FOUNDATION FOCUS

July 2009

issue 7

Up against the wall – will the recession push the social partners closer together?

Volvo Cars

Concession bargaining in times of crisis

Industrial relations in the EU and other global economies

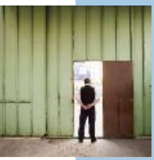
Collective bargaining in multinational companies

Dynamics of European sectoral social dialogue

Social dialogue – all in this together?

European Foundation for the Improvement of Living and Working Conditions

IN THIS ISSUE



FOCUS Issue 7 - July 2009

This issue of Foundation Focus looks at how the social partners have reacted to the economic crisis, whether or not it has led to less or more dialogue and what solutions have been developed at the workplace level, based on Eurofound research. The aim of each issue is to explore a subject of social and economic policy importance and contribute to the debate on key issues shaping the future of living and working conditions in Europe.

Subscribe online at www.eurofound.europa.eu/publications/focusform.htm

Editorial

As recession bites deeper across the European economies, Member States have battened down the hatches and continue to adapt and adjust as necessary to the new economic environment in an effort to see it out.

For some Member States, a creative, active social partnership has been at the very heart of their economic success and development. But as economic challenges continue to wreak havoc for the social partners on different fronts, there have been signs that their capacity to deliver is equally under threat. So is social partnership a tool for success only in the good times? Or can it truly deliver when it matters most?

In countries such as Ireland, social partnership appears to have served the country well with an explosion in economic growth over the last decade or so with record employment figures. As the downturn took hold, however, the economy faltered and with it, for a period at least, the partnership. What should be recalled however is that this partnership itself was born out of trying economic times as far back as 1987 and played a crucial role in driving the economy back on track.

Likewise, in today's economic climate, it would appear that the social partners are seeking to play an active role in responding positively to the crisis. While European governments move to introduce a broad range of measures to stimulate economies and to cushion the negative social effects of job loss and unemployment, Eurofound's European Industrial Relations Observatory (EIRO) has also recorded a wide range of reactions from social partner organisations over recent months. Ranging from bipartite structures which focus on dealing with the consequences of restructuring to those which try to anticipate such changes, employers have also cooperated with trade unions to introduce unpaid and paid leave initiatives, embark on repair and maintenance programmes and introduce part-time and short-time working – all with the aim of avoiding mass dismissals.

It would seem that this very pressure may, for the time being at least, be creating 'common ground' for the social partners across Europe. As Dermot McCarthy, Secretary General to the Government of Ireland and key player in Ireland's social partnership negotiations, confirms in this issue, 'there is a common sense of purpose in relation to the urgent need to restore confidence and stability….and in ensuring a swift return to the labour market by those who have lost their jobs.'

Foundation Focus is published by the European Foundation for the Improvement of Living and Working Conditions, Wyattville Road, Loughlinstown, Dublin 18, Ireland.
Eurofound is an autonomous body of the European Union, established by Regulation (EEC) 1365/75 of the EU Council of Ministers of 26 May 1975.

Editor-in-chief: **Mary McCaughey** | Director: **Jorma Karppinen** | Deputy Director: **Erika Mezger**
Original language: English

European Foundation for the Improvement of Living and Working Conditions
Wyattville Road | Loughlinstown | Dublin 18 | Ireland
Tel: (+353 1) 204 31 00 | Fax: (+353 1) 282 42 09 | 282 64 56
Email: information@eurofound.europa.eu | Web: www.eurofound.europa.eu

Up against the wall – will the recession push the social partners closer together?

Shrinking markets, company downsizing, job loss – the economic downturn has hit Europe hard.

So what is the response of the social partners across Europe? Is the concept of social partnership threatened by recent events? Or does social partnership present the solution? The picture is varied, as European countries are employing a broad range of measures to stimulate economies and to cushion the negative social effects of job loss and unemployment. Accordingly, actors within the social partner organisations are meeting these measures with complex responses. Eurofound's European Industrial Relations Observatory (EIRO) has recorded a wide range of reactions from social partner organisations over recent months.

In many Member States, there is a flurry of government activity on a range of fronts. Measures in, for example, the Netherlands and also in Norway[1], combine approaches such as job pools, greening initiatives, business credits, training and construction projects and banking interventions. This busy schedule is often mirrored by social partner action to tackle many problems in parallel. In Bulgaria, employers have cooperated with trade unions to send employees on leave, embark on repair and maintenance programmes and introduce part-time and short-time working – all with the aim of avoiding mass dismissals.

Common ground for social partners

Although the overall picture may appear diverse, there are broad similarities in the response of social partners across Europe. In many areas, agreement is solid, such as on the introduction or precipitation of large construction projects in Cyprus, Finland, Netherlands and the UK. These types of initiatives invariably draw agreement from social partners. Trade unions are interested in job creation and increased job security and employers welcome contracts and the effects of cash injections.

Agreement between employers and trade unions and strengthened social partnership can also be the result of delays or failure of governments to consult with social partners. In Bulgaria, for example, a range of budgetary anti-crisis measures was adopted by the government – but with insufficient consultation. Mutually critical of the government, the social partners drew closer with the common aim of job preservation. Similarly, the Danish government invoked criticism from the social partners by postponing recommended labour market reforms. The government's action to move all responsibility for the unemployed to its municipalities was regarded by the social partners as reprisal for their criticism. The Finnish government's decision to raise the retirement age without consulting the social partners met with hostility and a general strike was threatened. These failures can put at risk tripartite structures that have developed over many years.

In some cases, the scope of measures taken by governments is criticised. This is especially true for measures designed to safeguard and upgrade the skills base thus preparing the ground for future economic growth. Much troubled by unemployment, Sweden's suggested measures were regarded as inadequate and drew the combined criticism of the social partners. The trade unions advocate across-the-board training measures including internships. Employers are more concerned about the inherent risks of such programmes. In general, Keynesian approaches to the crisis appear more attractive to trade unions than to employers.

As regards the banking crises that preceded the economic downturn, both employers and trade unions have tended to welcome the different responses – ranging from nationalisation, part purchase of shares, cash injection, and provision of guarantees or, in the case of Ireland, the formation of a government 'recovery' agency to buy and sell bad bank debts. However, agreement is threatened if bank nationalisation is followed by job loss, as in the case of Portugal. In the case of the government-controlled Bank of Valetta in Malta, the financial crisis has been used as justification to abolish employee representation on the bank's board, which led to sharp criticism from the General Workers' Union.

Points of disagreement

Consensus between employer organisations and trade unions breaks down when it comes to public sector employment and state pensions. And even between public sector unions and those representing private sector employees, there is sometimes dissent.

[1] Norway is included in the EIRO network but is not a member of the European Union.

Though united in averting plant closures, they are divided when it comes to protecting the conditions of employees in the state sector. In Ireland, a successful long-term programme of social partnership is seriously threatened due to differences of opinion over pay freezes, civil service pension cuts, income tax hikes, and benefits reductions. Employers would prefer investment in SMEs and measures to maintain spending power whereas trade unions want the gains of the previous partnership approach protected.

Where governments have adapted various social security schemes, this has received a qualified welcome. In France and Germany, state unemployment insurance has been employed innovatively, allowing short-term work to be introduced while subsidising those affected by means of state funds. In Spain, social partners agreed that one third of lost foreign investment should be replaced through the use of the Social Security Reserve Fund. To avoid permanent layoffs, the Netherlands allows employers to 'park' employee hours within the terms of the Unemployment Insurance Act. Under this scheme, workers receive their benefits but are not made unemployed by their employers; they therefore get to keep their jobs. Despite some unease, social partners have broadly welcomed these types of measures since they prevent plant closures and mass redundancies.

United we stand?

With a few exceptions and over a relatively short period of assessment, it would appear that social partnerships have been, to date, strengthened rather than weakened by government crisis responses. In many countries, government action has been criticised by both social partners, who have in turn proposed counter-proposals that are broadly similar to each other. If anything, the policies advanced by trade unions and employers differ only in scope and degree. Traditional viewpoints remain, however. Employers feel that increased government spending on such services as health and social welfare, rather than on employment creation, represents an ongoing drain on the economy. Trade unions wish to protect terms and conditions for large memberships employed in the state sector. And trade unions take action if and when they perceive employers as taking advantage of the recession. They are also worried that they will be asked to make concessions in the area of working conditions to avoid mass redundancies. Indeed, it may not be until the dust begins to settle that a clearer overall picture of the social partnership response to the downturn begins to emerge.

Camilla Galli da Bino

Material drawn from EIRO
www.eurofound.europa.eu/eiro

In this together? Social partners and restructuring

Social partnership is a challenge – even on the sunniest of days. Under the dark clouds of company restructuring, the differences in interest between the two sides of industry can easily prevent compromise and jointly agreed solutions.

But it is precisely in a crisis situation that those affected can profit most from a joint approach.

In the case of impending collective redundancies, EU-wide legislation ensures that employees are informed and consulted on restructuring decisions. In some countries, however, the role of social dialogue does not stop once the decision to restructure has been taken and employees have been properly informed and consulted: in such cases, social partnership extends to dealing with the consequences of restructuring. Sweden and Belgium are among those Member States where bipartite bodies have been created to improve the prospects of redundant workers to move swiftly into new, high-quality jobs.

In good times and bad

The record of the Swedish Council for Redundancy Support and Advice (TRR), one of 14 'job security councils' in the country and subject of a recent EMCC case study,[2] is impressive. During the last decade, the TRR supported 158,000 white-collar employees from 20,000 affiliated companies. Eight out of 10 of those looking for a new career after losing their job because of restructuring succeeded in doing so, and more than two thirds managed to find as good a job or better than the post they had held before.

The factors behind this success are many, but the fact that the job security councils are run and overseen jointly by trade unions and employer organisations is key. This setup guarantees a high level of autonomy from government intervention while maintaining the image of a neutral, unbiased actor.

Companies which are members of the Confederation of Swedish Enterprises finance the job security councils through a levy of 0.3% on payroll expenditure. Non-members pay 0.7% if they want to be affiliated to the centre. In return, they receive advice on restructuring situations, but also assistance during times of growth when they search for new talent. Most importantly, however, their employees have somewhere to turn for help when facing job loss.

At TRR, the guidance sessions start as soon as a person knows that they are going to be made redundant. Some may only need a few meetings with an advisor, but others require more time to explore their needs and aspirations and the opportunities available to them. For some, the transition may require a complete career change including re-training or assistance in setting up their own business. The relationship with the centre can therefore last up to five years and includes financial support in the form of supplementary redundancy pay, training grants and sponsorship to try out a new job. The highly individualised approach requires the advisors employed by TRR to have a thorough knowledge of the local labour market, one often based on personal and professional networks.

Ad hoc assistance

In Belgium, so-called reconversion units share the same goal as the Swedish job security councils – to help redundant workers cope with job loss and assist them in finding new employment. However, reconversion units in Belgium are created on an *ad hoc* basis at the request of the trade union following a specific restructuring case. Money comes from public funds, usually from the regional government, sometimes propped up by a contribution from the company concerned as well as European-level funding. A tripartite association is then established to manage the budget, involving representatives of the trade unions, the employer and the public employment service (PES).

In the unit itself, trade union representatives work side by side with PES advisors who identify training needs and opportunities and share their knowledge about the regional labour market, pointing out opportunities in other sectors and arranging company visits to give a better idea of the type of work available elsewhere.

The trade union representatives provide 'social assistance'. They are the same people who represented the interests of workers before they were made redundant. They know their colleagues and can therefore relay their needs to the professional advisors. They are often in a better position to motivate those made redundant to actively look for a new job. The reconversion units are therefore much more than a resource centre to assist the job search: the close involvement of trade union representatives make them a meeting place where workers find solidarity, assistance in moving on and, not least, a measure of conviviality.

On average, 80% of redundant workers seek help from reconversion units in Belgium, at a cost of between €1,500 and €1,800 per worker per year to run the unit. Around 60% find a new job within a year, while between 70% and 75% find a job within two years.

Both the Swedish and Belgian bipartite structures focus on dealing with the consequences of restructuring; so far, neither is involved in forward-looking activities. The aforementioned EMCC case study looks at two further social partner structures in Spain and Italy, which try to anticipate change before it takes the form of company restructuring and redundancies. Social partner structures combining both approaches – anticipating change as well as managing the consequences – have yet to be developed.

Barbara Gerstenberger

[2] *Joint social partner structures and restructuring: comparing national approaches;* (EF/09/18/EN)

CASE STUDY

Volvo Cars

Relative to the size of its economy, few countries have been as hard hit by the crisis in the automotive sector as Sweden. Among Swedish companies, most collective dismissals have been at Volvo Cars, owned by American carmaker Ford.

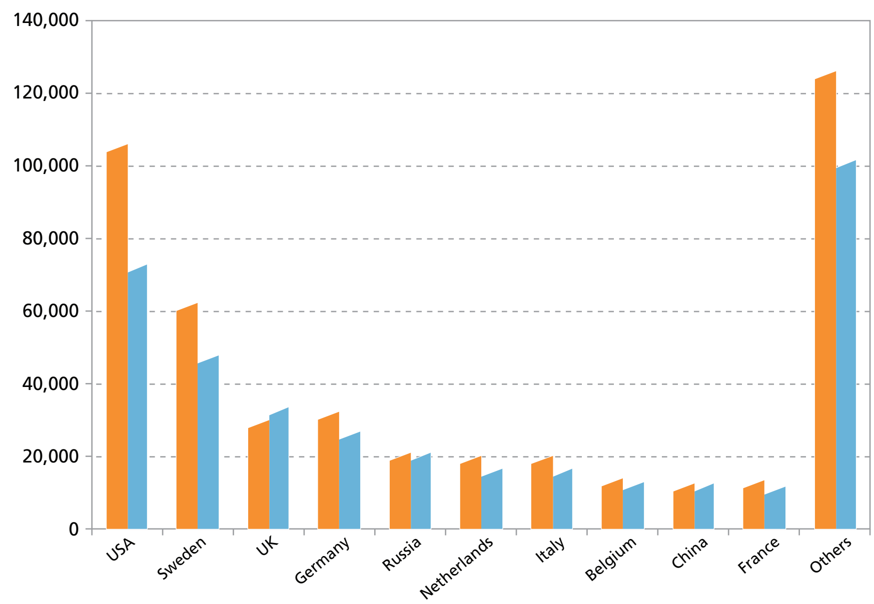
As Figure 1 shows, almost a quarter of all Volvo cars were sold in the United States in 2007. While overall sales fell by 18% between 2007 and 2008, in the large US market they fell by 31%; the drop in sales has continued in 2009. Volvo has dealt with these problems in several ways – voluntary redundancies, collective redundancies, short-time working, abolition of the third shift and wage freezes. These measures cannot be viewed as strategic or planned but rather as responses to a series of negative and unexpected events.

Even before the current crisis hit the firm, the company was experiencing difficulties – not least due to adverse developments in the dollar exchange rate – and had engaged in a cost-cutting exercise.[3] This included a voluntary redundancy scheme. While in terms of cost-cutting this was at least partially successful, the company experienced the typical problem with such schemes, namely that many of those who opted for the scheme were precisely those whom the company wanted to keep. However, by June 2008 the drastic drop in sales led to the company notifying a further 6,000 employees of the termination of their contract with the firm. These were mainly employees (and contract consultants) at the main plant in Gothenburg, Sweden and in Ghent, Belgium. Such drastic measures had never been proposed in the company's history. At the same time as the obligatory negotiations with the trade unions on the proposed dismissals were taking place, the company's personnel department began a very extensive internal matching process, which resulted in roughly 1,000 employees gaining new job descriptions. Also at this time, one of the 14 bipartite transition agencies that exist in Sweden, the Council for Redundancy Support and Advice (TRR) (see also article on pg. 5), led training sessions with 750 managers on managing change within the company to prepare them for dealing with the difficult situation of informing staff that they would no longer be required. These training or coaching sessions could range between two hours and one day in duration.

The results of the social partner negotiations were made public on 8 December 2008. In Sweden, 2,721 employees were to leave the company, 2,367 blue-collar and 354 white-collar workers. An additional 680 employees working abroad also left the company. The limited impact on white-collar workers was largely due to the above-mentioned reorganisation which led to the termination of 1,215 contracts with external consultants.

Swedish law stipulates a last-in-first-out (LIFO) principle in collective redundancies. However, exceptions can be made, subject to agreement with the trade unions. One difficult issue was that many of the senior and older blue-collar workers who were relatively well protected by the law no longer worked on the production line. Production line work is very physically demanding and many of these older workers may not have been able to perform this work any longer. The application of strict seniority rules would have meant staffing shortages on the production line. As a result, between 300 and 400 of the blue-collar workers were exempted from the LIFO principle.

Figure 1 Sales of Volvo Cars 2007 and 2008, by country of sale



Source: Volvo Cars press release, 15 January 2009

[3] Note that while there have been other problematic issues related to the company being owned by Ford in the United States, the dependency on the US market is long standing, i.e. even when it was 'Swedish' owned by AB VOLVO.

Table 1: Notified and enacted redundancies at Volvo Cars 2008

		Total notified	Actual job loss
Sweden	**Blue collar**	2,600	2,034
	White collar	1,300	297
	Pension and education programmes		390
	Subtotal: Employees in Sweden	3,900	2,721
International	**Blue collar**	300	200
	White collar	600	480
	Subtotal: Volvo employees	4,800	3,401
Consultants		1,200	1,215
	Total	6,000	4,616

Of those blue-collar workers who were over 57 years of age, 40 received an early pension guaranteeing SEK 16,000 per month (approx. €1,500). Meanwhile, 160 of the staff are enrolled in training programmes and will retain their employment contract with the company for a further year. If demand picks up they will continue their employment in Volvo.

As part of the notice process, each affected employee was given an information package including invitations to meetings with the bipartite transition agencies TRR (for white-collar employees) and *Startkraft* (for blue-collar employees) and with the Swedish Public Employment Service. The majority of the employees made redundant left the company by 31 December 2008, receiving full salary during the notice period. During the autumn of 2008, approximately 1,000 people were matched with new jobs where positions had become available in connection with the reorganisation and termination of contracts with consultants.

Despite this very extensive round of collective dismissals, this was not the end of the story. In March 2009, the company signed a collective agreement with the local unions which, in the view of the company, 'most probably means that the company can avoid further employee separations' (Volvo Cars press release, 12 March 2009). It was estimated that the savings would amount to close to 500 million SEK (approximately €50 million) in 2009. In conjunction with the savings, a further reduction of production volumes was planned in both Ghent and Gothenburg. The agreement, valid from 1 April to 31 December 2009, includes the following measures.

- The company's salary revision is postponed until January 2010 for all employees, and corresponds to approximately half of the total saving.
- The so-called 'work-time compensation' (*Arbetstidskompensation*) was reduced by approximately 1.5 hours per week for all employees between 1 April and 31 December 2009.
- The company's 40 highest-ranking managers, including the executive management team, are to reduce their salaries by 5% from 1 April to 31 December 2009.
- No bonus will be paid to employees (including managers) in 2009 and 2010.
- To handle the decline in order intake, the agreement also contains up to 45 lay-off days during 2009 for employees in production. A salary reduction will be introduced for each of the lay-off days. This means a reduction of up to 5% of the monthly salary.

Volvo Cars CEO Stephen Odell called it 'a unique agreement,' for 'a unique situation'. He underlined the 'good and open dialogue with the unions. This agreement we all believe is a good model to secure our business and avoid further employee separations at the present time'.

Donald Storrie

See the Eurofound background paper *Recent restructuring trends and policies in the automotive sector*

INTERVIEW

'There is a good deal of common ground'

Interview with Dermot McCarthy, Secretary General to the Government of Ireland and Secretary General to the Department of the Taoiseach [Prime Minister].

Social partnership is often cited as one of the key factors contributing to Ireland's economic success. 22 years after the first social pact was signed, national-level talks between the social partners and the government collapsed in February over disagreement on how to tackle the current crisis. Does social partnership only work during good times?

There is no doubt that the current discussions with the social partners are set against the background of very challenging economic conditions both domestically and globally – but it must be remembered that this was also the case in 1987 when the first social partnership agreement was negotiated. Of course, a difficult economic environment inevitably complicates the process of achieving consensus. However, what is important is that the recent engagement has helped to develop a shared understanding among the parties of the challenges facing the economy and the appropriate direction for a response. This has been elaborated in the Framework for a Pact for Stabilisation, Social Solidarity and Economic Renewal agreed by the social partners in January.

Social partnership is based on the willingness to compromise. Who in the current Irish setting has most difficulties to give and take?

Despite the obvious challenges, I think that there is a good deal of common ground between the parties – particularly in relation to the need to support employment, for example. The current discussions are seeking to build on this common ground and, through that, to forge a mutually beneficial way forward.

To some extent, we are in uncharted waters. However, while this presents challenges for the parties, there are, nevertheless, a number of important policy concerns where it is accepted that an agreed approach under a National Recovery Programme could yield significant dividends for all sides.

There is a common sense of purpose in relation to the urgent need to restore confidence and stability. There is also a shared interest in seeking to maintain employment across the economy and in ensuring a swift return to the labour market by those who have lost their jobs. Finally, the parties also recognise that a strategic consensus achieved through social partnership is a strong instrument which can deliver a significant competitive advantage to Ireland as we seek to lay the foundations for a return to economic growth.

The national-level partnership has worked well in the past and has led to a number of central agreements. But change and the adaptation to change have to be managed at the company level. Has workplace level partnership been neglected?

Promoting flexibility, modernising work practices and managing change have been extensively addressed over the course of social partnership agreements. In fact, these principles have underpinned much of the pay and workplace agendas and have been focussed on both the private and public sectors. While it has not been easy to translate the principles of the national level model of social partnership down to the local level, some solid progress has been made in promoting partnership at enterprise level. This has been achieved by adopting a National Workplace Strategy and initiatives aimed at building and supporting the case for workplace change and innovation through increased levels of employee involvement and engagement.

Industrial relations systems in the EU are very diverse and therefore difficult to compare. Does Ireland get stimulus from other countries and, if yes, where are you looking for ideas and good practice?

One of the very great many benefits of EU membership is that the various industrial relations processes and traditions adopted at national level are fully respected and there is the opportunity to share best practice and learn from the experience of other Member States – and this is where the research carried out by the European Foundation is particularly useful. The approaches taken in Nordic countries to, for example, flexicurity, have frequently been identified by some stakeholders as examples of models from which Ireland can learn. For this reason, a commitment to looking at designing a flexicurity approach appropriate to Irish conditions was contained in the Framework for a Pact for Stabilisation, Social Solidarity and Economic Renewal agreed with the social partners earlier this year.

Ireland implemented the EU Directive on information and consultation of employees in 2006. Has EU level legislation had a positive impact or is it an unwelcome interference?

The development of European policy and practice, reflected in the legislation of the European Union in the area of employment rights, has been hugely positive for Irish workers. This framework also recognises and respects the tradition of social dialogue at the Member State level. For example, the Directive in respect of temporary agency work includes a provision which allows the social partners to work together to develop a national framework within the parameters established in the Directive. The social partners in Ireland have committed to discussions aimed at agreeing national-level arrangements for Ireland, in accordance with the Directive.

As well as the clear benefits for workers, there are also benefits from a competitiveness perspective from having a legislative framework on employment rights issues in place at EU level. It allows all Member States to move forward together, avoiding a situation where one Member State is at a relative competitive disadvantage to another.

Concession bargaining in times of crisis

The global crisis is severely affecting the economies in most of the EU Member States. With many companies under pressure to reduce costs considerably, employee representatives and trade unions are faced with the uncomfortable choice of agreeing to less favourable terms of employment to assist in that cost reduction, or risking the laying off of part of the workforce, the relocation of the establishment or even business closure.

Such so-called concession bargaining often involves wage cuts or wage freezes (which frequently translate into wage cuts in real terms, if inflation is taken into account); employee representatives may also agree to other rollbacks such as longer working hours without any accompanying rise in pay. Recent data from Eurofound's European Industrial Relations Observatory (EIRO) indicate that the number of such concessions, in exchange for some form of employment guarantee by management, is rising. This could be read as evidence of trade unions' and works councils' weak bargaining position in a time of current economic hardship; however, cases of concession bargaining also highlight the role that social dialogue and partnership can play in finding flexible, if not easy, responses to seemingly intractable problems.

Cases of concession bargaining in Member States

Trade unions in the Dutch subsidiary of the global express mail delivery company TNT agreed to wage cuts of up to 15% in exchange for an employment guarantee, which excludes dismissals for the next three years. The agreement was made in the light of the threat to employment posed by increased competition following the liberalisation of the Dutch postal market. The alternative, according to the trade unions, was to put 11,000 jobs at risk in a highly competitive market.

Workers and management at Sony's Spanish plant in Barcelona signed an agreement providing for a wage freeze and an increase in annual working time of 40 hours in exchange for a commitment by management to keep the plant in operation until 2010. Sony had initially announced that it would cut 275 of the 1,300 jobs in the plant, which produces televisions. After the agreement was reached, the company instead offered a voluntary redundancy scheme for up to 100 workers. It also agreed to continue with innovation and new investment to ensure competitiveness and the future viability of the plant. Trade unions and management intend to set up a joint commission to monitor the agreement.

At German car manufacturer Daimler, a newly renegotiated company agreement between the works council and management aims to cut costs in exchange for job guarantees. The new agreement states that the payment of the performance-related bonus for employees for the year 2008 will be delayed from April 2009 to May 2010. The general pay increase for the current year, as agreed in the sectoral collective agreement, will be delayed from May 2009 to October 2009. Working time, and corresponding pay, will be cut by 8.7% for all employees not yet affected by short-time work, and the supplementary payments designed to minimise income losses for short-time workers will be reduced. In exchange, all employees who started their contract since 2004 are now covered by a limited job guarantee until June 2010. However, should the economic situation worsen, the agreement and the job guarantee can be cancelled by management by the end of 2009.

Employees at the UK sites of the construction equipment manufacturer JCB, agreed to reductions in working hours and pay while management agreed to limit its redundancy programme, saving around 350 out of the 500 threatened jobs. The agreement was reached in October 2008 in response to falling demand in the construction sector. A two-thirds majority of members of the GMB general trade union approved the agreement in a ballot. This case, of jointly negotiated short-time working agreements at JCB, stands out in the UK, such measures usually being imposed unilaterally rather than being agreed on a partnership basis.

A long-term solution?

One of the most important issues for the affected workers will be whether their concessions turn out to be rewarded by more secure employment. While the cases presented here succeeded in addressing the immediate crisis situations facing companies, it remains to be seen whether in the long term employers can in fact guarantee employment.

Past instances of concession bargaining reveal that not all concessions made by employees were successful in terms of maintaining employment in the long run. At Continental's car tyre production plant in Hannover, Germany, the works council agreed in early 2005 to an employment pact that would increase working time without corresponding pay compensation in return for a guarantee of employment and production at the site until 2009. (Longer working hours were made possible under an opening clause in the sectoral collective agreement.) While the agreement succeeded in protecting production at the site until 2009, the crisis in the car market and current negotiations on a severance package make it more than likely that production will be phased out at the plant, cutting up to 780 jobs.

Using a similar opening clause in the sectoral collective agreement for the metalworking and electrical industry, works council and management at the two Siemens mobile phone plants in North Rhine-Westphalia in Germany agreed in 2004 to lengthen the working week from 35 hours to 40 hours, without additional payment. In exchange, Siemens management guaranteed that no relocation of jobs would take place for two

years and promised to invest an additional €30 million in the plants. The agreement came after it was made public that the management intended to relocate at least 2,000 jobs to the Siemens plant in Hungary. Hopes that the concessions agreed at plant level would secure sustained production of mobile phones at the German plants were ultimately not fulfilled: Siemens' mobile phone production was sold to the Taiwanese investor BenQ in 2005 and went into insolvency a year later. Production in the German plants ceased in early 2007, resulting in 3,500 job losses.

While concession bargaining can secure employment in difficult times, from the perspective of employee representatives it only succeeds if implemented as a short-term strategy; by their very nature, concessions undermine trade unions' key objective of improving employment conditions. For concession bargaining to work to the advantage of employee interests, concessions need to be implemented on a temporary basis and related to specific preconditions. This approach has been taken in Lithuania, where the trade union at the national TV and radio broadcaster LRT agreed to temporary wage cuts of around 10% for all employees. The agreement is limited to a six-month period lasting until autumn 2009; it also includes a number of days' unpaid leave each month. In addition, both parties agreed that no new staff members would be employed at LRT within this period.

From a longer-term perspective, employment and competitiveness can only be secured by joint efforts to modernise work processes and train the workforce. Experience also indicates that the introduction of flexibility measures, such as working time accounts and schemes to 'bank' hours are a feasible way for companies to synchronise the supply of labour with market demand. In the Swedish manufacturing sector, trade unions and employer organisations reached a ground-breaking agreement on reductions in working time and pay cuts of up to 20%. The agreement, which has to be implemented through negotiations at company level, also allows for customised solutions to training measures for workers working shorter hours.

Felix Wolf

Material drawn from EIRO
www.eurofound.europa.eu/eiro

RESEARCH

Compare and compete – industrial relations in the EU and other global economies

Global competition encourages global comparisons. In a setting where Europe aspires to become the most competitive economy in the world, it is essential to define where it stands in comparison to other large economies.

Industrial relations systems and their development play an important role in determining economic and social progress. It therefore makes sense to include them in benchmarking exercises. A look beyond our own European way of doing things may also help to capture a sense of the elusive 'European social model'. International comparison can help to define what exactly this model is and how, and by how much it differs from non-European versions.

For more than 10 years, Eurofound has regularly examined and compared the industrial relations systems and outcomes achieved in Europe with those in other economies. This process initially focused on the US and Japan; later, emerging economies such as Brazil, China and India were included.

Comparing the EU with individual countries is tricky: a set of autonomous countries joined in a union under an expansive set of common rules and policies are contrasted with single economies outside that union. And, despite far-reaching integration, members of the EU remain diverse. This diversity is increasing rather than decreasing with enlargement: a 'typical' or 'average' European position does not exist. Some characteristics of the industrial relations system in the UK and some new Member States have arguably more in common with the US than they do with their EU partners.

Trade unions – many models

No European model exists with regard to trade union organisation and structure. Some Member States have a single trade union confederation comparable to the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) in the US; others uphold trade union pluralism where several organisations compete for the same potential members. Similarly on the employers' side, models vary: the Japanese model of a single intersectoral employers' body is typical for many of the EU15 countries, but rather less common in the new Member States. Sectoral employers' bodies play a key role in collective bargaining in many Member States but are again not a universal characteristic of a 'European model'. Nor is there one single approach to the level of collective bargaining. Europe is considerably more centralised than the US and Japan when it comes to negotiating pay and other key dimensions of working conditions. In the majority of Member States these issues are agreed at the level of the sector, in some cases even at intersectoral level. However, in the UK and in seven of the 10 new Member States, pay negotiations are conducted at company level, as they are in Japan and the US.

Union membership is falling

A common feature across the board, however, is that trade union membership is generally falling. The trend is one of gradual decline, except in some of the Member States in central and eastern Europe where membership figures have decreased dramatically since the move away from the socialist system. In spite of this shared trend, differences remain with regard to the end result: in 2006, trade union density in the US stood at 12%. In Japan, a little over 18% of workers were members of a trade union. The average for the European Union for 2005–2006 was 26%, but this figure conceals a wide spread, from 77% in Sweden to just 8% in Estonia.

What makes the difference?

When looking for areas that clearly distinguish the EU from its global competitors, two features of the industrial relations system stand out. In the EU, on average two thirds of workers have their pay and conditions set by collective agreements. In some countries, such as Belgium, France, Italy and Sweden, this can be as high as 90%. In Japan, where bargaining is conducted exclusively at the company level and results cannot be extended to cover workers in other companies, bargaining coverage and trade union density match and are currently below 20%. In the US, the coverage of bargaining is in principle restricted to trade union members – and only 12% of workers are affiliated.

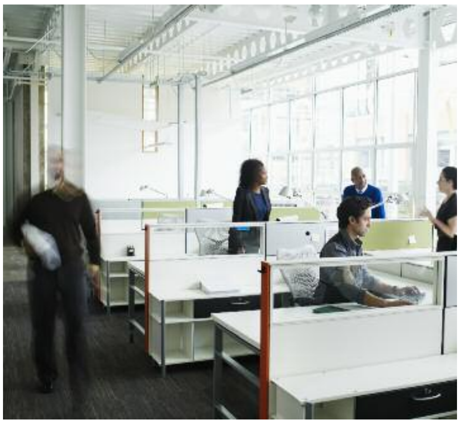
In the US as well as in Japan, it is up to companies to decide whether and how they wish to involve their employees. Compared to the EU with its detailed and growing legislation regulating many areas of industrial relations, employment conditions and workers rights, both the US and Japan limit themselves largely to fixing 'the rules of the game'. Minimum rules on employment conditions are laid down in law, the rest being left to the individual's negotiating power and skills. This – together with bargaining coverage and mandatory employee involvement – constitute the most marked difference between the EU and its two main competitors and could therefore be described as the key elements of the European social model.

Barbara Gerstenberger

For more, see the Eurofound report *Working time in the EU and other global economies*

RESEARCH

Collective bargaining in multinational companies



The changing global economic landscape as a result of the current downturn has boosted interest in the practices of multinational companies (MNCs), in terms of both research and policy.

Their significance as employers within Europe's national economies, their international organisation and management structures and their capacity to move jobs and production across borders all have huge implications for the outcomes of collective bargaining in these companies.

Collective bargaining coverage

Eurofound research shows that, as leading employers in the national context, MNCs have been prominent in pressing for changes in national collective bargaining systems, including opening up greater scope for negotiations at company level and bringing considerations of competitiveness to the fore on the bargaining agenda. However, the research also reveals that specific data on the levels of collective bargaining in MNCs is rather scarce for most Member States and only exists where specific surveys have been conducted – primarily the UK and Ireland.

Expert estimates gathered by Eurofound show a large group of countries where collective bargaining is believed to be higher in MNCs than the national sector averages (Table 1). In some countries, extensions of sector-level agreements have resulted in 100% coverage for both home-based and foreign-owned companies. In a further group of countries, collective bargaining coverage amongst MNCs is the same as that amongst locally based firms. Interestingly, there are just two Member States where coverage is judged to be lower in MNCs than in the wider economy.

Table 1: Comparison of collective bargaining coverage

Collective bargaining coverage	Countries
Higher for MNCs than for home-based companies	BG, CZ, ES, IE, HU, LT, MT, NL, SE, SK, UK
(Virtually) 100% for the whole economy	AT, BE, FR, IT, RO, SI
Same for MNCs and home-based companies	CY, DE, DK, EL, FI, LU, NO, PL, PT
Lower for MNCs than for home-based companies	EE, LV

Source: Eurofound's European Industrial Relations Observatory (EIRO) national centres.

Employment profile and trends in MNCs

EU and international statistical sources do not provide very systematic data on employment levels in MNCs, with evidence showing that there is a tendency to underestimate both the number of companies and the numbers of workers employed. Bearing in mind these limitations, the employment ratio between foreign-owned and home-based multinationals shows that, as a share of total employment, the latter appear to employ more workers than non-national MNCs in most of the western European countries.

The situation is, however, different in countries with very few home-based MNCs – often the case for the majority of new Member States. Furthermore, according to estimates gathered by Eurofound's national centres, data for 2006 (or the most recent year) showed an overall positive trend in terms of the levels of employment creation among MNCs.

Particularly interesting is the fact that some of the biggest increases in employment are in the new Member States and those countries with a more open and liberal economic model. These countries also enjoy lower tax regimes and, in the case of the central and eastern European States, tend to have cheaper labour costs; these two factors have traditionally been key in attracting foreign direct investment from MNCs. The exceptions are those countries undergoing de-industrialisation and where MNCs are concentrated in the declining manufacturing sector.

Table 2: Trends in MNC employment

Trend	Countries
Substantial increase	BG, FI, IE, IT, PL, RO, SI, SK, UK
Slight increase	AT, DE, HU, NO
Decline	ES, LU, NL, SE, DK

Source: EIRO national centres

Emerging issues on the bargaining agenda

Evidence from Eurofound research shows that MNCs use their global presence, outreach and resources to their advantage and as a means of enhancing their competitiveness. As a result of these global developments, we are beginning to witness a series of innovations in the agenda and outcomes of collective bargaining in MNCs. These include the key issues of payment systems (flexibility in wages, variable pay systems and wage constraint mechanisms) and working time arrangements (flexible schemes such as time corridors, compressed working weeks and annualised working time arrangements).

Further aspects worth highlighting are the conclusion of agreements regulating the use of temporary agency workers, negotiations on equality and diversity policies, as well as social and environmental responsibility. Equally, restructuring-related negotiations have also become increasingly prominent in recent years. This can be partly linked to the cross-border operational nature of MNCs, which can lead management to compare labour costs, flexibility and performance across sites in the search for efficiencies.

MNCs and social partners

Trade union attitudes towards MNCs and responses to their consequences for collective bargaining vary. In many countries, trade unions have a generally positive view of MNCs and welcome the inflow of foreign investment. By contrast, in some western European countries, worker representative bodies also express negative opinions about MNCs, particularly in respect of their geographic mobility and capacity for relocating production, which can lead to the loss of jobs.

Finally, Eurofound research finds that the practice of non-recognition of unions in new locations is not uncommon at newly opened MNC sites. Around two fifths of unionised MNCs that had opened new sites in the last three years had not recognised unions and a further two fifths had only recognised them in some sites only. The implications of such practices remain to be evaluated; but it may be assumed that they are a potential source of conflict.

Gregorio de Castro

For more, see the Eurofound report *Multinational companies and collective bargaining*

Dynamics of European sectoral social dialogue

European sectoral social dialogue has undergone changes to its institutional foundations, structures and scope over the last decade. These can be attributed to a number of developments, including the inclusion of social dialogue in general in the Maastricht Social Agreement and later in Articles 138 and 139 of the EC Treaty, the transformation of older joint committees into 'sectoral social dialogue committees' and the creation of new committees.

Recent institutional developments

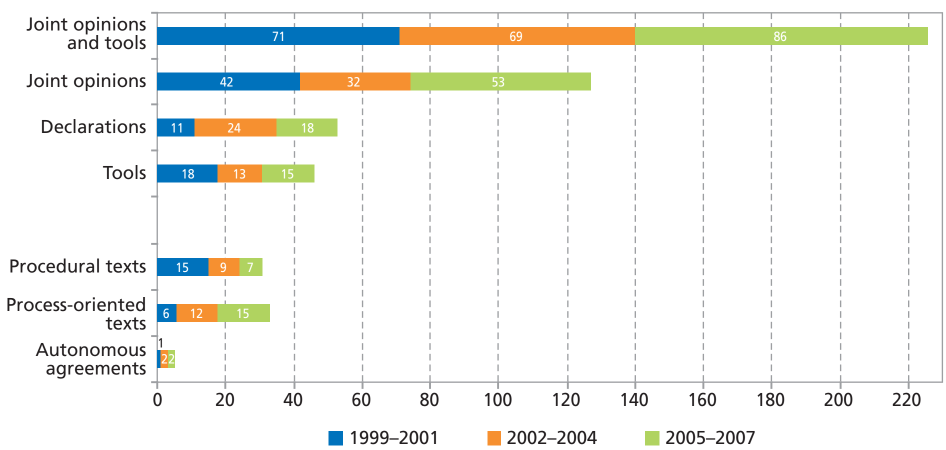
A significant outcome of the European sectoral social dialogue committees is the production and adoption of formal texts. Although different trends are apparent between the sectors, in general it appears that there are increasing synergies between cross-industry and sectoral social dialogue. While the number of texts is unevenly spread over the years, they are nevertheless increasing in number. The texts cover a diverse range of topics, many of which are 'common positions' addressed to European institutions with a view to influencing EU policymakers. From a quantitative perspective, fewer than 2% of the texts adopted at sectoral level are agreements with binding effect, while fewer than 10% are expected to have some impact at national level.

Where implementation is non-existent or inadequate, the European Commission could, at the request of the social partners, decide to extend key provisions to all parties and, indeed, some binding texts have already been translated into EU legislation.

Coordination of multi-level actors

With regard to the dynamics among the players, the findings indicate a growing interaction and stronger links between the cross-industry and the sectoral level – with telework offering an example of such a crossover. Concerning the capacity of the European sectoral social partners to represent national interests and coordinate national constituencies, each sector has its own specific dynamics in terms of potential coordination across countries. In each sector, the European sectoral social partners have to represent national member organisations, which operate in different countries, speak different languages, and are subject to different socioeconomic realities,

Figure 1: Number of documents, by type, 1999–2007



objectives, type of structures and roles in their domestic systems of industrial relations.

Some sectors have a more homogenous membership structure, with direct representatives in the sector or at company level. Other sectors comprise social partner structures, which may play a role in collective bargaining, but which have weak links with companies and their workers. Moreover, some sectors may consist of members that are not 'social partners' as such. The national constituencies' involvement in European social dialogue also varies from one country to another. The findings point to three broad categories of commitment: a proactive approach; a more reactive approach where the players follow the example of others; and a totally passive approach. These categories are not, however, necessarily static. The national players' commitment to European sectoral social dialogue may also depend on a range of factors, such as the level of interest in issues being discussed by the committees, the resources and support available for engaging in this form of dialogue, and the national context and legal framework within which these organisations are operating.

Implementation and impact of texts

The follow-up procedures used by the various actors to verify implementation differ in their nature and effectiveness. Overall, the study identifies six types of follow-up procedures: written surveys sent to members; annual or periodic reports outlining results; oral reports given at plenary meetings; the presentation of good practices; the organisation of conferences or creation of websites to improve the visibility of the texts; the creation of another text or further initiative. In terms of the actual implementation of the texts, due to their voluntary nature, this appears to depend on the goodwill and capacities of the national organisations. Such factors are, in turn, influenced by a number of contingent factors, such as the nature of the text in terms of the type of commitment involved and the issues being addressed, the national legal and institutional frameworks, and the level of experience of an organisation in a particular area.

It is difficult to determine the precise impact of the texts owing to the lack of regular monitoring and the voluntary nature of the texts themselves. Nevertheless, all of the respondents to the survey conceded that the joint texts and the presentation of good practices foster cooperation as well as informal contacts among the different actors with respect to common initiatives. Moreover, the European texts can be used as a means of adding pressure, or at least as a way of increasing the awareness of the government or other actors about a particular issue. Therefore, the implementation of these texts may not be as sporadic as it seems, since more informal or less visible processes may also be underway.

In a nutshell, the dynamics at play are complex, since they involve multiple players from different institutional 'worlds'. However, the analysis shows that a multiplicity of activities are being carried out and a high degree of vitality exists in the European sectoral social dialogue.

Christian Welz

See the Eurofound report *Dynamics of European sectoral social dialogue*

Useful sources

The need for well-researched information from international organisations seems to increase during economic downturns. Nearly all major organisations have created specific websites or topic pages on the economic crisis:

- European Commission: Driving the European recovery (http://ec.europa.eu/financial-crisis/index_en.htm)
- OECD: Tackling the financial and economic crisis (http://www.oecd.org/crisisresponse)
- ILO: ILO Global Job Crisis Observatory (http://www.ilo.org/public/english/support/lib/financialcrisis/)
- IMF: Financial Crisis (http://www.imf.org/external/np/exr/key/finstab.htm)

The European Social Partners are following the trend:

- ETUC: Economic and social crisis (http://www.etuc.org/r/1378)
- BusinessEurope: Pulling the EU out of the crisis (http://www.businesseurope.eu/Content/Default.asp?PageID=491)

A key publication of the European Commission is the monthly **EU employment situation and social outlook**, available on the Employment, Social Affairs and Equal Opportunities website (http://ec.europa.eu/social). This report uses restructuring data from Eurofound's European Restructuring Monitor (ERM), reporting on the major restructuring cases in all Member States. Eurofound's publication, the ERM *quarterly*, offers a more in-depth overview of the main findings and an interpretation of the data collected by the ERM.

Eurofound's European Industrial Relations Observatory (EIRO) follows the reactions from social partner organisations at national and European level. European Governments, parliaments and think thanks are also publishing reports on how Member States are dealing with the crisis. A recent exemple is the French report, *Les gouvernants face à la crise*, available from La Documentation française.

In recent years, the European Central Bank and the Bank for International Settlements have been very active in providing accurate analysis of the global banking and financial system. The amount of articles and papers by economists dealing with the cause of and solutions of the current economic crisis soars. A good starting point is VOX (http://www.voxeu.org) and the Financial Crisis Timeline Website of the Federal Reserve Bank of St. Louis (http://timeline.stlouisfed.org).

Recent research from the Institute for the Study of Labour (IZA) by Askitas and Zimmermann has shown up another possible avenue for a more forecasting-based approach.

Jan Vandamme

TJ-AH-09-001-EN-C

4 5

www.eurofound.europa.eu

FOUNDATION FOCUS

The European Foundation for the Improvement of Living and Working Conditions is a tripartite EU body, whose role is to provide key actors in social policymaking with findings, knowledge and advice drawn from comparative research. Eurofound was established in 1975 by Council Regulation EEC No. 1365/75 of 26 May 1975.

Publications Office
Publications.europa.eu

ISSN 1725-6763