understanding of Rover's real options for survival, and prevented the web of recrimination that now engulfs the company.

Source: IPA Magazine (2000)




Chapter 10



A preliminary assessment of PECs

This assessment of PECs has, necessarily, to be preliminary. Some of the long-term effects of the PECs studied here, such as on the viability of businesses or on collective bargaining, are difficult to judge at this stage. Also, there are some issues on which it is impossible to comment with any sense of authority. No one can be sure, for example, that a PEC has saved or created more jobs than otherwise would have been the case. A further complication is that the concept of a PEC embraces a wide range of agreements in which the focus can be very different. The French PECs reviewed here, for example, are very different from the German and UK ones, while the main emphasis of the Spanish PECs is different again. Last but by no means least, it must be remembered that the PECs studied here were selected on the basis of their significance in the sense that they would generally be regarded by the country's social partners as typical of any general trend and/or as setting such a trend. Other things being equal, therefore, it might be expected that they would be 'flag ship' cases, tending to emphasise the positive aspects of PECs.

In the circumstances, the discussion here returns to *Chapter 1* and considers the wider debates which PECs have engendered, before briefly considering the policy implications. Four issues are especially relevant to the thinking behind the overall project's framework as presented in the concept paper (Sisson *et al*, 1999). These are the logic of employment pacts, the changing nature of collective bargaining, the interpretation to be put on PECs and the balance between their micro and macro implications. The first addresses the reasons for the emergence of PECs at this particular juncture. The second considers PECs within the context of debates about developments in collective bargaining. The third and fourth are fundamental in assessing not only the significance of PECs, but also their future prospects.

Logic of employment pacts

Although there are significant differences in the emphasis of PECs, central in most cases is the use of collective bargaining to handle the restructuring expected of the social partners in the light of the intensifying competition reflecting increasing globalisation of markets and/or the privatisation of previously publicly owned utilities. For employees and their representatives, collective bargaining offers an opportunity to influence the outcome of key issues, such as the handling of any redundancies. For management, collective bargaining brings an opportunity to put matters on the table that were previously perhaps considered 'taboo'. Significant changes in working practices may also be introduced throughout the company and not just in the immediate workplace undergoing restructuring.

Following Traxler (1997), the critical point is that, as well as any substantive outcomes, agreement brings with it certain representational and organisational privileges. Agreement involves extended mutual recognition, which is important for both employee representatives and management. For employee representatives, agreement means that managers are not only obliged to recognise the importance of collective employee voice (at the very least, employee representatives live to fight another day), but also to extend their authority to issues such as employment security which may not have been possible before. For management, agreement means that employee representatives are obliged to legitimise both the need for and the implementation of radical changes in working arrangements, very often involving substantial redundancy. As commentators in both the USA (Cappelli *et al*, 1997) and Europe (European Commission, 1997a; Herriot *et al*, 1998; Sisson and Marginson, 1995) have recognised, this legitimacy is critical because intensifying competition requires management both to minimise costs *and* to promote the cooperation and commitment of the workforce necessary for continuous improvement. In these circumstances, the alternative of attempting to proceed unilaterally is likely to lead to far greater demoralisation of the workforce, as well as possibly inviting organised resistance, neither of which is likely to be perceived sympathetically by major customers or headquarters' management.

Changing nature of collective bargaining

From distributive bargaining to integrative bargaining?

The term 'competitively bargaining' aptly describes what PECs are about. It is difficult to argue with the notion that something other than traditional distributive bargaining is involved: the range and depth of issues treated are considerably greater. In many cases, PECs have also been the vehicle for introducing, for the first time, a range of new concepts and practices, such as annualised hours, team-working and profit-sharing, among others.

Yet it would be wrong to conclude from this that PECs denote a complete change in collective bargaining. It has long been accepted that collective bargaining is a complex process which does not just involve a market relationship. Especially relevant for present purposes is the distinction Walton and McKersie (1965) draw between *distributive bargaining* and *integrative bargaining*.

In the first, there tend to 'winners and losers' in a 'fixed-sum' or 'zero-sum' game, while in the second, there can be mutual gains in what is a 'positive-sum' game. The process involved in negotiating PECs has strong parallels with Walton and McKersie's integrative bargaining (*see Chapter 7*). Precedents are not only to be found in the USA (Slichter *et al*, 1960), but also in the UK in the form of 'productivity bargaining' during the 1960s (Flanders, 1964) and in other EU countries in the form of the 'productivity coalitions' of the 1980s (Windolf, 1989).

Such integrative bargaining does not necessarily replace the more traditional forms of distributive or adversarial bargaining. In discussing some of the implications of the concept of partnership current in Ireland and the UK, the Irish correspondent reminds us that:

The evidence is that partnership acts to supplement the established adversarial bargaining processes rather than replace or transform it. The partnership processes are most evident at the earlier stage, when information sharing and defining of the problems to be addressed takes place. When this is done, adversarial bargaining tends to take centre stage. That this is the case is not to be decried as the additional sharing of information and problem-solving adds sophistication and depth to the eventual agreements. It may also give the parties a greater ownership to those agreements, although this can falter as in the ESB and Howmedica cases when either side regard the agreements as theirs to implement. The use of adversarial bargaining remains appropriate when it comes to the trade-offs involved in the inevitable 'cutting a deal'.

An increasingly active role for management?

The key role of management is one of the most notable features in the negotiation of PECs. Management has often taken the initiative in calling for the negotiations leading to the PEC (*see Chapter 7*). In virtually every case, management has come to the bargaining table with its own agenda of issues (*see Chapter 5*). Indeed, it is no exaggeration to say that, in most cases, it was this agenda that dominated proceedings with employee representatives often finding themselves on the defensive.

Again, it would be wrong to exaggerate the novelty of this. Its prominence is such, however, as to demand further comment. As the discussion of the logic of PECs suggests, two issues are key. One is the need for management to get much *greater flexibility* in areas such as working time and work organisation, where there is existing regulation largely reflecting employee aspirations. The other is *extended mutual recognition*. Historically, it was enough for management to have the passive or implicit recognition of its right to manage from employee representatives. Given the nature and extent of the restructuring currently taking place, however, this implicit recognition is no longer enough. Management needs the legitimacy that only explicit recognition brings. This is especially true where management believe that substantial redundancies have to take place alongside major changes in working time and work organisation.

A changing relationship between the role of collective bargaining and legal regulation?

It is debatable whether or not PECs imply a changing relationship between the role of collective bargaining and legal regulation. Much depends on the existing relationship (*see Chapters 1 and 3*). In Scandinavian countries, for example, there are no obvious signs of a change in relationship; the State has long played a very important role in facilitating compromises between, and a shared ideology about, possibly conflicting interests on employment and competitiveness,

with the result that there is less need for PECs. In the UK, also, there is little evidence of a changed relationship, although the context is quite different; in dealing with the links between competitiveness and employment there, it can be argued that collective bargaining is filling the vacuum that an essentially voluntarist system creates.

In countries such as France, Italy and Spain, the relationship between the role of collective bargaining and legal regulation does appear to be changing. In each case, there is a clear attempt to achieve a measure of articulation between the two, with legal regulation being used to promote collective bargaining as a means of dealing with restructuring. There are, nonetheless, considerable differences between these countries. In France, the State is encouraging a particular form of restructuring — namely, the promotion of reductions in working time to create jobs. In Italy and Spain, by contrast, the intention appears to be to give the parties greater freedom from long-standing legal regulation in some of the key areas of employment policy.

A growing convergence of approach?

One of the most remarkable features of PECs is that they appear to be a common development across EU Member States, raising the possibility of a growing convergence of approach (Sisson *et al.*, 1999). In the event, reality is much more complicated as the discussion in the section above confirms. It is certainly the case that, in being negotiated at company level, PECs are contributing to the trend of decentralisation in collective bargaining that has been a common feature of the past twenty years. It is also the case that, in involving local employee representatives and encouraging more informal agreements, PECs are promoting another common trend — namely, forms of negotiation that, in many countries, are deemed to be outside the traditional framework of collective bargaining.

There are also significant sectoral and company effects, reflecting the process known as ‘mimetic isomorphism’ or the tendency for large companies in particular to pursue ‘best practice’ solutions to their problems. Many company PECs are to be found in three main sectors (manufacturing, banking and recently privatised public corporations), each of which has been experiencing considerable turbulence either as a result of intensifying competition and/or deregulation, helping to account for a number of cross-national similarities. Several multinational companies (MNCs), most notably those in automotive manufacturing such as Ford, General Motors, Mercedes-Benz and Volkswagen, have been negotiating PECs in a number of countries. Some of these have clearly had ‘mimetic’ effects, with the operations of General Motors in Germany and the UK providing the most obvious example.

Even so, the country of operations seems to have a noticeable effect on the contents as well as the incidence of PECs, reflecting differences in existing national regulatory frameworks. Although there are considerable differences of emphasis, the Dutch, German, Irish, Italian and UK PECs tend to be characterised by a mix of guarantees on employment security, reductions in employment and the arrangements for handling them, coupled with provisions for flexibility of working time and work organisation (*see Chapter 3*). Spanish PECs cover much of the same ground, but also emphasise the transfer of temporary jobs into permanent ones. In France,



employment creation rather than reduction or preservation is the key feature, reflecting the government's campaign to link shorter working hours to increasing jobs. In Austria and the Scandinavian countries, explicit links between measures to improve competitiveness and employment reduction/preservation/creation are much less obvious than in the other countries cited. But provisions for employment companies/foundations/pools as a means of encouraging employability are to be found in Austrian and Swedish PECs, as well as in some Dutch ones, whereas such arrangements are relatively rare in other countries.

Arguably, as Marginson and Sisson (1996b and 1998) have suggested, industrial relations in Europe is characterised by increasing diversification *and* convergence. The diversification takes the form of differences *within* rather than *between* national systems. This reflects management's wish to develop organisation-based systems to cope with competition that is increasingly international in scope, but also more differentiated in character. The convergence stems from what might be described as the processes of Europeanisation and globalisation, reflecting the impact of EMU and the pressure on management in MNCs to adopt common 'best practice' solutions.

'Concession bargaining' by another name?

There is no accepted definition of the term 'concession bargaining'. European usage has tended to be literal, with the term being used to refer to 'give-and-take' and 'win – win' agreements in which 'reciprocal exchange is strongly emphasised; in return for an undertaking to limit the number of redundancies or reduce general working hours, for example, the employees' side accepts the reopening of discussions on pay structure or the pace of work' (European Foundation, 1993; *see also* Kotthoff, 1998; Mueller-Jentsch, 1998).

Evidently, under this definition virtually all PECs would have to be categorised as concession bargaining. The German correspondents particularly emphasise that the term is explicitly used in the case of one of the key Lufthansa agreements.

The problem is that almost any kind of integrative bargaining has to be defined as concession bargaining if this definition is followed (*see Chapter 1*). In the circumstances, it is usage of the term in the USA that offers a more appropriate benchmark. This suggests that concession bargaining involves very little reciprocity, the concessions being made almost exclusively by employees in the form of pay cuts or 'rollbacks' in the terms of contracts (Kochan *et al*, 1986; Mitchell, 1994). Moreover, concession bargaining is also associated with a confrontational approach on the part of management, often being integral to a strategy of 'union avoidance' or 'union busting'.

PECs would appear to be different from this form of concession bargaining. Clearly, most PECs have involved concessions on the part of employees and some employee representatives have felt under distress in negotiating them. Few PECs, however, have involved reductions in pay. Moreover, virtually all of the PECs reviewed here have involved some form of 'concession' on the part of the employer as well as the employees, even if it is impossible to balance one against

the other. Most critically, there have been no examples of recognition being withdrawn from employee representatives. On the contrary, the signs are that management has been anxious to secure the legitimacy that employee representative agreement brings for all the reasons given earlier (*see Chapter 6*).

Despite this, it has to be recognised that the potential exists for PECs to become a cover for the concession bargaining associated with the USA. Much depends on the degree of reciprocity involved and whether or not employee representatives feel they are being 'blackmailed'. Evidently, it is an issue that trade unions and public authorities will need to keep under close review.

Positive sum or zero sum?

Three main criticisms may be levelled at PECs in the light of the analysis in this report.

- The first criticism echoes Martin (1997) and is primarily aimed at *employee representatives* (*see Chapter 1*). It is that, in negotiating company-level PECs, employee representatives will encourage a form of 'regime competition' in which one workforce is set against another. This compromises the basic trade union role of establishing minimum standards and makes it more difficult to manage the tensions between members of different organisations and interest groups. Another fear is that employee representatives will become part of management, effectively rubber-stamping its decisions rather than challenging them. The dangers are especially pronounced at company level, where local employee representatives might be thought vulnerable to 'micro-corporatist' entreaties from management to engage in 'regime competition'. As Hyman (1994) says, in discussing the situation in MNCs:

... in adverse economic circumstances, company-level productivity coalitions can easily imply a competitive underbidding of either job protection or conditions of employment, with unionism organisationally intensifying the 'fault-lines' of intra- and international conflicts of employee interests. Fragmentation into company unionism along Japanese lines represents the ultimate logic of this model.

- The second criticism is mainly targeted at *management*. It is that, rather than focusing on redundancy or downsizing as the main method of adjusting to competitive pressures, management should be investing in new technology, products or services. The danger of taking the former course is that, besides being wasteful of human resources, the organisation sooner or later becomes so 'anorexic' that it is incapable of making the kinds of adjustment necessary to keep up with international competition. The point is reinforced by recent research which suggests that only a minority of companies have been taking initiatives in the areas of innovation, flexibility of work organisation and involvement and participation (European Foundation, 1997 and 1999).
- The third criticism involves both *management and trade unions*. It is that PECs distort labour markets. Most PECs protect the pay of 'insiders' at the same time as they reduce employment potentially available to 'outsiders' (*see Chapter 4*). Other things being equal, in such circumstances, it might be expected that pay rather than employment would reduce until the market 'cleared'. Seen from this perspective, therefore, PECs may involve a positive sum for 'insiders', but a negative one for 'outsiders'.



Each of these criticisms has some force and will be familiar to many of those involved in the negotiation of PECs, even though they may not recognise the language. These criticisms do less than justice to the practical realities that the negotiating parties face. To take the first criticism, it is extremely difficult for employee representatives to refuse to become involved in the negotiation of PECs, especially when there is a long-established bargaining relationship. To do so runs the risk of losing credibility with their members as well as with management. Outright opposition to the restructuring that is typically involved is rarely feasible. To quote one of the shop stewards involved in the Blue Circle Cement agreements in the UK, when criticised about the union's involvement in the organisation's highly publicised 'partnership' arrangements, he responded (Warren, 1999):

How far would the alternative get us? I believe that a return to 'class struggle' rhetoric and workplace relations dominated by active opposition would not achieve much. Nor would it attract much support from employees, judging by the level of interest in such strategies.

The point is that, even though the reductions in employment often associated with PECs may be unpalatable, it is precisely in this kind of situation that members look to their representatives to secure the best terms possible on their behalf.

There are also two sides to the debate about the decentralisation that the negotiation of PECs is encouraging. There are understandable concerns that an increase in 'micro-corporatism' will make it more difficult for trade unions to balance the interests of their members; that, in the longer run, it may even lead to the break-up of national systems of collective bargaining, as has happened in the UK. At the same time, however, decentralisation not only makes it possible to embrace a wider range of issues in collective bargaining; it also enables the securing of a greater employee involvement in making and administering the rules that directly affect their employment relationship. Here, it will be especially interesting to see how the joint committees provided for in many PECs actually function in practice.

The second criticism — that management should be investing in new technology, products or services as the main method of adjusting to competitive pressures rather than focusing on redundancy or downsizing — similarly ignores practical realities. Very often managers are not confronted with an 'either or' situation as far as costs and innovation are concerned. Typically, such is the nature of the competition and the expectations of shareholders that managers are being expected to cut costs and promote innovation *simultaneously* (see Chapters 5 and 6). The signs are that, in promoting a single capital market, the coming of EMU will exaggerate the expectations of shareholders in this regard.

The third criticism — that the negotiators of PECs should be reducing pay rather than employment — is especially wide of the mark. The assumption lying behind it, that labour is simply a factor of production that can be bought or sold like any other, is seriously flawed (see Chapter 8). To repeat the words of Brown (1995):

The market for labour is fundamentally different from markets for non-human beings. This is because the act of hiring an employee is not sufficient to ensure that the job in question gets done in an acceptable way . . . The employee has to be motivated — by encouragement, threats, loyalty, discipline, money, competition, pride, promotion, or whatever is deemed effective to work with the required pace and care.

In the circumstances, it is not surprising that management is no more enthusiastic about reducing pay as part of PECs than are employee representatives. Management not only has to minimise costs, but also *at the same time* promote the cooperation and commitment of the remaining workforce necessary for continuous improvement.

It is also important to remember that PECs do not just seek to promote the interests of ‘insiders’. Indeed, many of the PECs studied here could be said to display considerable altruism. Negotiators have often made a particular point of seeking to improve the position of temporary employees or reserving any new employment opportunities for disadvantaged groups or making it easier for married women with children to fill vacancies (*see Chapter 4*).

Conclusion and policy implications

In the view of the authors of this report, a balanced judgement on PECs is appropriate in the light of the available evidence. PECs are not as revolutionary as some pundits proclaim. Many of the individual features of PECs are not so remarkable, although the specific provisions relating to employment may be new in their context. Collective bargaining, as commentators such as Walton and McKersie have pointed out more than 30 years ago, has always involved a mixture of distributive and integrative bargaining. Certainly PECs involve a shift in the balance from distributive to integrative bargaining which, in turn, requires a more cooperative, rather than an adversarial, relationship. But this does not necessarily mean that integrative bargaining replaces distributive bargaining once and for all. Both processes are likely to exist side by side and, depending on the issue and the context, the strategies and tactics of the one may outweigh those of the other.

It would also be unfair to dismiss PECs as little more than concession bargaining. Concessions are being demanded of employees, but the trade is rarely one way. There are no obvious signs that, in seeking to negotiate PECs, management has been trying to undermine the position of employee representatives. On the contrary, one of the more remarkable features of PECs is the extent to which management goes out of its way to ensure that it has the agreement of employee representatives in order to maximise the legitimacy of what it feels has to be done.

PECs are also contributing to the decentralisation of collective bargaining from the sector (multi-employer bargaining) to the organisation (single-employer bargaining). Although this raises difficult questions about balance, it does not mean that single-employer bargaining replaces multi-employer bargaining. Indeed, on the basis of the evidence from this investigation, there are strong grounds for suggesting that multi-employer bargaining not only has an important ongoing role in laying down minimum standards, but also in setting guidelines for single-employer bargaining covering the impact of restructuring.

A final point needs to be made, which takes us back to the conclusion of *Chapter 4*. Taken together, the package of provisions involved in many PECs is impressive on account of both the range and depth of the coverage. Anyone studying the agreements cannot fail to be impressed by



their comprehensive nature and the time and effort that must have gone into their drafting. Collective bargaining, it seems, is proving itself to be very capable of coping with the increasing complexities of managing the employment relationship, as well as continuing to provide a mechanism for dealing with issues of distribution. Indeed, given the sensitivity *and* complexities of the issues involved, it is difficult to imagine that the alternative processes (namely, legislation and management decision) could adequately deal with them. As has been emphasised throughout this report, although PECs are not sufficient to ensure the continuing viability of organisations, they would appear to make a very necessary contribution.

Arguably, there are three main views of PECs which policy-makers can take in the light of this analysis.

- *View 1:* That PECs, or some aspects of them such as the reduction in employment that many entail, are a cause for concern.
- *View 2:* That PECs are essentially an autonomous development on the part of the social partners. If PECs help to deal with the problems of restructuring, this is something to be welcomed. It is not for government to encourage or discourage their negotiation, however. Indeed, such intervention may be counter-productive.
- *View 3:* That PECs are a development that policy-makers should positively seek to support in as many practicable ways as possible.

In the case of the first view, if policy-makers are unhappy with any aspects of PECs, they have any number of ways of signalling their dissatisfaction. If they take the second view, there is little for them to do. Essentially, the approach is that of *laissez-faire*. Obviously, if the social partners ask for help in general or specific terms, this is something that can be considered on an ad hoc basis.

Our main interest is with the third view and this is where things become more complicated. Evidently, policy-makers at both EU and national levels have a fundamental role to play in maximising the stability of the macro-economic environment in which the social partners have to operate. They also have a key role in ensuring both an appropriate mix of micro-economic policies and a regulatory framework that promotes minimum standards and encourages the modernisation of employment relations.

In the latter case, the *Final Report of the High Level Group* by the European Commission (1998b), dealing with restructuring, has already produced a series of recommendations for both EU and national government policy-makers (*see Boxes 10 and 11 at the end of this chapter*). Although some of these are concerned with stimulating job creation in developing sectors, the majority of the recommendations are concerned with handling restructuring in existing operations — the main focus of this report.

There are three main comments to be made in the light of the analysis presented here, as follows:

- *The encouragement of benchmarking and the dissemination of good practice.* The sentiments prompting the launch of the present investigation are clearly at one with the recommendations of the High Level Group's report (European Commission, 1998b). The proposal for a *Managing Change* report in large companies is especially to be welcomed, since it will provide much-needed information on a wider range of organisations than it was possible to cover here. As mentioned previously, the danger in highlighting the cases that are generally known is that this can lead to a distorted view of what is happening.
- *The role of social dialogue.* Strong support for social dialogue is a prerequisite for the successful negotiation of PECs. Obviously, this is a controversial area. There are already hotly contested proposals on the table for an EU directive on information and consultation in national level undertakings and revisions to the European Works Council Directive. The merger between ABB and Alstrom's electricity supply operations in 1999, the proposed closure of Goodyear-Dunlop's Cisterna plant in Italy in January 2000 and BMW's announcement in March 2000 of its decision to sell off the bulk of its Rover UK operations, without any prior warning, let alone consultation — all of these have raised the temperature of the debate. In these circumstances, the issue of a clear and unequivocal framework of minimum rights and standards cannot be avoided.

Attention also needs to be paid to the articulation between the social dialogue at different levels. There is evidence to suggest that, other things being equal, framework agreements at sectoral level can help to ease the path of negotiators at company level. In other words, it is not a matter of sectoral agreements *or* company agreements, but of *both*.

- *Employability.* The pace of change today — in markets, technology, operating systems and elsewhere — is such that few organisations can realistically hope to keep their workforce fully equipped with the necessary skills without continued training. They may not necessarily, however, be so willing to invest in training for employability, which perhaps helps to explain why such provisions are relatively rare in the PECs studied here. This assumes that an organisation's skills base is the sum of the skills of its employees, rather than made up of a set of core organisational competencies. Arguably, organisations cannot be expected of their own accord to invest in education and training from which they are not going to reap the benefits. The implication is that, if policy-makers are serious about life-long learning and employability, they will have to do more to help bring them about.



Box 10 *High Level Group's recommendations to EU policy-makers*

- the creation and management of an Observatory of Industrial Change;
- the development of European social dialogue, on a sectoral as well as on a general level;
- a proactive role in the development of information infrastructure, by fully opening the European market in telecommunications and data services, adapting Europe's regulatory framework and taking a leading role in the creation of global standards;
- a broad European programme aimed at developing the sector of creative arts and entertainment;
- an effort to reinforce and coordinate initiatives taken at European level under the 'Entrepreneurship for Europe' programme;
- better coordination of the structural policies;
- assistance to the development of territorial pacts through dissemination of best practices.

Source: European Commission (1998b)

Box 11 *High Level Group's recommendations to Government policy-makers*

- prepare and rehearse their role in tackling business crises, while being mindful that they should not intervene in a way which could delay necessary changes;
- make every possible effort to encourage and strengthen social dialogue and cooperation between partners, at the national as well as local levels, including the provision of information to, and consultation of, employees;
- provide the Observatory of Industrial Change with relevant data and studies;
- encourage the development of the *Managing Change* report;
- eliminate all obstacles to the creation and development of information infrastructures; free access to government-held data; and develop education in the field of new information technologies;
- embark on dynamic employability-oriented policies, including joint funding of learning and training with companies and business organisations, financing and running education programmes for adults, and implementing training activities in areas affected by major industrial restructuring;
- develop learning and assessment centres;
- stimulate, *inter alia*, the creative arts and entertainment sector;
- reduce the tax burden for low-skilled employees and facilitate the development of services, including primary personal services;
- review existing legislation from a small business perspective; reduce the administrative burden for SMEs; launch campaigns to promote entrepreneurship and help organise networks of SMEs;
- participate, through local representatives and employment administrations, in regional programmes of redevelopment in order to prevent local crises.

Source: European Commission (1998b)

Appendix A

Company PECs (based on *EIRO*Online data)

Note: The EIROOnline database can be accessed at the following location: <http://www.eiro.eurofound.ie>

Country	Company	Type of business
Austria	<i>anon</i>	paper manufacturer
Belgium	Axial Belgacom Cockerill-Sambre Defever Ford-Genk Frameries Interbrew Levi-Strauss Opel-Antwerp (General Motors) Uniroyal Volkswagen-Forest	car parts distribution telephone steel laundry automotive manufacture local authority brewing clothing automotive manufacturer tyre manufacturer automotive manufacture
Denmark	Tele Danmark	telecommunications
Finland	Leonia Octava	banking printing
France	Air France Boiron EDF-GDF Malichaud-Atlantique Perrier Téléassurances Xerox	airline pharmaceuticals electricity and gas aeronautics manufacturer drinks manufacturer call centre copiers

Country	Company	Type of business
Germany	Audi (Volkswagen)	automotive manufacturer
	Bayer	chemicals
	Continental	tyre manufacturer
	Dasa Airbus	machinery manufacturer aerospace
	Deutsche Bahn	railways
	Deutz	automotive manufacturer
	Ford	automotive manufacturer
	Hoechst Marion Roussel	pharmaceuticals
	Mercedes-Benz	automotive manufacturer
	Mohn	printing
	Opel (General Motors)	automotive manufacturer
	Pirelli	tyre manufacture
	Preussen Electra	public utility
	Ravensburger	games manufacturer
	Siemens	electrical engineering
Thyssen Krupp	steel	
Viessmann	heating equipment	
Volkswagen	automotive manufacturer	
Greece	<i>None reported</i>	
Ireland	Apple	computer manufacturer
	Bórd Gas	public utility
	De Beers	diamond manufacturer
	Irish Steel	steel
	Krupps	electrical manufacturer
	Waterford Crystal	glass manufacturer
	TEAM Aer Lingus	aircraft maintenance
Italy	Ansaldo	electrical engineering
	Barilla	food
	Cirio	food
	Falck Sesto San Giovanni	steel
	Ferrero	food
	Ferrovie dello Stato	railways
	Fiat-Arese	automotive manufacturer
	Fiat-Auto	automotive manufacturer
	Fiat-Melfi	automotive manufacturer
	Fiat-Hitachi	electrical engineering
	Galbani	food
	Infostrada	telecommunications
	Marzotto	textiles
	Postalmarket	mail order
	Zanussi	electrical goods
Luxembourg	Electrolux	electrical goods
	Sommer Industrie	maintenance
	Hypobank Luxembourg	banking
	Vereinsbank International	banking
Netherlands	ABN Amro	banking
	Baan	software manufacturer
	Heineken	brewing
	KBB	retail
	Kodak	graphics manufacturer
	KPN Telecom	telecommunications
	Philips	electrical components
	VSN	bus transport



Country	Company	Type of business
Norway	Norwegian Post	public utility
	Norwegian Railways	public utility
Portugal	Grundig	electrical goods
	OEM	electrical goods
	Somincor	copper and zinc mining
Spain	Banko Exterior	banking
	BBV	banking
	Caja Madrid	banking
	Citroen Hispana	automotive manufacturer
	Ford-Almussafes	automotive manufacturer
	La Caixa	banking
	Mercedes Benz	automotive manufacturer
	Repsol	oil and gas
	SEAT (Volkswagen)	automotive manufacturer
	Stockauto	vehicle distribution
Telephonica	telecommunications	
Sweden	Vatenfall	public utility
United Kingdom	Blue Circle Cement	cement manufacturer
	British Airways	airline
	Ford-Halewood	automotive manufacturer
	Jaguar (Ford)	automotive manufacturer
	Massey-Ferguson	tractor manufacturer
	Peugeot-Ryton	automotive manufacturer
	Rover (BMW)	automotive manufacturer
	Sheffield City Council	local authority
Vauxhall (General Motors)	automotive manufacturer	

Source: Zagelmeyer (2000a)



Appendix B

Key features of PECs at company level

Cases	Context	Main issues	Parties
AUSTRIA			
Die Erste Bank (banking)	Merger of two savings banks in 1997 gave rise to pressure to reduce employment. Management concerned to reduce employee uncertainty because of possible negative effects on service. Works council aimed at involvement in the decision-making and attempted to avoid pending job losses. Collective agreement for savings banks sector provides strong protection against lay-off for workers with a length of service of 20 years or more.	The agreement provided that apart from changed seniority salary increases, the employment contracts remain unchanged. The employer renounced compulsory redundancies and the works council agreed to the promotion of mobility of workers within the group of companies. As a result, compulsory redundancies could be avoided in spite of a planned reduction of the workforce by 7% per year until the year 2000. The 'downsizing' is realised through voluntary redundancies and early retirement.	Company management and works council representatives.
Philips Lebring (television tubes)	Drop in prices of TV tubes put pressure on competitiveness and raised questions about viability of the operation.	In a first phase, in 1998, there was an agreement to introduce flexible 7-day working hours. Management secured reduction in overtime costs and balancing of hours at end of year; workforce benefited from reduction in working hours from 38 hours to 36.5 hours a week. In 1999, crisis worsens. Production of TV monitor tubes ceased in favour of computer monitor equivalent. Reduction in workforce (especially among temporary employees) and 15% reduction in pay.	Company management and works council representatives. Special authorisation of public authorities needed to extend opening hours to Saturdays and Sundays.
Post-Telecom (telecommunications)	Following deregulation of the sector and privatisation of previously publicly owned corporation, management sought reduction of staff levels in order to increase productivity and develop ability to compete. Status of majority of employees as 'civil servants' meant that employment contracts could not be terminated without agreement.	Social plan achieved reduction in employment by means of voluntary retirement and early retirement at 55 years old. Also continuing training for permanent staff.	Company management and works council representatives.
DENMARK			
Danfoss (electronics)	A global market place with fierce competition for its products (high tech mechanical and electronic components within the areas of energy saving, comfort and environmental improvements and food preservation). Competitiveness strategy based on knowledge, occupational qualification, quality of the products and technological innovation.	Four interrelated agreements — covering pay systems, flexible working time, the variable working week and staff status. No explicit guarantees about employment, but agreements are seen as bringing benefits to both management and employees in terms of 'enhanced competitiveness' and 'employment protection'.	Company management and trade union representatives. Public financing of continuing training was a significant consideration.

Cases	Context	Main issues	Parties
DENMARK (continued)			
DLG-Alborg (agricultural products)	Context set by major merger and significant changes in production methods involving computer-based systems. Standardised mass production was abandoned for a flexible system in accordance to variation in demand (Just-in-Time system/JIT).	No explicit guarantees about employment, but agreement on vocational training designed to achieve following objectives: <ul style="list-style-type: none"> • further the development and welfare of the individual employee; • secure an optimal use of the production facilities by means of broad competencies and personal responsibility; • provide solid preconditions for flexibility and adaptability; • create the basis for new methods for production and job types, founded on broad qualifications and skills. 	Company management and trade union representatives. Public financing of continuing training was a significant consideration.
FINLAND			
Essex (communications)	Strong process of changes in the sector. Fast changes owing to technological obsolescence. Commitments for product delivery at short-term: 'on time'. Target: improvement in reaction time of the company to face variations in market and innovation of products.	New forms of work organisation (elimination of supervisors and autonomous teams, which organise their own working hours). Changes in pay structure: a) group incentives; b) basic pay per hours; c) paid overtime. Employability providing new vocational training. Job security in exchange for participation and involvement to improve competitiveness. Flexibility in working hours according to variations in demand.	Company management and trade union representatives. Public financing of continuing training made a significant contribution.
Raisio Municipality (local authority)	Deep economic crisis due to restructuring. Municipalities compelled to adopt cost-saving measures to balance their finances. Bargaining rights transferred to local government level in 1993 to a larger extent than in any other branch. Local cooperation agreements encouraged as the basis for cooperative development activities aimed at promoting effectiveness in the provision of welfare services and improving the quality of working life.	The actions took different forms in different offices. Organisation, arrangement and development of jobs were deliberated in small groups, which made use of the expertise of outside psychologists. The proper dimensioning of the staff resources in various units were considered by comparing different productivity and performance indicators. In some sectors, particular emphasis was put on developing management skills, team work and creation of confidential industrial and social relations in the workplace.	Management of local authority and trade union representatives. Agreement closely modelled on national provisions.

Cases	Context	Main issues	Parties
FRANCE			
Air France (airline)	Deregulation and privatisation. Serious economic difficulties in 1990. Needed to reduce costs and change working practices, complicated by <i>modele fondateur</i> — State enterprises seen first and foremost as a public service and terms and conditions of employment governed by statute. Union fragmentation also complicating matters. Loi Aubry, seeking to introduce 35-hour working week, provided the catalyst for agreement.	Essentially a framework agreement. Key element, reflecting the loi Aubry, is the objective of trading off a reduction in working time against the creation of 4,000 new jobs. Critically, achievement depends on local agreements in the 26 establishments of Air France dealing with the flexibility of work organisation as well as working time.	Principal parties were company management and representatives of the main trade union federations. Autonomous unions representing pilots and flight attendants also involved. <i>Agence Nationale pour l'Amelioration des Conditions du Travail</i> (ANACT) helped parties to reach agreement.
EDG-GDF (electricity/gas)	Deregulation and privatisation. Needed to reduce costs and change working practices, complicated by <i>modele fondateur</i> (see Air France). Strong union power deriving from 'paritarism' (staff mixed commission) and union involvement in the company's decision bodies. Loi Aubry, seeking to introduce 35-hour working week, provided catalyst. Dispute over application of agreement.	Essentially a framework agreement. Key element, reflecting the loi Aubry, is the objective of trading off a reduction in working time against the creation of 18,000 to 20,000 jobs for young people. Depends on local agreements dealing with the flexibility of work organisation as well as working time.	Principal parties were company management and representatives of the main trade union federations, but State intimately involved, especially in financing arrangements.
Souitch (electrical appliances)	Diversification of production and diversification of working hours (2x8 and 3x8). Intensification of the pace of work. Pressure to improve efficiency and competitiveness. Loi Aubry, seeking to introduce 35-hour working week, provided catalyst for agreement.	Agreement to reduce working hours in exchange for flexibility in working hours and creation of 40 jobs. Overtime is not paid, but compensated for in free time. New ways of work organisation: introduction of Just-in-Time (JIT) system. Flexibility in working hours. Reorganisation of working hours and opening on Saturdays.	Company management and representatives of one of the main trade union federations (CFDT).
XYZ (automobile dealer)	Automobile dealer (family company) with 92 employees. Period of expansion. Loi Aubry, seeking to introduce 35-hour working week, provided catalyst for agreement.	'Agreement' provides for reduction of working hours in exchange for reordering in business hours and opening on Saturdays.	A case of <i>mandatement</i> . Proposals were discussed by company management and works council, and confirmed by representative of one of the main trade union federations (FO).

Cases	Context	Main issues	Parties
GERMANY			
Adam Opel (GM) (auto manufacturer)	Overcapacity in European car market and intense competition. High labour costs compared to other European GM plants, e.g. East Germany and Hungary. Pressures for rationalisation from General Motors' headquarters.	Two agreements, in 1993 and 1998, on 'safeguarding production sites'. Works council agrees to reduction in costs of 30% through reduction in 'wage drift' and absenteeism, changes in working time and improvements in work organisation. Management agrees to specific investment in each of Opel's German operations, together with a package of measures to avoid compulsory redundancies.	Principal parties were local management and works council representatives, but trade union advice also sought. Headquarters' management played a key role in setting context and shaping expectations.
Lufthansa (airline)	Deregulation and privatisation. Crisis in 1991 due to pressure of competition. Needed to reduce costs and develop strategy for survival in increasingly competitive global market. History of company bargaining and consensus model of industrial relations.	A series of agreements, beginning in 1990, designed to secure jobs and achieve competitiveness during the period of the company's overall business and transformation strategy. Features include changes in pay structures, working time arrangements and work organisation. Wage freeze in early years. Share-ownership in 1998.	Principal parties were company management and trade union representatives.
Ravensburger (games manufacturer)	Family company experiencing economic growth in the early 1990s. But profits decrease led management to seek to reduce labour costs. Dispute following management's attempt to impose 'agreement' unilaterally on individual employees.	'Agreement' involves exchange between 'labour concessions and job security': a) commitment to avoid dismissals due to economic reasons; b) improvement in competitiveness; c) vocational training; d) annual bonuses payment; e) unpaid extension of weekly hours by two hours, from 36 to 38 hours.	Principal parties were local management and works council representatives, but union also became involved when company left employers' organisation.
Volkswagen (auto manufacturer)	Overcapacity in European car market and intense competition. Dependence on one model and relatively low productivity, leading to low profit margins and high breakeven point compared to competitors. Drop in VW sales of 20% following post-unification recession. History of company bargaining and consensus model of industrial relations. Local authority was a significant shareholder, making major redundancies unacceptable.	Reduction of 30% of staff (30,000 jobs) saved as a result of agreement in 1995 to introduce 4-day week (4x7 = 28 working hours for 60% of staff, 4x8 = 32 working hours for 30% of staff, and remaining 10% with different working hours), with only some compensation for loss of earnings. Subsequent agreements extended arrangements and introduced further flexible working time and early retirement provisions.	Principal parties were company management and representatives of trade unions and works councils, with local authority in background.

Cases	Context	Main issues	Parties
IRELAND			
Glanbia (dairy and meat products)	Merger of two food product companies (Avonmore and Waterford) with multi-union representation. Pressure to achieve economies of scale in the light of erosion of producer subsidies under CAP, the impact of World Trade Agreement on goods and the formation of Dairygold (major domestic competitor).	A framework agreement, followed by negotiations in plants. Key features include reduction in 750 jobs through compensated voluntary redundancies and early retirements; improvements in redundancy and early retirement arrangements; annual salaries; and annualisation of working time enabling elimination of overtime.	Company management and trade union representatives.
Irish Cement (cement manufacturer)	Subsidiary of Cement-Roadstone Holdings (CRH) Plc Group. Very cyclical industry. Overcapacity and intensifying competition from cheaper foreign imports. High labour costs relative to UK operations. Pressure to boost financial performance, leading to adoption of major investment and restructuring programme.	A series of agreements, commencing in 1994, negotiated in two plants with general and two craft unions. Main provisions, which varied from group to group, include annualisation of working time and salaries (with reduction in overtime payments), elimination of so-called anomalous 'additional payments' to enable the rationalisation of payroll system, 'common sense' flexibility and use of private contractors in defined situations. Enhanced voluntary severance package also agreed to reduce staffing levels.	Company management and trade union representatives.
Howmedica (surgical equipment)	Merger with Stryker (USA) provoked uncertainty. At first, Howmedica management refused to negotiate with unions, reflecting anti-unionism policy of parent company. 18-month-long dispute because the company refused to improve compensations for dismissals. Union appealed to Labour Relations Court (LRC). Reinforcement of union strength after appeal and failure of a proposed merger.	'Continuous Improvement Programme based on a Genuine Partnership Approach'. Also basis for subsequent craft union agreement with the addition of specific job provisions. Key features include job security, manning levels, contracting out of work, a partnership forum and continuous improvement through the introduction of team-working. Also gains to employees in terms of extra payments.	Principal parties were local management and trade union representatives. Labour Relations Court played a key role in getting negotiations off the ground and the Irish Productivity Centre helped parties to come to agreement.
Electricity Supply Board (ESB) (electricity)	Public service enterprise. Strike in 1991 led to review of relationships. Monopoly position in the market threatened by proposed EU deregulation. Ministry for Transport, Energy and Communications responded to application for price increase with pressure to reduce costs and make the enterprise more competitive.	Agreement had a number of interrelated features: <ul style="list-style-type: none"> • a voluntary severance package (staff reductions of about 2,000); • gross cost reductions of IR£85 million per annum; • agreement to necessary work practices changes and flexibilities; • resolution of all outstanding category claims; • protection for beneficiaries of the ESB pension scheme in the event of the ESB being established as a limited company; • reduction in employee contributions to the ESB pension scheme. 	Principal parties were company management and trade union representatives. Involvement of Ministry for Transport, Energy and Communications (<i>see</i> Context).

Cases	Context	Main issues	Parties
ITALY			
Alitalia (airline)	Deregulation and privatisation. By the mid-1990s, Alitalia's position had become critical not only on account of its asset-debt ratio (1:10) but also with regard to the level of its costs and services as compared to its major international competitors.	The main measures of the 1996 agreement include: a) recapitalisation of the company with funds provided by IRI; b) introduction of a bargaining structure which, while maintaining arrangements for specific categories, should be capable of providing a minimum of common ground for all workers; c) a new organisational structure, based on Alitalia Team; d) changes in the work organisation of ground staff; e) introduction of bilateral participation bodies; f) employee share-holding.	Principal parties were company management, the main trade union federations and local representatives of the joint union committee (<i>Rappresentanza Sindacale Aziendale</i>). Autonomous unions representing pilots and flight attendants also involved. State's 'financier' role was critical.
Heineken (brewing)	Following the acquisition of Birra Moretti, Anti-Trust Commission obliged Heineken to sell off productive capacity not less than 500,000 hl. This led to decision to dispose of production activities at the breweries of Bargiano and Crespellano. The latter was subsequently absorbed by the lighting manufacturer Beghelli.	Agreement of October 1997 deals with problems of staff surplus, geographical mobility and absorption of employees by new owner.	Principal parties were local management, the three main trade union federations and local representatives of the joint union committee. Intervention of Ministry of Labour to authorise staffing adjustment.
Bonfiglioli (auto components)	Crisis owing to recession in the automobile industry in the 1980s and economic recovery in the mid-90s. Pressure to reorganise production process and introduce greater working time flexibility following introduction of Just-in-Time (JIT) systems in automotive manufacturing.	Agreement allows management to increase plant utilisation rate, change work organisation and improve working time flexibility. In return, the unions obtain a reduction of working hours for shift workers and an increase of employment. Provisions for further training also prominent.	Principal parties were company management, the three metalworking trade union federations and representatives of the joint union committee.
Zanussi (electrical appliances)	In 1997, Electrolux headquarters' management informed EWC of crisis situation — lack of competitiveness in a sector characterised by overcapacity, stagnation of main markets, falling prices and entry of new non-EU producers. Need for group restructuring, involving plant closures and employment cuts depending on performance.	Agreement contains a mix of measures for restoring competitiveness through reduction of labour costs, improving flexibility and thereby increasing productivity of plants. Key features include voluntary redundancies, new starter rates, and employment of sub-contractors. In return, no Italian plant would be closed and special provision was made for young and female employees. A new negotiating structure was also introduced, linking activity at company and plant level.	Principal parties were local management, the three metalworking trade union federations and representatives of the joint union committee. Headquarters' management played a key role in setting context. Ministry for Industry and Energy also involved.

Cases	Context	Main issues	Parties
NETHERLANDS			
Heineken (brewing)	Reorganisation of the multinational corporation. Decentralisation process of 110 plants in 50 countries and 33,511 employees.	'People make Heineken' Plan: change in work organisation and labour qualifications. Targets: to introduce autonomous working teams. Involvement of union in redefining work organisation. Training plan to requalify 80% of staff. Quantitative and qualitative flexibility. Union target: to save employment or at least transfers to other plants. High union membership: 80% of staff. Social plan 'Rowor 1998-2002': agreement on transferring employment from one plant to another. Replacement of staff and updating by means of training. Voluntary early retirements and compensated redundancies. Agreement on not decentralising tasks externally. Training during working hours. Agreement on new positions with difficulties in training. Consideration of family, social situations and medical case history.	Company management and representatives of trade unions and works councils.
Stork (engineering)	Multinational corporation with 20,000 employees and a decentralised structure. Reorganisation for reasons of competitiveness.	Targets: improvement in competitiveness; staffing reduction; work organisation flexibility. Internal fragmentation of employment: a) temporary employees; b) agencies; c) permanent employees. Union target: safeguarding employment. 1998 agreement for restructuring. Creation of a Tripartite Steering Committee (unions, workers' committee and management). Agreement to: a) replace excess staff in other plants of the multinational corporation or in other companies. In this case, Stork mediates to replace the surplus; b) agreement on outsourcing limitation; c) quantitative and qualitative flexibility; d) agreement on training and professional updating.	Company management and representatives of trade unions and works councils. Articulation by levels: sectoral agreement, which regulates working conditions, and company agreement, which improves working conditions.
SPAIN			
La Caixa (savings bank)	Context set by national multi-industry Agreement for Job Security (AIEE). Reference to transform temporary employment into permanent. Governmental support through legal measures. Allowances and relief in the employers' contributions to social security. Merger with other regional saving banks and expansion throughout Spain. Computerisation and automation of administrative processes, raising issues of middle management structure and training, updating and requalification of employees.	Company agreement for transforming temporary employment into permanent; limitation of temporary contracting for a 3-year period; limitation to outsource to Temporary Employment Agencies. Change in the profile of professional qualifications.	Company management and representatives of workers' committee.

Cases	Context	Main issues	Parties
SPAIN (continued)			
Ford-Almussasfes (auto manufacturer)	Context set by national multi-industry Agreement for Job Security (AIEE). Proposed increase in production of new Focus model, together with the Ford-K. Management proposed new shifts and work on Saturday. Negotiations coincided with union elections. Struggle between 6 unions and competition in the elections (CCOO, UGT, CGT, SPV, PUT and FAMIF). Inter-union competitiveness and dispersion into representativeness hindered reaching an agreement.	After lengthy negotiations and dispute, agreement in October 1998 covering: a) employment: renewal of 430 temporary jobs; b) flexibility of working days: 10 Saturdays per worker; c) voluntary pre-retirement for aged 58; d) apprentices' school to train youth, with preference for employees' children.	Principal parties were local management and workers' committee representatives. Ford headquarters' management also involved (threat of lock-out). Ministry of Industry also involved (criticised Ford-Detroit for threat of lock-out).
Damm (brewing)	Context set by national multi-industry Agreement for Job Security (AIEE). Merger and acquisition of other smaller breweries. Product of seasonal consumption, liable to variations and fluctuations, leading to employment of permanent – intermittent workers who made up 20% of total staff. Pressure to invest in technology, improve competitiveness and reduce labour costs, with possibility of plant closure.	Agreement to avoid compulsory dismissal and plant closure. Temporary contracts made into permanent. Agreement involves renewal of 107 permanent – intermittent contracts; three wage scales; every three redundancies of permanent – intermittent contracts to be swapped for one full-time open-ended; multi-plant participation committees; new occupational classification; elimination of overtime; 8-hour working day with possible adjustment.	Company management and representatives of workers' committee. Local court opposed initial version because provision for two-tier pay structure violated the law providing for equal treatment.
Sony (electrical components)	Context set by national multi-industry Agreement for Job Security (AIEE) and local Pacte del Vallès Occidental, which symbolically rewards companies for 'good practice'. Rapid process of expansion, from 350 employees in 1991 to 1,200 in 1998. Proposal to close plant in Wega (Germany) and transfer production to Barcelona (lower labour costs), which meant greater flexibility of working time and work organisation.	A series of agreements (in 1996, 1997 and 1998), providing for transformation of temporary employment into permanent, in exchange for flexibility of working time; night shift work for some sections; work on 4 Saturdays, plus 4 'floating' days which are recovered with time-off (9 days off when demand reduces); and reduction of overtime.	Company management and representatives of workers' committee.
Essa-Polinyà (auto components)	Context set by national multi-industry Agreement for Job Security (AIEE). Crisis in 1981-82, followed by expansion and profits increase in recent years. It has gone from 360 jobs in 1993 to 408 in 1999. Pressure from auto manufacturers as a result of introduction of Just-in-Time (JIT) arrangements for production. High rate of temporary employment (50%), influencing quality, safety and training.	Agreements in 1996 and 1997, dealing with job security. Transformation of 75 temporary contracts into open-ended ones. Provision for reducing staff if turnover decreases by 20% with three months' notice in advance if employment is to be affected.	Company management and representatives of workers' committee.

Cases	Context	Main issues	Parties
SWEDEN			
Telia (telecommunications)	Restructuring in the publicly owned corporation. Proposed reorganisation involved move from low to high competency jobs, with some 6,500 being seen as super-numerary. Notice of dismissal of employees in 1992 in similar situation under Security of Employment Act ('Last in First out') had given rise to widespread dissatisfaction, which management and union wished to avoid.	Agreement meant that no one on the staff would be given notice of dismissal during the three years when the reorganisation was taking place. A 'staff support' division was created where the redundant staff received further training and help to find a new job within or outside Telia. In effect, the company gave away its right to make recruitment and dismissal decisions unilaterally. The unions gave away their right to claim that the Security of Employment Act should be followed.	Agreement negotiated between company management and representatives of four trade unions with members.
Förenings-Sparbanken (banking)	Proposed merger of Föreningsbanken and Sparbanken in 1997 expected to involve loss of 2,000 jobs, as well as move from low to high competency jobs. Notice of dismissal of employees under Security of Employment Act ('Last in First out') on formation of Sparbanken in 1992 had been expensive and painful, with management having no control over the people leaving the company.	Resolution taken by Board of Directors on basis of a proposal worked out by management and the unions together. No staff to be given notice. Instead, employees given an offer of early retirement or join the 'resource bank', where they were given further training and help in other ways to find another job. In the event, around 2,800 employees accepted one or other of the offers. This made it possible for the Swedbank to hire new employees with the competencies needed.	Discussions involved company management and representatives of the two trade unions with members.
UNITED KINGDOM			
Blue Circle Cement (cement manufacturer)	Very cyclical industry. Overcapacity and intensifying competition from cheaper foreign imports. Pressure to boost financial performance, leading to adoption of major investment and restructuring programme. Reduction of employment from 1995 (1 in every 5 jobs lost).	A series of agreements, culminating in the 'Way Ahead' partnership agreement of 1997. Unions agree to a wide range of flexible working practices, including annualisation of working hours, simplification of wage structure (reduction of wage ranges), polyvalence and team work. Occupational updating of staff. Management agrees to employment security for existing employees, subject to decisions beyond their control.	Company management and trade union representatives.
Vauxhall (GM) (auto manufacturer)	Overcapacity in European car market and intense competition. High labour costs compared to other European GM plants: 30% higher than Opel in Germany. Pressures for rationalisation from General Motors' headquarters. Immediate catalyst for 1998 agreement was negotiation of flexibility agreements at Opel in Belgium and Germany, threatening further investment in UK.	Principal features of 1998 agreement include no compulsory redundancies and commitment to new models at both Luton and Ellesmere Port operations; 3-year pay agreement with reduced starter rates, reduction of productivity payments and link with Euro; changes in working time arrangements (variable hours corridors and part-time and temporary work); and commitment to world class standards of production and outsourcing.	Principal parties were local management and trade union representatives. Headquarters' management played a key role in setting context and shaping expectations.

Cases	Context	Main issues	Parties
UNITED KINGDOM (<i>continued</i>)			
Rover Group (auto manufacturer)	Long restructuring process, starting in 1975. Public ownership 1975-88; sold to British Aerospace; joint venture with Honda; purchase by BMW. Poor record of industrial relations and productivity. In 1992, 'New Deal' seen as step in reform to enable effective implementation of 'lean production' to meet ever-intensifying competition.	A series of agreements, starting in 1992 with 'New Deal' arrangements. Further agreements in 1993, 1998 and 1999. Unions agree to a wide range of flexible working practices, including lean production, team-working, total quality management and involvement in improving work organisation, together with continuing training for new tasks. Management agrees to employment security for existing employees, plus improved arrangements for voluntary redundancy and early retirement.	Principal parties were company management and trade union representatives. As part of 1998 agreement, Department of Trade and Industry agrees financial aid package to maintain Longbridge operation.
Hyder Utilities (water and electricity)	Water company. Privatisation in 1989. Move from sector to company arrangements. Pressure to improve efficiency and effectiveness of service, leading to reduction in employment, from 3,500 employees in 1989 to 2,100 in 1998. Take-over of regional electricity company in 1998.	A series of 'partnership' agreements in 1991, 1993, 1995 and 1998. Unions agree to a wide range of flexible working practices, including annualisation of working hours, autonomous working teams, use of sub-contractors, together with new arrangements for fixing pay increases. Management agrees to employment security for existing employees, subject to decisions of the water regulator affecting prices.	Company management and representatives of five trade unions with members.
Co-operative Bank (banking)	Wholly-owned subsidiary of Co-operative Wholesale Society with its roots in the co-operative tradition associated with labour movement. Intensifying competition, following deregulation of sector. Technological innovation (automation of processes, cash machines). Restructuring, involving shift of employment from branches to centralised telephone-banking centres.	Central feature of 'partnership' agreement, which runs for 3 years, is a strengthened commitment to employment security. No compulsory redundancy and emphasis on redeployment and retraining. Joint review of working practices and employee benefits involving project teams.	Company management and trade union representatives.



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This report, based on 43 case studies carried out in 11 EU Member States, explores the key features of PECs. It illustrates how they often combine traditional collective bargaining issues with broader labour market, fiscal and industrial policies. It examines how PECs are negotiated and implemented and by whom; what issues are involved; how they relate to national policies; the motives of the negotiating parties; and the overall effects on employment and competitiveness. The aim is to show how these agreements can contribute significantly to more employment, an increasingly flexible working environment and a partnership approach to industrial relations.

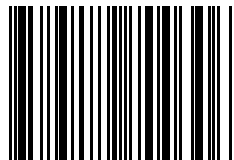
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