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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:

Rainer Hampp Verlag

Empfohlene Zitierung / Suggested Citation:

Arrowsmith, J., Marginson, P., & Sisson, K. (2003). Externalisation and internalisation of collective bargaining in Europe: variation in the role of large companies. *Industrielle Beziehungen : Zeitschrift für Arbeit, Organisation und Management*, 10(3), 363-392. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-345802>

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James Arrowsmith, Paul Marginson, Keith Sisson*

Externalisation and Internalisation of Collective Bargaining in Europe: Variation in the role of large companies**

In recent years major employers have sought greater scope to negotiate working and employment practices specific to the circumstances of the company or its constituent units, reflecting the internationalisation of markets and competition. This article examines the changing balance between multi-employer and single-employer collective bargaining in this context. The analysis focuses on developments in large firms across two distinct but related dimensions: externalisation-internalisation (engagement with sectoral multi-employer bargaining) and centralisation-decentralisation (the level of internalisation within the company). The treatment is comparative, analysing developments in metalworking and banking through case studies from Belgium, Germany Italy and Britain. The results demonstrate that 'decentralisation' takes various forms, within and without the company. Furthermore, sector features are at least as significant as country factors in explaining change. This is because the re-formation of multi-employer bargaining reflects changes in power relations and transaction costs that are peculiar to the industry as well as the national context.

Die Externalisierung und Internalisierung der Tarifverhandlung in Europa: Zur Vielfalt der Strategien großer Unternehmen

In Reaktion auf die Internationalisierung der Märkte versuchen die großen Unternehmen seit einiger Zeit, ihren tarifpolitischen Handlungsspielraum auszuweiten, so dass maßgeschneiderte Lösungen für ihre Geschäftsbereiche gefunden werden können. In diesem Aufsatz werden vor diesem Hintergrund den Wandel in der Bedeutung von Verbands- und Haustarifverträgen untersucht. Dabei konzentriert sich die Analyse auf die Entwicklung in großen Unternehmen im Hinblick auf zwei Dimensionen: Externalisierung/Internalisierung (als Problem der Bedeutung von sektoralen Verbandstarifen) und Zentralisierung/Dezentralisierung (als Problem der Verhandlungsebene im Unternehmen). Methodisch beruht die Untersuchung auf einem Vergleich des Metallverarbeitungs- und Bankensektors auf der Grundlage von Fallstudien aus Belgien, Deutschland, Italien und Großbritannien. Die Ergebnisse dokumentieren die Vielfalt der „Dezentralisierungs“-Formen im Unternehmensvergleich wie auch innerhalb der Unternehmen, die sowohl auf Länder-, insbesondere aber auch auf Sektoreffekte zurückzuführen ist. Denn beide Kategorien von Effekten sind relevant für die Entwicklung der Machtverhältnisse und Transaktionskosten, die ihrerseits die Attraktivität alternativer tarifpolitischer Arrangements beeinflussen.

Key words: Collective bargaining, multi-national companies, metalworking, banking

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** The research on which this paper is based is funded by an award under ESRC's 'One Europe or Several?' programme, L213252040. The fieldwork research in Belgium, Germany and Italy was realised with the collaboration and support of, respectively, IST at the Université Catholique de Louvain, IAAEG in Trier and IRES Lombardia in Milan. We are indebted to Evelyne Léonard, Ida Regalia, Dieter Sadowski, Hanna Lehmann, Marco Trentini and Pierre Walthéry for their involvement in the project and the programme of interviews. Helpful comments came from the Journal's referee.

Artikel eingegangen: 10.9.2002

revidierte Fassung akzeptiert nach doppelt-blindem Begutachtungsverfahren: 24.2.2003.

Introduction

In recent years major employers across the European Union have sought greater scope to negotiate working and employment practices specific to the circumstances of the company or its constituent units (Ferner and Hyman, 1998). Closer economic integration, notably through economic and monetary union (EMU), has opened national product and financial markets and facilitated a breathtaking pace of domestic and cross-border mergers and acquisitions. In these circumstances, multi-employer bargaining at national sector level appears increasingly anomalous. In internationally competitive sectors such as metalworking, multi-employer bargaining can no longer realistically insure employers against the effects of increased costs due to collective bargaining. Even in sectors that remain largely domestic, such as retail banking, employers have used international competitiveness criteria to facilitate industry restructuring and greater variability at company level in the wake of national de-regulation (Regini et al, 1999). Yet, with the notable exception of the UK, where there has been a significant shift to single-employer bargaining, sector-wide multi-employer bargaining continues to be important within the confines of national boundaries, with many large companies, including multinational companies (MNCs), remaining committed players.

This article examines the changing balance between multi-employer and single-employer bargaining in large firms. The analysis focuses on developments across two distinct but related dimensions: externalisation-internalisation and centralisation-decentralisation. In the first instance, the focus is on the degree of externalisation, i.e. the nature and extent of the engagement with sectoral multi-employer bargaining (MEB). In the second it is on the level of internalisation within the company, i.e. the competing tendencies in business and collective bargaining structures between heteronomy (centralisation at group or company level) and autonomy (localisation at division or business unit level) within the organisation. The treatment is comparative, analysing developments in two important sectors, metalworking and banking, which operate in different types of markets. Six case studies from three countries (Belgium, Germany and Italy) are used to explore the changing relationship of large companies to the sector arrangements; two more cases from Britain are added to inform discussion of the re-organisation of collective bargaining within the firm.

The results demonstrate that developments that are often labelled indiscriminately as 'decentralisation' takes various forms, within and without the company, and that these are re-shaping the relationship between sector and company in different ways. Furthermore, sector features are at least as significant as country factors in explaining change. Across the different countries, internalisation tendencies appear strongest in banking and decentralisation within the firm is more a feature of metalworking. This is explained in terms of transaction costs and power relations. Transaction costs refer to the efficiency factors, usually a function of heterogeneity and

scale, which bear on the external and internal location of collective bargaining. Power relations refer to the conditions for collective bargaining, which reflect the structure of the sector, the performance of the firm, trade union organisation, and the national political and legal context. These factors are important in shaping the path dependencies that have encouraged not deregulation but 'organised' forms of decentralisation from sector to company level in different countries (Traxler 1995). However the re-formation of sectoral MEB reflects changes in power relations and transaction costs that are peculiar to the industry as well as the national context, and therefore to some degree generalisable across national borders.

The next section elaborates our theoretical and research approach, followed by a brief exposition of methods. Part II sets out the results in terms of developments in, first, externalisation and second decentralisation. Part III discusses the findings in the light of our transaction costs and power relations approach, and Part IV deals with the wider conclusions and implications.

1. Analytical Framework

Efficiency, power and politics

Commons was one of the first observers to note that MEB is not solely a defensive activity in the face of strong trade unions. Rather, the extension of markets and 'the menace of competition' was the driving force behind the transformation of merchants associations striving to hold up prices into employers' associations endeavouring to restrict both wage growth and the under-cutting of the 'marginal producer' (Commons 1909: 78). As Pierson (1961: 39) succinctly put it, 'employer solidarity in the industrial relations field long antedates labour solidarity'. Nevertheless, once trade unions entered the equation, MEB had a certain logic for both parties (Sisson 1987; Traxler et al. 2001). For employers, it pooled their strength *vis-a-vis* organised labour and limited the danger of leapfrogging should they risk to go it alone. Externalising the bargaining process brought transaction cost savings, directly in terms of management time and resources, and indirectly by shifting the focus of conflict away from the individual workplace and enterprise. Instead, some stability was ensured by the legitimacy that comes with consistency of treatment. The universalisation of standard terms and condition across the sector also appealed to trade unions, as did the opportunity to husband scarce resources by focusing on a single set of negotiations. Last but not least, MEB was also favoured by the state as a means of institutionalising and containing industrial conflict, along with delivering other key policy goals, ranging from employment regulation to price control. The state played a particularly important role in the historical emergence of MEB, including in the UK where early industrialisation predisposed employers to market-based approaches (Gospel 1992).

Nonetheless, a dominant trend in collective bargaining in western Europe over the last twenty years has been 'decentralisation' from sector to company level. This

process has been managed in most EEA countries, the UK apart, largely within the framework of continued sector agreements, often sustained in part by national concertation pressures in the context of EMU convergence (Traxler et al. 2001; Ferner/Hyman 1998). It has nonetheless taken various forms, which is all too often ignored. The main contrast is between 'authorised' and 'unauthorised' decentralisation. In the former, the relationship between sector and company is readjusted. This can be general in scope, whereby the sector takes the form of a 'softer' framework to allow more autonomy for second-tier bargaining. The Italian banking sector is one example. Or it can more particularly take the form of special exemptions or 'opening clauses' to the otherwise robust sector agreement, including for companies in hardship or restructuring, such as in German metalworking. 'Unauthorised' decentralisation occurs when company bargaining contradicts and/or extends beyond the remit laid down in the sector agreement. Especially important are new activities such as direct banking and, in metalworking, information and communication technology (ICT) operations that fall outside the traditional sector boundaries. The sector agreement might not then cover all the activities of the firm. 'Decentralisation' to company level can therefore reflect different trajectories to do with the changing 'form' of the sector agreement, its 'reach' and 'relationship' to the company, tendencies that we explore more fully in the next section.

Large multi-national companies (MNCs) have led the way in many ways (Marginson and Sisson 1996). The size of these firms lends them enormous influence in the sector, but increased internationalisation and diversification has loosened their ties to national sector arrangements. This is not just because of the opening of markets, the threat of 'regime shopping' and prospects of capital flight. Reorganisation based on pan-European product or business streams, together with the devolution of management control to divisional and business unit level, has weakened the national sector as the natural benchmark for collective bargaining. Instead, 'bottom-line' responsibility of individual business units and cross-border comparisons of 'best practice' have become increasingly important, not least because of the accelerated pace of change resulting from increased competition and market uncertainty (Sisson/Arrowsmith/Marginson 2003). National sector MEB cannot deal with the same level of detail required to bring about change, nor can it carry the same weight as the 'coercive comparisons' made internally within the firm. Internationalisation therefore increases the bargaining power of management, at a time when many unions are already suffering membership decline, further undermining one of the major rationales for MEB.

The wider impact of MNCs in undermining MEB is also significant. MNCs have very often been willing and able to trade-off improvements in substantive terms and conditions in return for concessions in employment and working practices in order to enhance productivity and adaptiveness to changing conditions. Smaller companies, on the other hand, have less incentive, and fewer resources, to engage in such *quid-pro-quo* bargaining, leading to their growing disillusionment with and, in some cases, withdrawal from membership of their employers' organizations. The actions of large companies therefore impinge on MEB in indirect as well as direct ways.

The rise and, potentially, incipient demise of sectoral MEB therefore centres in important respects on the actions of MNCs. Indeed, changing sector-firm relations can be analysed in terms of internalisation versus externalisation pressures within these large firms. Transaction costs analysis predicts that increased scale, especially in integrated and standardised ('Fordist') systems, leads to pressures for internalisation in order to control environmental uncertainty more efficiently (Coase 1937; Chandler 1977; Williamson 1975, 1985). Power considerations are also relevant in that large companies may be better placed to resist union demands because of their labour market presence, or to accommodate them because of the scope for redistributive bargaining that derives from lower unit costs (Levinson 1966; Ulman 1974). Power and transaction cost factors also explain the circumstances under which large firms willingly externalise collective bargaining, either because 'unions attain an unusual degree of power' (Pierson 1950: 358), or because it is more efficient to confront rationalisation and restructuring through co-ordinated means rather than independently (Kenis 1992). The internationalisation of markets and firms, and diversification of business activities, undermines national sector MEB on both counts.

Transaction costs and power factors also help explain the degree of centralisation or decentralisation of collective bargaining within the firm, and changes therein. For example, product homogeneity, market stability and a strong trade union might make centralised bargaining appealing for employers on grounds of minimising transaction costs and maximising bargaining power at the organisational level, particularly if the sector sets a strong prior framework. Conversely, diverse activities and a rapid pace of change makes local bargaining more attractive, especially if trade unions are weak.

In each case the approach of the state is also vital. In Sweden, for example, Thornqvist (1999: 80) sees political and ideological changes as 'without doubt of the utmost importance for understanding the decentralization process'. Here, decentralisation was less a response to wage drift or about facilitating greater flexibility in the organisation of work, than a manifestation of increased employer militancy following the extension of worker rights and industrial conflict of the 1970s. Political considerations have also been responsible for some re-centralisation in recent years as the Swedish state has sought to limit the pattern bargaining and leapfrogging associated with the shift from inter-sector bargaining as part of its anti-inflationary goals (Kjellberg 1998). The state has had an even more prominent role in supporting MEB in Belgium (Deneyer/Tollet 2002). In the UK, by way of contrast, Conservative administrations of the 1980s and 1990s encouraged employers to view multi-employer bargaining as an abdication of managerial responsibility; they also introduced a series of measures aimed at weakening further its capacity to comprehensively regulate the labour market (Clark 2000).

From this brief discussion, the relevant variables for our analysis are set out (Table 1). Transaction costs refer to the determinants of the most efficient level of bargaining whether outside the firm, at central level within the firm, or locally. These

are essentially a function of the scale, stability and integrity of market and firm boundaries. Especially important is heterogeneity of activities (Schmitt/Sadowski 2001). Across companies, greater heterogeneity of activities weakens common interests and makes even tacit collusion between employers more difficult. Within the company, heterogeneity of activities reduces the economies of scale that can be derived from a standard approach. Transaction cost factors also have a bearing on power relations. For example, intensive competition, which increases uncertainty and instability and acts as a pressure for localisation in transaction-costs terms, also strengthens management's control of the bargaining agenda. Likewise, the internationalisation of business activities reduces the relevance and therefore the transaction-cost savings that can be derived from externalising to the sector; it may also increase management's power to 'divide and rule' trade unions within an internationally competitive internal investment market. On the other hand, high capital intensity, which increases the scale of production and might therefore encourage centralised industrial relations, also increases the disruptive capacity of organised labour. These power factors are more explicitly considered in terms of firm and trade union strength variables in the second and third rows of the table. The level of concentration, competition and diversity of activities influences the interest and capacity of employers to control labour costs and enter into forms of collusion. The strength of

Table 1. Transaction costs, power and context factors in internalisation and decentralisation

Transaction cost factors	Heterogeneity of activities Internationalisation of operations Capital/ labour intensity Technological change 'Extendedisation' (outsourcing, business units)
Power factors: Firm organisation	Product homogeneity Industrial concentration Competition Internationalisation
Power factors: Trade union strength	Status factors (membership density; legal rights) Mobilisation factors (leadership; member militancy; unity and rivalry) Context factors (labour market; skills; work organisation; firm profitability)
Power factors: Political and institutional context	Historic role of employer association and unions History and ownership of the firm Government ideology and policy Employment law Economic conditions (inflation, unemployment)

trade unions at different levels makes employers more or less vulnerable to 'going it alone' and unions more or less concerned to extend protection to areas that may be less well organised. The fourth set of factors refers to the broader economic, political and historical context that helps shape, or break, path dependency.

These variables represent the broad historical and institutional contexts within which decision making and collective bargaining is 'played out' at firm level, subject to the dynamic effects of changing economic, technological and political conditions. It is not possible within the confines of the present paper to map in detail the constellation of structural and organisational factors that has reshaped the bargaining arena and agenda of the eight case study firms. Rather, our concern is to identify relevant analytical tools and themes underpinning 'decentralisation' and subject them to empirical test, if at the cost of some comprehensiveness of scope in terms of the sets of factors identified in Table 1. Of necessity, we focus on transaction costs and the micro-politics of power relations that face the firm, without operationalising the impact of the broader political context extant in each country. This analysis has been comprehensively undertaken elsewhere by Traxler and his colleagues (Traxler et al. 2001), who demonstrate in conceptual and empirical terms how power and politics universally underpins the organisation of interests and the operation of bargaining systems, and also explains sources of variation between countries¹.

In Part II we present our empirical results in order to examine the changing nature of collective bargaining firstly in terms of the firm-sector relationship, and secondly within the firm. In Part III we return to our consideration of the underlying transaction costs and power relations dynamics to analyse this state of flux. First we provide a brief exposition of methods.

Methods

The eight case study firms provide an excellent test site to examine the nature and level of externalisation-internalisation and centralisation-decentralisation in different national and sectoral contexts. Each is a large MNC with extensive international operations. Where sector-level bargaining still prevails, the case study compa-

¹ An important power dynamic is the nature of workplace representation, which differs in structural terms between countries according to formal relationship with the union (union branch or independent), mode of institutionalisation (voluntary or statutory, and dependent on union constitution, collective agreement or labour law), and relationship with management (distinct or joint committee) (Visser 1993, cited in Traxler/Blaschke/Kittel 2001: 119). Hence although a general cyclical trend may be observed across countries in the decentralisation of collective bargaining linked to changes in the labour market context which favoured workers in the 1970s (promoting local pay bargaining to protect real wages) and employers in the 1990s (promoting local bargaining linked to ability to pay and also a local flexible working time agenda), 'the mode of both waves of decentralisation, and their impact on multi-employer bargaining, was highly contingent on its legal framework and on a country's pattern of employee representatives' (Traxler/Blaschke/Kittel 2001: 132).

nies are either the leading or one of a leading group of companies within the employers' association. They are therefore influential in shaping developments in their respective sector agreements. The four countries provide very different settings. Great Britain is the least regulated country in terms of industrial relations, where the system is characterised as one of 'voluntarism'. Germany maintains an elaborate dual system based on clear legal entitlements for works councils and trade union co-determination. Belgium and Italy fall somewhere between these two models, with extensive rights for trade union participation, and also some re-nationalisation of industrial relations at inter-sectoral level in the last decade.

The two sectors also provide a useful context for examining the different pressures faced by manufacturing and service firms. The extent of internalisation differs between and within the sectors. In metalworking, and in the automotive part of the sector from which three out of our four cases are drawn, markets and competition are already highly internationalised and companies are increasingly integrating their production operations across borders, both within but also beyond the EEA. In banking, there are significant differences in the degree of internationalisation across market segments. Investment banking is already global in the scope of competition; commercial banking is becoming increasingly internationalised as the large banks look to service multinational customers across the world. Yet retail banking remains largely a domestic affair. There are similarities as well as differences, however, in that both sectors face increasing competition and re-composition due to technological change and diversification. The rise of direct banking and call centre operations is one example in the finance sector, and information and communication technology (ICT) operations in metalworking, where new areas of activity are serving to blur the traditional boundaries of the sector. Large MNCs, with their access to huge start-up capital, are at the forefront of these challenges to the sector.

The nature of the case study companies as large and dominant players within their field allows us to analyse the differential impact of country and sector factors on organisational change and to draw some wider conclusions relevant to other firms. As with any case study research, however, we remain cautious in generalising the results. As acknowledged in the discussion, company-specific features like patterns of ownership and particular branches of activity are important in shaping the structures and agenda of collective bargaining. Yet there are power and transaction-cost factors common to other large firms that shape a shared context for decisions about the relation of company to sector arrangements and the nature of decentralisation within the firm - one example is the strength of IG-Metall in German metalworking. It is the analytical framework that we seek to develop and generalise, without making a case for statistical representativeness on the part of the case study firms (Edwards 1992). The selection of firms was informed by a 'multiple case logic' which seeks not to generalise to a population but rather to examine the 'soft' processes and dynamics within each case through a comparative national and sectoral analysis that can generate additional insights (Eisenhardt 2001; Eisenhardt/Bourgeois 1988)

Six case studies are used to explore the changing relationship of the firm to sectoral collective bargaining arrangements, one from each sector in the three countries where sector MEB is maintained. Two further firms from Britain are added to inform the analysis of internalisation tendencies in terms of the centralisation or decentralisation of collective bargaining within the organisation. In each of the cases, a series of interviews (around five in each case) was conducted with management and trade union representatives, at group, and where appropriate, business division levels in the organisation, building on an earlier extensive programme of interviews at sector level (see Marginson/Sisson/Arrowsmith 2003). The topics covered included the business context, industrial relations structures, the relationship between the sector and company levels, and the company-level bargaining agenda (e.g. pay, working time, employment, training) and outcomes. The research was conducted from August 2001 until June 2002, organised and conducted with partner institutes in each of the three continental countries. The cases are summarised in Table 2.

Table 2. The case study firms

Metal	Description
Bel-metal	US-owned producer of mobile machinery and engines. In Belgium, the company is based mainly at one site, the largest outside the US, but is under pressure as a relatively high-cost location within the parent company's European operations
Ital-metal	Large and diverse Italian-based group with interests in auto, mobile machinery, commercial vehicles, and aviation as well as significant service sector activities more recently. One major business sustaining heavy losses, but other activities profitable. Still largely family-owned.
Ger-metal	German-owned group. Leading international automotive components manufacturer, but seeking to reduce this dependence by diversification.
Brit-metal	UK-based company with large market presence in aerospace and interests in marine and energy sectors. More intense competition in repair and overhaul market than that for original equipment. Operations in Germany and North America as well as Britain.
Banking	Description
Belbank	A leading bank in Benelux, and a leader in some insurance segments. The product of an early cross-border merger in financial services. Extensive internal change following acquisition of a major Belgian bank in 1998.
Italbank	A leading, and most profitable bank, in Italy. Product of a series of mergers and acquisitions.
Ger-bank	One of the four large German private banks, with an expanding international presence in investment banking.
Brit-bank	Large UK-based financial services company with a major international presence, including beyond Europe

2. Sector and firm collective bargaining in flux

2.1 *Externalisation and internalisation: From sector to firm?*

Our analysis of the (changing) relationship between the leading firms that constitute our case studies and their respective sector agreements in Belgium, Germany and Italy is structured around four considerations. These are, in turn, the ‘*form*’ of the sector agreement itself; the ‘*reach*’ of the sector agreement across each company; the ‘*relationship*’ of the company to the sector agreement; and the ‘*trajectory*’ of that relationship, in terms of the changes, if any, that the companies are pressing for.

The first category, ‘*form*’, refers to the scope for second level bargaining provided for by the sector agreement, that is, whether it is comprehensive in terms of content; comprehensive but with exemptions provided by special clauses; or largely sets a framework or minimum floor. We have discussed the changing form of the relevant sector agreements elsewhere, based on our earlier research at sector level in metalworking and banking in the four countries (Marginson/Sisson/Arrowsmith 2003). In general, the German sectors remain the most comprehensive in form, though with increasing availability and use of ‘opening clauses’, especially in metalworking. In Italian and Belgian metalworking, decentralisation has been ‘authorised’ through a greater role for supplementary pay bargaining at company level, as well as extending negotiations over working-time flexibility within the sector framework. Company bargaining also deals with matters on which the sector agreement is ‘silent’, such as pay structures or training. In Italian and Belgian banking, the sector agreements have become increasingly framework in form - in the first case to provide a sectoral benchmark for handling company restructuring; in the second to recognise the diversity that developed in company pay and working time practices when the relevant sector agreements fell into abeyance for fifteen years to 1997. In the UK, both sectors shifted to single-employer bargaining in the late 1980s, though the sector remains an important point of reference and information exchange, with companies being likened to ships moving in a convoy (Arrowsmith/Sisson 1999).

Here we focus more directly on the companies themselves, in terms of the ‘*reach*’ of the sector agreement upon their activities; their ‘*relationship*’ concerning the implementation of the sector agreement; and the main patterns of change. ‘*Reach*’ calibrates the extent to which the companies’ range of business activities comes under the coverage of the sector agreement. For example, the reach of the sector might be compromised by the development at firm level of new high-technology based activities, such as direct banking or ICT in metalworking, which do not easily fit the conventional confines of the sector. Or it might reflect a firm’s strategic shift of focus such as from retail banking to investment banking or *bancassurance*, or from manufacturing to systems (research and design) or after-sales service. ‘*Relationship*’ draws on Sisson’ (1987) classification of the nature of company-level bargaining under sector agreements, distinguishing between ‘administrative’, ‘supplementary’ and ‘semi-autonomous’ types. In the first case, company bargaining is es-

entially concerned with the application of the terms and conditions of the multi-employer agreement. In fact, none of our cases corresponded to the 'administrative' type. The second type involves the negotiation of add-ons or extensions to the sector terms and conditions within its framework. The third type involves a significant scope for company bargaining conducted with limited reference to the multi-employer agreement. In practice, our companies tended either to have a 'supplementary' or 'semi-autonomous' relationship to the sector agreement, though the distinction is not always clear cut.

Our final device, 'trajectory', refers to the companies' approach or policy towards the future evolution of the sector agreement. Here, three broadly distinctive paths were evident amongst our cases. 'Limited reform' describes those companies keen to see the introduction of further opening or opt-out clauses, but not pressing for radical change in the sector agreement. 'Extensive reform' refers to companies looking to effect a qualitative change in the role of the sector agreement, for example from specifying detailed arrangements to frameworks. 'Loosening ties' concerns a situation whereby the future commitment of the company to the sector agreement appears open and attempts have been made to move some activities out from the coverage of the sector agreement. These were not necessarily mutually exclusive strategies. Different parts of the business could be subject to different pressures for reform, raising the prospect, for example, of new activities serving as a 'lever for change' in the relationship of the core parts of the business to the sector arrangements.

Metalworking

In *Germetal*, the reach of the sector agreement extends to virtually all the workforce, only two per cent of the workforce falling outside the sectoral umbrella, mainly in small start-up companies. There is also a special company agreement to facilitate longer working hours for engineers at the research and development centre, reached in close co-operation with IG-Metall. Management stressed that this reflected particular circumstances and did not amount to 'Tarifflicht', or flight from the sector agreement.² The relationship to the sector agreement in *Germetal* is 'supplementary', in that, with the exception of the company agreement reached for the research engineers, company-level bargaining focuses on the negotiation of benefits additional to the sector agreement, and on working-time arrangements within its scope. The works councils have a considerable role in interpreting the sector agree-

² In fact, the strength of the industry union *IG-Metall* has ensured that there has been hardly any flight by large firms from the sector agreement, though some smaller companies have begun to opt out by joining 'ohne tarif' associations (for further details see Marginson/Sisson/Arrow-smith 2003). The content of the agreement remains comprehensive rather than minimal, except over certain issues such as partial retirement, and the fact that *IG-Metall* must agree to the exercise of 'hardship' clauses has tended to limit their scope in practice.

ment, but these remain strongly linked to the union, helping to maintain consistency to the sector arrangements. Management would like this relationship to be looser, for example to be able to conclude an agreement over reduced working time and employment security without the need for *IG-Metall* to sign it off. There are also some concerns about the limited scope for differentiation in the sector agreement, but the company remains committed to it because it feels *IG-Metall* would achieve more through company bargaining. This is because the union is strong in terms of prospective strike mobilisation, and the company is also exposed to customer pressure, as a somewhat dependent supplier to the large auto companies, to avoid any stoppages. Thus, even given the large size of the company (over 200,000 employees worldwide), as one senior manager put it, ‘(*Germetall*) would be lost alone, we need the protection of the sector agreement’. Further company bargaining is not seen to be in the company’s interests, and senior management therefore advocate only limited reform.

The reach of the sector is also comprehensive in *Italmetal*.³ The sector agreement extends to outsourced non-core activities such as logistics and distribution, partly under union pressure, but also because the company did not want a fragmented bargaining situation within the plants. Especially significant too was the context of the 1999 metal sector agreement, which extended the reach of the sector to outsourced and related activities, in return for greater flexibility over working hours such as annual hours and overtime. This agreement was made in the wake of the transfer of telecoms activities outside the metalworking sector. In terms of relationship to the sector agreement, *Italmetal* is semi-autonomous, since a large part of pay is negotiated at group level, including the criteria to be used. Also many important working time issues are addressed in-house, in order, it was said, to avoid paying twice for changes. This distancing has if anything increased as disputes over pay mean that both sector and company collective bargaining are currently in ‘a kind of paralysis’ (senior manager).⁴ The 2001 sector agreement was not signed by the largest trade union, *Fiom-Cgil*, though it remains legally valid. At company level, the unions jointly terminated the 1996 *Italmetal* group agreement in 2000 but failed to reach a new agreement with the company because it wanted to link payment of the performance bonus more closely to ability to pay. In the absence of a new collective agreement over pay, all but *Fiom-Cgil* agreed that the annual bonus should be paid

³ NB: For *Italmetal* we refer only to the metalworking parts of the group.

⁴ The crisis of the Italian system reflects the changing economic context from when the present two-tier system was instituted in 1993. In order to combat inflation, the 1993 inter-sector agreement provided for cost of living pay increases to be negotiated at sector level, with company level bargaining over additional increases to reflect productivity or performance. Low inflation in recent years has shifted the attention of the unions to the company level, with many large employers resisting further increases on cost grounds, or seeking to link it to further change.

according to the 1996 criteria. The situation is therefore very uncertain at present, especially because one of the most important divisions of the group is in a state of severe financial crisis. In terms of trajectory, *Italmetal* favours extensive reform. It dislikes having two rounds of pay negotiations, at sector and company level, which it feels adds to costs. It also wants the pay component negotiated at company level to more accurately reflect performance. Senior managers at division level, especially in the subsidiaries manufacturing highly customised products and / or face highly unpredictable demand, also want more scope to negotiate their own arrangements, particularly around working-time.

The situation of *Belmetal* is somewhat different, in that since a major dispute in 1996, it has made two three-year company agreements under the sector's exceptional provision for restructuring. The reach of the sector is high in formal terms, with no activities placed outside. Moreover, the company and its trade unions remain important players in the sector bargaining process. The company's head of HR is a member of the Board of the employers' association *Agoria* and the industrial relations manager has a seat on its social (i.e. industrial relations) committee. The company's views carry influence within the employers' association, and provisions in both the inter-sector and sector agreements continue to trigger company-level negotiations. The company-level bargaining agenda is shaped by, and there is close choreography with, developments in the sector agreements, for example concerning pre-pension arrangements and the company-level 1% 'pay envelope' contained in the recent sector agreement. Nonetheless the agenda for company bargaining is wide-ranging. The second three-year company agreement, concluded in 2000, concerned the end of wage austerity, the payments system, benefits provision, promotion principles, planning days off, and important working-time matters such as weekend working. The negotiations underway at the time of the research encompassed quality of employment issues (temporary contracts, pre-pension arrangements and managing the 'fin de carrier'), as well as pay. Essentially, therefore, the company's relationship to the sector agreement is more semi-autonomous than supplementary. The trade unions in *Belmetal* view the sector agreement as a benchmark, with the main focus of collective bargaining in the company, conducted either defensively or assertively around this benchmark according to economic circumstances. In terms of trajectory, *Belmetal* welcomes the 'opening' of the sector agreement, such as the scope for one per cent of the pay award to be negotiated at company level, but is not likely to revoke its exemption status without further 'envelopes' and extensive reform in the future. Working time is one area where the sector agreement is seen as restrictive, for example there are strict limits on overtime and compensation can only be in the form of time off rather than pay.

Banking

In banking, in contrast to metalworking, it is in Germany where the company is most keen to loosen ties to the sector. The private banking sector agreement has con-

cluded opening clauses in recent years on working time reduction to provide for employment security in the context of restructuring, and on long-term working time accounts. However, *Gerbank* is looking for further flexibility, particularly over working time, which was a source of dispute (over Saturday working) during the 1999 sector agreement. This is despite the fact that the reach of the sector agreement is far from complete. Approaching a third of staff already fall outside the coverage of the sector. The company's services division uses the sector as a reference, but a part of its IT operations has its own company agreement, which departs substantially from the sector agreement (for example in having salary bands not points). *Gerbank's* direct banking operation was established as a new subsidiary outside the reach of the sector agreement. Indeed, the company proposed to place the whole of its retail and direct banking division, and its new outsourced processing subsidiary, outside the sector agreement when it restructured in 1999. This was successfully resisted by the trade unions and the works councils, but only with them making concessions over Saturday opening and variable pay. For the trade union, a key dilemma is whether to attempt to conclude (further) company agreements for those parts of *Gerbank* which are outside of the sector agreement. These would provide joint regulation of terms and conditions of staff, but at the cost of giving recognition to the undermining of the sector agreement. According to a Ver.di official responsible for the bank, "a company agreement is not normal, it is a challenge for the trade unions ... the banking sector is seeing erosion [of the system of sector bargaining] at its borders".

Pressure to move from the sector framework continues in *Gerbank*. A recent example was the proposal to lay off 1200 customer service staff and re-engage 900 of them as 'self-employed' workers with performance-based pay. The general works councils, of which there are four since the re-organisation of the company, also have an increasing role in collective bargaining, both where the sector agreement is 'silent' (e.g. appraisal), where it establishes only a framework (e.g. working time distribution), and where there is an opening clause (e.g. long term working time accounts). Some 25 company agreements have been concluded within the past two years covering issues such as outsourcing, layoffs, employment security, working hours in the transition to the Euro, appraisal-set pay, and temporary agency employment. Nevertheless, even with this flexibility, the company commented that it cannot be certain that it will remain under the coverage of the sector in the future ('we need more and more opening clauses, more windows, more flexibility so as to achieve differentiation', senior manager). Essentially, therefore, to the extent that *Gerbank* remains within the system for its mainstream banking activities, its relationship to the sector agreement remains more supplementary than 'semi-autonomous'. The trajectory is one of continuing 'loosening ties'.

The reach of the banking sector agreement in *Belbank* is in contrast virtually comprehensive for the group's banking operations. Prior to the 1998 acquisition of the a large private sector bank, the group's banking operation in Belgium was a former public-sector bank which followed the sector agreement for public credit institutions. These were transferred to the private banks' sector agreement following the

merger of the two banking operations. The call centres of the acquired bank had been registered under the auxiliary agreement for white-collar workers, which specifies inferior terms and conditions to either of the two banking agreements and provides for greater flexibility of working. However, under a recent company agreement these staff will be moved back into the private banks agreement as from January 2003. Neither is *Belbank* pursuing the franchised branch model that some of its competitors have used to place large part of their operations outside the sector agreement.

In terms of form, the Belgian private sector banking agreement of 1997 was the first for 15 years, partly the outcome of government pressure, and partly because of a weakening of the unions' position reflecting increased competition, mergers and restructuring, and membership decline. The agreement provides sufficient scope for bargaining at company level that *Belbank's* relationship to it is effectively semi-autonomous. For example, a recent agreement at sector level to reduce working hours from 1780 to 1620 per year leaves it to the company to decide how this should be managed, whether through reduced basic hours or increased leave. Likewise the sector agreement arrives at the annual pay award, but implementation is a matter for the company in discussion with the *délégation syndicale* (national union committee). Current negotiations over a unified payments structure for the merged banking operation further illustrate the discretion available. The private banks sector has a rather traditional agreement, dating back to the 1950s, based on allocating jobs to points on the scale and progression according to seniority. Amongst the public sector banks, there is no sector-level system but a series of company-based 'house' schemes. Negotiations at *Belbank* on a new, unified scheme are moving in the direction of the competency-based system that operates in ex-public-sector part of the bank. So long as such a scheme could be shown to improve on the current private banks sector system, agreement would be seen to represent a major innovation within the sector. Indeed both sides anticipated that it might result in a re-working of the sector agreement along similar lines at a future date.

Belbank is committed to the sector agreement, with one important proviso, in that it wants the private banks agreement to more closely resemble the *accord cadre* or 'framework agreement' of the public sector banks to allow for greater differentiation at company level. As the product of a merger of a large private and an ex-public bank, management and trade unions at *Belbank* have experience of both agreements. The conduct and outcomes of collective bargaining was said by management, and also by some trade union representatives, to have been much more 'constructive' in the latter. The future role of the sector agreement is currently close to deadlock, but a second development might provide the key to a breakthrough. It is possible that the sector agreements for private, public and small banks will be consolidated into one, which would provide impetus to the shift to a framework approach rather than the existing detailed model of the private banks. The trajectory is therefore one of favouring extensive reform.

In *Italbank*, the reach of the sector agreement is high, with no parts of the company falling outside. Negotiations at sector level have been used to provide a framework for managing the restructuring process resulting from increased competition, the application of new technology and rapid industry concentration. Recent sector agreements have dealt with pay restraint, job reclassification, outsourcing and redundancy, with the establishment of a redundancy fund (or ‘social shock absorber’) in 1999. That agreement also allowed greater scope for bargaining at company level, for example over working time. However company bargaining within *Italbank* remains focused on the traditional issues of productivity payments and job classifications as laid down by the 1993 inter-sector agreement, so in practice, in the words of a senior union representative from *Fisac-Cgil*, ‘little has changed’. The relationship of the company to the sector remains supplementary. In some respects this is because the sector has been the focus for managing change; in others because of the continued importance of the law in regulating issues like atypical work. *Italbank* is in the process of moving from a federal organisation structure that recognised the integrity of its seven founding banks to one based on three business divisions. This might lead to greater flexibility at company level in the future to reflect the distinctiveness of the retail, corporate and private banking operations. However the company stated that for the present it did not advocate significant reform.

The overall pattern suggests both sector- and country-based differences. In their ‘form’ agreements in metalworking tend to be relatively more comprehensive in the range of issues addressed than in banking, and to provide for universal rather than minimum standards (Marginson/Arrowsmith/Sisson 2003). Probably reflecting this, agreements in metalworking contain relatively more formal openings for negotiations at company level than do those in banking. For instance, there is no parallel to the hardship clauses found in metalworking agreements – taken up by *Belmetal* – in the banking sector. From this perspective, the importance of the external framework provided by the sector agreement for the large companies surveyed tends to be greater in metalworking than in banking. Put another way, a company-specific, internal framework looms larger amongst the banks – with the important exception, for the present, of *Italbank*. The form of the sector agreement also shows a country dimension, with greater elasticity in the Italian and Belgian sector agreements than in Germany (Marginson/Arrowsmith/Sisson 2003). This, together with a growing differentiation of activities, helps explain why *Gerbank* has sought a greater scope for organisation-based arrangements to the extent of removing emerging parts of the group’s activities from the scope of the sector agreement. *Gerbank* apart, however, the ‘reach’ of the sector agreement is high in all of the other cases.

Turning to the ‘relationship’ between the sector and company levels, neither sector nor country patterns are easy to discern. Striking, however, is the difference evident in ‘trajectory’ between the two sectors. The banks are more strongly in favour of reform, with the exception of the Italian bank where the special consideration is the use of MEB as an instrument to manage rapid restructuring. This was itself a product of the high costs and rigidities of the Italian banking sector (Regini et al.

1999), tacitly acknowledged by the trade unions, who secured an extension of the reach of the sector in return.

A final comment on changing sector-firm relationships is based on the evidence of the British case studies. That is, the pursuit of organisation-based collective bargaining does not mean that the sector is wholly redundant as a reference point (see also Arrowsmith/Sisson 1999). The sector remains important both directly, in terms of the horizontal relationships actively maintained through management and trade union networks, and indirectly in the emergence of common understandings of basic industry terms and conditions such as a standard or 'going rate' for pay. *Britmetal*, for example, remains a member of the Engineering Employers' Federation (EEF), and its representatives sit on the EEF's Employment Policy Committee. Senior union negotiators in the company referred to the importance of external benchmarks in pay bargaining in particular. A similar situation was also found in banking. Though *Britbank* was instrumental in the break up of the London Clearing Banks' Agreement, it too maintains strong informal links with the handful of other major national banks, all of which negotiate with the same trade union. The relevance of this was perhaps made most forcefully by the representative of the Belgian metalworking employers' association *Agoria*; 'the liberty of the real company agreement does not exist, because all companies would be negotiating around similar issues with the same unions'.

2.2 Collective bargaining within the firm: From heteronomy to autonomy?

Collective bargaining within the firm can be described in terms of level, recognising any differences between formality and practice, and changes in level. Our cases indicate that there appears to be no necessary relationship between changes in bargaining arrangements *outside* the firm and changes *within* the firm: a range of contingent factors intervene. There are important differences between the sectors. Decentralisation pressures are more a feature of metalworking than banking. As discussed more fully below, this reflects different market contexts of product differentiation, intensity of competition and variability of demand, all of which figure more in metalworking than banking. It also reflects the transaction costs features of mergers and acquisitions. Mergers have different implications because of the order of scale and because the companies are often involved in similar activities, so the process is usually one of integration and rationalisation. This is more efficient to manage in a top-down way, so mergers have a strong centralisation tendency, in the transition stages at least. In metalworking, the established pattern for our case study firms is one of acquisitions and divestments more than mergers. This often involves moving in and out of different areas of activity, including as part of a diversification strategy, so acquisitions can introduce a decentralisation dynamic into the firm. The relatively recent deregulation of banking in most European member states has promoted rapid industry concentration through mergers as well as by acquisition. The process of growth and consolidation has been managed at peak level within the firms concerned.

Metalworking

The level of collective bargaining in *Italmetal* is focused at group level for pay, though this is under some pressure. The company's desire to introduce greater variability in its existing highly centralised pay structure led to the current deadlock in collective bargaining. Presently it is group-wide performance that determines the level of the bonus, but the very different achievements of the divisions has brought this increasingly into question. It is possible that the firm might dispose of its loss-making division, though it is difficult to say whether this would trigger a greater role for collective bargaining at the level of the subsidiary companies or consolidate the status of group-level bargaining. The former is a distinct possibility given the strategic shift of the company into service-sector activities such as finance and energy distribution. Furthermore, each of the major metalworking divisions has recently introduced devolved management structures with reorganisation on business unit lines. The auto division has restructured into four autonomous business units, and a close alliance has been formed with an external company. The trucks division, which has grown by international acquisition, has also divided into four business units based on market segment. Further diversification is also likely as the company looks for manufacturing partnerships and expands its non-manufacturing servicing activities. The heavy equipment division is also implementing a rationalisation plan in the wake of its 1999 merger.

Certainly, senior managers in the different companies, and some of the union representatives, felt that differentiation was already taking place, especially over working time, because of the very different market contexts that the constituent firms operated in. Collective bargaining over working time occurs at plant level, within the framework of the sector and company agreements, through the *Rappresentanze Sindacali Unitarie*, which are largely elected from trade union lists. They also have bargaining responsibilities for any layoffs. Management argued that the Italian operations lacked the flexibility achieved in other countries, because of the highly politicised context for collective bargaining, though cross-border benchmarks were widely used within the divisions to influence the local bargaining agenda, especially over working time at plant level. The situation is therefore one of formal continuity, though under pressure, and with local bargaining becoming increasingly important over issues like working time. So far, however, the level of collective bargaining has not followed the changes in business organisation in terms of devolution.

In *Germetal*, the level of collective bargaining is also fairly centralised, though becoming more dispersed in the wake of a recent major acquisition. The works councils have an important collective bargaining role in the company, though conducted firmly within the context of the sector agreement. The acquisition of an automation technology business in 2000 means that there are now two large general works councils that bargain over matters common to all plants in the relevant parts of the business (e.g. bonus and additional shift payments, partial retirement and pensions, and the framework conditions for working time). Local plant-level works councils have

formal responsibility for the negotiation of a wide range of implementation matters, though in reality all important issues are choreographed by the central works council. A recent example was a local agreement to reduce working time rather than layoff staff, in which the higher works council was closely involved. The group-level works council, which covers the two major divisions and a number of smaller subsidiaries, has traditionally had more an information-sharing than a bargaining role, though its co-ordinating role has expanded with the creation of two general works councils reflecting growing diversification of the group's activities.

Collective bargaining is therefore firmly established at local and, especially, central levels through the works councils, rather than through the various business streams and profit-centre business units of the company. The union serves as an integrating force, as there are close links between *IG-Metall* and the works councils at each level, including in the plants (where union membership remains high), and both the union and works councils are represented on the supervisory board. In this sense, *Germetal* remains a very German company, embedded in the institutional structures in a way that, say, GM Opel, one of its biggest customers, is not. Though the company conducts international benchmarking between plants, and does 'play this card' in negotiations, senior management said that the union and the works council would not countenance some of the changes introduced in the US-owned firm.

The company level is the focus of collective bargaining in *Belmetal*, though in effect this translates as plant-level bargaining since the company mainly operates out of one (large) manufacturing site (separate arrangements cover a separate and much smaller site). The works council (*conseil d'entreprise*), which meets monthly, has a mainly consultative role but has some decision-making authority over working time and redundancy issues. In practice, the works council ratifies some of the agreements reached between the company and the union. As well as the standing negotiating committee, management meets with the regional full-time union officers three or four times per year and the national officers once or twice. There is no collective bargaining by business stream, but there is increasing differentiation in working practices. Restructuring in 1996 introduced profit centres and these have some autonomy over work organisation, so different patterns of working time have emerged within the site. This is because workers are essentially organised within teams in the different profit centres, so patterns of overwork and underwork can occur alongside. Further restructuring will introduce international service lines for some products, which is likely to lead to further differentiation. Intense international benchmarking exercises on costs are already underway, especially comparing Belgian operations to the plants in France, where activities are similar, and the UK, where labour costs are lower. Senior union representatives said that they feared that the introduction of international product lines will undermine the status of the site as an integrated entity.

Decentralisation has gone furthest in *Britmetal*, which has become an increasingly diverse group through expansion beyond its core activities of aerospace. After-sales service as well as manufacture has also become increasingly important. Re-

structuring in 1998 introduced a complex matrix structure for the organisation, designed to devolve operational responsibility to business units within the four main business streams. Reinforcing this was the introduction of a 'make or buy' policy, basically an outsourcing test, which has put pressure on the component manufacture operations in particular. The level of collective bargaining is a mix of site and business-level, with certain issues like pensions dealt with at group level. The company is trying to shift from site to business-based bargaining so that the industrial relations structure mirrors the organisational structure, but this has had patchy results as many of the sites are single-business operations. The central industrial relations departments at the two principal multi-business sites were abolished in 2000. Though pay continues to be addressed at site level, except for particular business units in highly competitive sectors such as repair and overhaul which have autonomy over pay-setting, other matters are increasingly devolved. This had led to differences emerging within sites in work organisation, shift systems, discipline and grievance procedures, job classification structures and progression criteria.

The further devolution of pay bargaining has not been an urgent concern so far for several reasons. First, in a context of low inflation and high competition for orders, pay settlements are relatively low. Even with relatively low unemployment, the unions are generally concerned less with pay than job security, placing a high priority on being involved in discussions over alternatives to redundancy such as workflow organisation, shift patterns, training and redeployment, and voluntary severance. Significantly, many of these issues are dealt with at local level. Second, pay continues to be governed by informal co-ordination and informed by perceptions of a 'going rate'. The unions believe that in reality the company as a whole has a common pay policy and, though there is some internal competition between plants ('it's site survival in a competitive world', union negotiator), there is also some internal liaison and pattern bargaining ('the negotiations start in Bristol and ricochet around'). The manual unions have a national combine committee covering all sites, which meets twice a year, and one of the staff unions also maintains a national advisory committee. Third, the devolution achieved so far has not been unproblematic. The unions reacted strongly when seemingly piecemeal redundancies in one of the businesses were found to be part of a wider scheme. There are also management problems of duplication and co-ordination in order to avoid precedent-setting and other adverse effects on different parts of the business.

The unions, which have over 90 per cent density for manual workers and over 60 per cent for staff, are also keen to retain a role for the site. Redundancy agreements are now supposed to be business and not site-based, but in reality these are negotiated and signed off at site level. Works committees have also been concerned to ensure that developments like seven-day working are contained to specific/ small areas where necessary, and they maintain a 'licensing' role to avoid management precedent-setting. Thus, management want further devolution of bargaining to the business units within the sites in order to promote tailored solutions that do not proceed at the pace of the slowest part of the business. However this has encountered

some of the problems of leapfrogging that first led to the centralisation of bargaining some thirty years ago.

Banking

The company level is the most important for collective bargaining in *Belbank*. The industrial relations structure recognises the company as a 'social entity' and so transcends the business line structures, which differentiates between retail and commercial banking, asset management and the call centre operations. The most important body is the national union committee (*délégation syndicale nationale*) at company level, which meets bi-monthly and implements its agreements through 16 territorially-based local committees. Union density is around 75, and 55, per cent in the former public-, and private-, sector banks, respectively. The conseil d'entreprise retains a right to be consulted and must give its agreement on certain matters. Also important are the seven geographically-based health and safety committees, which have become increasingly prominent by addressing quality of working life issues such as stress and employee well-being. Because of this, the work of these committees is now co-ordinated by a national (joint) 'platform' that meets twice a month.

Though some of the employee representatives said that the HR managers within the businesses are expanding their role, particularly over working time, collective bargaining remains highly centralised. This reflects the fact that the company was only formed in 1998 out of a merger between a private and ex-public sector bank with distinctively different trade unions and collective bargaining traditions. Transitional arrangements in the integration of the two companies, including the harmonisation of the different job classification and pay systems, had to be formulated and negotiated centrally. So did the strategy for eliminating duplication and cutting costs, focusing on branch closures (with the loss of 4,000 jobs) and early retirement, which involved a large transfer between the two pension funds. The effect of large-scale merger and subsequent rationalisation has therefore been to reinforce centralisation in collective bargaining.

Mergers are also crucial to understanding developments in *Italbank*, which traces its origins to a privatisation in 1993. That bank merged with another in 1994, four more in 1998 (to form *Italbank*) and two others a year later. Until recently, the seven constituent banks maintained a high degree of autonomy in industrial relations. 'Company level' bargaining, which is responsible primarily for setting performance pay under Italy's two-tier system, took place at the level of the individual bank. The process of integration was complex because of significant differences between the banks – the savings banks, for example, traditionally have had stronger regional ties, higher pay, and less systematic criteria for bargaining over job classifications and the performance bonus. Co-ordination between the banks was also made difficult by multiple union representation. Each of the seven banks had three confederal unions, two management unions and two autonomous unions. The negotiations between the unions that led to an agreement on industrial relations in 1998, forming a delegation

to negotiate with the company, involved 150 trade union representatives from all the banks in the group. However, a Group Protocol was signed in 1999 that introduced a new form of representation at group level for the first time, to facilitate greater standardisation of terms and conditions, including pay. In 2002 the organisational structure was transformed as the individual banks were formally absorbed and a divisional structure introduced based on separation of retail, corporate and private banking. At the same time (December 2001) a major rationalisation programme was announced to yield planned savings of 720 million Euros a year by 2004. It is possible that the divisions might eventually take on greater responsibility for collective bargaining, but for the meantime *Italbank* remains highly centralised.

Rationalisation pressures are also strong in *Gerbank*, where 9,000 job cuts were announced in 2001, followed a year later by a further 3,800 in the investment banking operations. The expansion of its international investment banking presence has been an important company strategy, realised by the acquisition of a leading UK firm in 1989 and a major US firm in 1999. Retail banking is seen as less important because of lower operating margins and growth potential. This segment is dominated by state and co-operative banks, and the 'big four' private banks have only a 12 per cent market share between them. Within the company, the main focus for collective bargaining is the works councils. A major reorganisation in 1999 replaced eight divisions with two main business streams, and set up four general works councils instead of one. The works councils have been active in collective bargaining, with increasing differentiation in employment practices and conditions as a result. Most issues are decided by the two large general works councils representing the retail and non-retail banking operations, which also co-ordinate activities over major issues, for example through a joint negotiating committee on restructuring. Collective bargaining also occurs at the group-level works council as appropriate, most recently concerning working-time arrangements under the transition to the Euro.

Trade union density, at 10 per cent, is slightly lower than the other private banks, and the 'free list' representatives play an important part in the works councils. Trade unionists tend to hold the key positions but the closeness of the works councils to the unions vary; a trend in recent years for example has been the appointment of lawyers rather than union officials as the nominated expert. Management is certainly keen to differentiate between the trade unions and the works councils. In any case the traditional universal structure of *Gerbank* was terminated with the transfer of retail operations into the subsidiary set up for direct banking. Support services and back-office work were also transferred to two newly established companies. The IT company has its own collective agreement, and the call centres none at all. The threat to take retail as well as the new companies outside the sector agreement secured major concessions from the works councils and trade unions, including individual performance pay. The increased differentiation of the business has therefore resulted in differentiated bargaining within the company.

In contrast, *Britbank* has highly centralised industrial relations, especially in terms of the annual bargaining round (there is no standing negotiating committee and management-union contact at company level is ad hoc between the annual set-piece negotiations over pay). This partly reflects its branding and corporate culture strategies of establishing 'One Bank'. Both senior management, and the union, also stressed that it helped to make life easier. Several of the bank's major competitors, of which a number of senior managers as well as the union's chief negotiator had direct experience, had shifted to highly fragmented structures but this was seen as inefficient and unstable. *Britbank* maintained the same salary scale for its processing and call centre staff as for those employed in the retail branches. However there has been some differentiation in recent years, notably a regional dimension to pay introduced in 2001, in return for some lifting of the ceilings on pay progression. Pay has also become more individualised by linking it to individual performance appraisal. Furthermore, human resource and line managers within the regions are free to develop their own initiatives around working time. Another significant change was the de-recognition of the unions for management staff in 1996, though a national consultation forum was introduced in 2001.

Thus, though a centralised level of collective bargaining remains in most of the case study companies, there is presently greater differentiation and localisation in metalworking than in banking. The high degree of centralisation of collective bargaining in banking reflects a greater standardisation of product, greater market stability and higher profitability, and a legacy of domestic sector concentration through mergers that presents an efficiency case for higher-level bargaining. The exceptional case is *Gerbank*, which is seeking to escape the rigid confines of the traditional German sector and company-based arrangements, with some measure of success. The key difference between *Gerbank* and *Germetal* in this regard is the bargaining agent. Trade union density is much higher in the metalworking company, and the works councils much more union-dominated than in banking. We now turn to discuss these power and transaction cost factors more explicitly in the next section.

3. Discussion

Our focus on the changing balance between the levels of collective bargaining within and without the firm suggests a number of country and sector differences in banking and metalworking in the four countries. First, there is some tendency for the banks to be more internalised than the metalworking companies, for whom the external framework of the sector agreement remains a relatively more salient reference point. A key consideration is the relative weakness of trade unions, as compared to their metalworking counterparts which exercise tighter control over company-level developments. The banks are also generally more in favour of reform, to the extent that *Gerbank* is seeking to loosen its ties to the sector agreement by exercising opening clauses and placing operations beyond its reach. Country factors are relevant in explaining the relative inelasticity of the sector arrangements in German banking,

which management said was encouraging them to loosen the company's ties. In Italy, by contrast, multi-employer bargaining has evolved to become a more flexible instrument in order to promote the restructuring of the sector. An important feature of this has been the recent establishment of the 'social shock absorbers', i.e. collective employer funds for redundancy and early retirement found in other sectors in Italy.

Second, collective bargaining within the firm tends to be more centralised in banking than in metalworking, reflecting the greater differentiation of activities and business structures in the metalworking firms, and exposure to more intense and international competition. Centralisation tendencies within banking have been reinforced by recent mergers and acquisitions, but they are founded on the historic organisation of the sector, characterised by a large number of small workplaces (branches), with little or no tradition of workplace bargaining. Trade union organisation and militancy was contained by the provision of the benefits associated with sophisticated internal labour markets – security of employment, promotion ladders and superior employee benefits and welfare. In contrast, metalworking firms were characterised by relatively larger workplaces with strong trade union organisation and collective bargaining, whether formal or informal, at workplace level. Hence, in Great Britain, where single-employer bargaining now prevails in both sectors, this has been associated with the decentralisation of collective bargaining within the firm in metalworking, but much less so in banking. Country factors do also intervene. Different institutional frameworks reflect historical and political differences in legal systems, business structures and collective bargaining traditions in the different countries. Crudely put, these national contexts mean that there is a continuum of company autonomy, with Germany and Britain providing the polar extremes, and Italy and Belgium in between.

The issue is therefore not so much country versus sector factors but how these relate and how they unfold over time. The underlying dynamics are power and transaction cost factors. Transaction cost factors refer to management considerations of the most efficient level to conduct collective bargaining. In part they are a function of scale and homogeneity. Large companies with standardised products or services might be able to minimise the 'transactions' involved in collective bargaining by centralising the process, even delegating it outside the firm. Multi-employer bargaining means, in principle, that a large part of labour costs are standardised across the sector, ensuring an important degree of stability in business planning, and ensuring that competitor firms face similar constraints. Conversely, greater differentiation of activities introduces a decentralisation dynamic both within and without the firm, especially in a business context of intense competition and rapid technological change. Of course, appreciation of transaction costs is also informed by considerations of power. A strong trade union can provide a further centralisation and externalisation imperative for management in order to maximise the collective strength of the employer(s), as well as to minimise the time and resources consumed by – potentially conflictual - local collective bargaining. Trade union strength reflects national fac-

tors to do with legal support for its role as a bargaining agent, as well as sector characteristics to do with labour scarcity, skill and disruptive capacity.

An indicative summary of the main transaction cost and power factors facing our case study firms, in terms of both prevailing state and change trajectory, is provided by Table 3. The table focuses on the externalisation-internalisation dimension, but a similar mapping can be used to analyse the key variables involved in shaping the level of collective bargaining within the firm. 'Pluses', (+) [+] respectively for 'state' and 'change', indicate tendencies favouring externalisation, whereas 'minuses', (-) [-] respectively for 'state' and 'change', indicated those pointing towards internalisation. The main pattern is pluses and minuses in the columns for both sectors on 'state', reflecting a degree of ambivalence towards MEB by major employers in both sectors. There are more minuses for change than state, indicating the pressures for reform of the relationship between the firms and MEB. This does not mean the end of MEB, however, because of the weight of some of the remaining 'plus factors'.

A significant factor, especially in metalworking where trade union organisation is at its strongest, is the institutional arrangements for employee representation. The unions are legitimate bargaining agents at company level in the Italian and Belgian systems, and the reality for the larger companies is that they must be faced whether the firm remains in or out of the sector agreement. In Germany the works councils are accorded significant bargaining responsibility (Bispinck/Schulten 2002), but again the reality is that these have close links to the trade unions, especially in larger metalworking companies (Klikauer 2002), to the extent that *Germetal* is wedded to the sector arrangements because of the strength of *IG-Metall*. In Italy, in the face of strongly organised metalworking unions our case study company has found it more convenient to stay within the sector framework, though this has been in the balance in the past and is presently on hold. Even at *Belmetal*, which currently has a company agreement under the sector's exemption clause, the details negotiated at company level have to be 'signed off' with the union at sector level.

In terms of centralisation and decentralisation tendencies within the firm, the primary driver of local collective bargaining is the diversification of business activities. Virtually all the case study companies have experienced major re-organisation in recent years, reflecting changes in their business portfolios and new business models such as the separation of customer-facing and back-end activities to cut costs. In banking as well as metalworking, management responsibility is increasingly being specified at divisional or business-stream level, with further devolution to business units evident in metalworking in particular. Collective bargaining structures are understandably under pressure to follow suit on the grounds of efficiency, though with the consequence also of fragmenting trade union representation. Arguably, however, trade union strength is a major constraint on decentralisation within the firm, though as the case of UK banking also shows, transaction cost considerations also apply.

Table 3: Power and transaction costs factors shaping the state and change of sector multi-employer bargaining (MEB)

Sector/ product market:	Metal	Externalisation implication:		Finance	Externalisation implication:	
		(state)	[change]		(state)	[change]
Concentration	Still lots of players across sector even if high within market segments	(+)	[+]	High except for Germany. Increasing concentration	(-)	[-]
Internationalisation	Growing international competition and ownership	(-)	[-]	Retail banking largely domestic in competition and ownership. Some internationalisation of back office	(+)	[+/-]
Heterogeneity	High. Increasing due to new technology: new activities eg ICT, and work organisation (Cad/cam; jit). Shift to after-sales with manufacturing margins squeezed	(-)	[- -]	Low, but increasing due to new technology: facilitating separation of back office work, call centres, internet and direct banking. 'Bancassurance'	(+)	[- -]
Trade union strength	High, but generally lower than in past	(+)	[-]	Lower than metal	(-)	[-]
Company						
Merger/ acquisition	Acquisitions and divestments: tend to reinforce diversification	(-)	[-]	Mergers: internalisation and centralisation to manage integration and rationalisation	(-)	[-]

Table 3 continued

Company	Metal	Externalisation implication:		Finance	Externalisation implication:	
		(state) [change]			(state) [change]	
Diversification	Wide and growing range of interests and activities	(-)	[- -]	Focus on core activities, though may be redefined as in Gerbank, and extend to wider financial services	(+)	[+/-]
Internationalisation	Increasing cross-border business streams and internal investment markets. Bigger Anglo-American presence in UK and Belgium; national/private ownership in Germany and Italy	(-)	[-] [-] [-/+]	Separate national structures for subsidiaries. National ownership with private and institutional shareholdings important in Italy	(+)	[+]
Performance	Cost-cutting pressures	(-)	[-]	High profits. Can 'buy' restructuring at company level	(+/-)	[-]
Trade union strength	High, but generally lower than in past. Unions remain principal bargaining agents in large firms.	(+)	[-/+]	Lower than metal. Works councils may not be closely union controlled.	(-)	[-]

Clear too is the role of external restructuring, in the shape of mergers, acquisitions and divestments, in prompting large companies to attempt to re-shape not only the internal bargaining arena, but also the relationship between the internal and external arenas. As described earlier, the emphasis in banking on merger has resulted in centralisation of domestic collective bargaining arrangements in order to handle the consequences within a common framework. In contrast, the more pronounced ten-

dustry amongst the metal companies – also evident amongst the banks - has been towards acquisitions and divestments, the combination of which has led to shifts in focus and diversification of companies' business portfolios. Internally, this has resulted in pressure for collective bargaining arrangements differentiated by business activity. Externally, it has reinforced pressures for greater flexibility in sector arrangements to reflect diverse business situations, and in the absence of reform in this direction, moves and threats to place new business activities outside of sector arrangements.

4. Implications

Our analysis of the changing balance of collective bargaining within and without the firms develops a point made by Roche (2000) that, in terms of broad changes within industrial relations systems, contingency is the trend. The issue is not so much the passage from one 'regime' of collective bargaining to another but the continually evolving nature of relationships at company and sector level, albeit within established national frameworks. In analytical terms this points to the value of combining a 'bottom-up' approach with a 'top-down' one. Understandably, the national framework is a key focus of analysis with differences in state traditions and national business systems being especially important. Likewise, the existing structures of multi-employer bargaining are very relevant, such as the degree of comprehensiveness and nature of the employees' bargaining agent. It is a moot point, however, whether country should be accorded such analytically prior status over sector and company as has tended to be the case (Hollingsworth/Streeck 1994). Crucially, factors such as industrial structure, product market integration, sectoral and company industrial relations traditions and union organisation underpin variation from a 'bottom-up' perspective. Hence, for example, the major differences observed in collective bargaining between *Germetal* and *Gerbank*, both within the firm and in relation to the multi-employer arrangements, notwithstanding (or in a sense because of) the shared national framework.

From the point of view of policy and practice, it is fair to say that the balance of advantage in terms of transaction costs and power factors is moving in favour of single employer bargaining. The growing differentiation of activities between and within firms is a key element driving both sets of change. This does not necessarily herald the demise of multi-employer bargaining, however. The extent to which MEB arrangements remain entrenched is likely to be shaped by two considerations. One is the legal framework. Thus the incentive to remain involved in multi-employer bargaining is particularly strong in Germany, where agreements impose a 'peace obligation' on trade unions; where there is an explicit division of responsibilities between trade unions and works councils; and where there is statutory provision for extension. In other countries, where the legal framework is not so supportive, the incentive is not as strong. Much therefore depends on management and trade union preferences, which is the second consideration. Here, if lessons drawn from UK experience are correct, the critical factor will be the extent to which trade unions continue to

seek to transfer the benefits won in the larger companies into the sector agreement. Equally important is that, if in the process they allow sector agreements to develop into wholly 'soft' frameworks, they risk them becoming little more than empty shell. It will require a balancing act of some skill.

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