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Nikolaj Lubanski*

The Impact of Europeanisation on the Construction Industry – a comparative analysis of developments in Germany, Sweden and Denmark**

This article, based on a study of the impact of Europeanisation on the construction industry in Germany, Sweden and Denmark, argues that an analysis of the data indicates the need for a reappraisal of some of the theoretical assumptions held with regard to the effect of European integration on national labour markets.

Although it has sometimes been assumed that the process would lead to disorganisation of the national labour markets, the pattern of development in the three selected countries does not directly support this assumption. There is some evidence of disorganisation in Germany, a little in Sweden, and none in Denmark. It is, thereby, evident that the national responses to Europeanisation vary significantly. The article focuses on the reasons for these differences and on the need to develop the concepts in order to explain the national processes of development in the light of European integration.

Die Wirkung der europäischen Integration auf nationalen Arbeitsmärkte – ein Vergleich zwischen die Bauindustrie in Deutschland, Schweden und Dänemark

In diesem Artikel, der auf einer Studie über den Einfluß der Europäisierung auf die Bauindustrie in Deutschland, Schweden und Dänemark basiert, wird geltend gemacht, daß eine Analyse der Daten die Notwendigkeit aufzeigt, einige theoretische Annahmen bezüglich der Wirkung der europäischen Integration auf die nationalen Arbeitsmärkte neu zu beurteilen.

Obwohl zuweilen angenommen wurde, daß der Prozeß zu einer Auflösung der nationalen Arbeitsmärkte führen würde, unterstützt das Entwicklungsmuster in den drei ausgewählten Ländern nicht direkt diese Annahme. Es gibt einige Anzeichen für eine Auflösung in Deutschland und in geringem Maß in Schweden, jedoch keine Anzeichen in Dänemark. Somit ist offensichtlich, daß die nationalen Reaktionen auf die Europäisierung sich deutlich unterscheiden. Der Artikel fokussiert auf die Ursachen dieser Unterschiede und auf die Notwendigkeit, Begriffe zu entwickeln, mit denen die nationalen Entwicklungsprozesse im Licht der europäischen Integration erklärt werden können.

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1. Introduction

Will European integration lead to – or is it already leading to – a disorganisation of labour-market relations in the construction industry? Can it be that – after nearly fifteen years of working towards integration in Europe, with the EU and its institutions as the driving force – we are now witnessing a disintegration of the familiar, national methods of regulating and organising the labour markets? Can it be that there is a trend towards fewer regulations, towards a decline in the influence of the labour-market organisations and an increase in the number of individual (workplace) agreements?

These questions are central in the debate about the consequences of European integration. Today it is difficult to predict the level of influence this process will exert or to assess its significance in a broader context. Some researchers have investigated this issue at the global or European level (Traxler, 1995;1996a;1996b; Golden et al., 1998; Streeck, 1997), but fewer have focused on the processes at the national and sectorial level (Düll, 1996). In fact, one of our reasons for conducting a study on the relationship between the national labour markets and the European integration process is the lack of research covering this important area.

The process of Europeanisation has generated widespread interest, with a focus on the consequences of EU initiatives, frequent references to the impact of open tendering and the free movement of capital, services, goods and labour in the Single Market. It has been argued that the opening of markets will lead to a deterioration of conditions in countries with high standards in terms of pay and working conditions. The probable consequences – it is often held – constitute a threat to stability and solidarity. There is the danger that the core values of the welfare state societies will lose ground when the market forces are let loose throughout Europe (Schöer, 1994).

The emergence of these features may be a consequence of the freedom of international capital interests to channel investments to the countries that offer the most favourable production conditions, the greatest level of labour market flexibility and the lowest level of regulation, thereby imposing pressure on European countries and their labour markets (Hyman, 1996).

Countries interested in becoming targets for the flow of foreign investment are prompted to adapt their labour markets to the new reality (Düll, 1996). This may sound like a death sentence imposed on the Industrial Relations (IR) systems developed in Denmark and its two neighbouring countries Germany and Sweden.

The question, however, is whether a *total change* has occurred in the wake of the more open labour markets, or whether it is a case of *minor adjustments* to existing relations? We address these questions via a study of the building and construction industry¹ in Germany, Denmark and Sweden.

¹. For the sake of brevity, the building and construction industry will usually be referred to as „the construction industry“, although not in cases where a distinction must be drawn between the two activities.

This article aims at presenting the results of this study². During the last three years we have conducted a comparative analysis of the developments in the construction industry in Germany, Denmark and Sweden. We have focused on the process of Europeanisation and the consequences for the IR-system at the national, sectorial level (Lubanski, 1999; Lubanski et al., 1997). The IR-system in the construction industry in each of the three countries has been thoroughly analysed, mainly via the use of qualitative research methods. In-depth interviews with the social partners in the three sectors have been combined with analyses of documentary material and results of other researchers' investigations.

Instead of focusing narrowly on specific cases or episodes, we have decided to concentrate on more tangible features by tracing the pattern of development and thus contributing to an evaluation of the impact of the process of Europeanisation.

In any attempt to deal with the complex questions on which this study is based the prior requirement is a more detailed consideration of the core concept: *disorganisation*. How are we to interpret the term? It is usually taken to signify that an established order or system disintegrates and that the relationship between the components of the system cease to exist, whereby dis-order occurs (Offe, 1985).

Disorganisation of the known IR-systems is a consequence of the growing power of the market to determine conditions on the labour market (Hyman, 1996). Collective agreements are declining in importance in relation to individual (workplace) contracts. Decentralised bargaining is gaining ground, and the collective agreements can run for different periods and thus have differing expiry dates. The notion of disorganisation essentially refers to a shift from non-market institutions to the market in governance of advanced capitalist societies (Traxler, 1996b). When a hitherto cohesive IR-system begins to lose its coherence, this triggers a trend towards disorganisation. But if disorganisation is to be perceived as a result of the process of European integration, other features of the process must be subjected to further scrutiny.

In his work, Traxler (1995;1996a;1996b) states that the notion of disorganisation is most closely related to the decentralisation of collective bargaining, the deregulation of labour law, the decline of collective bargaining, and the weakening of employers' associations and unions. In our study this notion of disorganisation is supplemented by a focus on the political processes (Hyman, 1996) and a focus on the strategies of the social partners (Walton et al., 1994). These supplements are made in order to capture the complexity of the national processes of change.

In the comparative analysis of the construction sector we have thus assigned the following five attributes to the disorganisation concept:

- *Growing competitive pressure*, accompanied by political liberalisation;

². The full text is published in Danish: *Europæisering af arbejdsmarkedet – bygge- og anlægssektoren i Tyskland, Danmark og Sverige*, DJØF Publishing, Copenhagen.

- *Decentralisation of collective bargaining*, with a decline in the role of bargaining/negotiations at overarching level between the labour-market organisations;
- *A decline in the membership of the labour-market organisation*, on both sides;
- *Deregulation*, in the form of abolition or failure to adjust statutory provisions and collective agreements governing pay and working conditions; and
- *Changes in employers' strategies*, towards more unilateral determination of pay and working conditions.

Several of these factors have been referred to earlier as phenomena that follow in the wake of disorganisation. And by studying developments in the German, Swedish and Danish construction sectors in terms of the five features listed above, we can extend our understanding of the changes brought about by European integration. So in spite of the fact that the notion of disorganisation can be said to be well investigated, it has mainly been through quantitative-based surveys (Traxler, 1995;1996a;1996b, Golden et al., 1998). The contribution of this comparative analysis is to shed light on the processes taking place at the sectorial level.

Our study thus aims to identify the changes that are taking place in a large and important sector, with a view to illustrating how the process of European integration is influencing the national labour markets in Germany, Denmark and Sweden. These three countries might all be expected to represent what Traxler (1995) has labelled 'organised' decentralisation: They have all moved away from economy-wide concertation, and have undergone a decentralisation of collective bargaining, but a high degree of coordination of bargaining activities is still characteristic. According to Traxler's data, primarily from the 1980s and the early 1990s, the countries should not be instances of 'disorganised' decentralisation, where the decentralisation is accompanied by more restricted coordination capacity – mainly due to a detection by business from multi-employer bargaining (Traxler, 1995). Even though it can be argued that the categories of 'organised' and 'disorganised' decentralisation constitute a relatively broad classification, the fact that all three countries are expected to be instances of 'organised' decentralisation, makes it interesting to investigate whether or not there are any differences between them, and if that is the case how we are able to explain such differences.

The article will present the results of the study using a 3-stage analytical framework. In section 2, we will carry out an analysis of the European process of change, with a focus on the construction industry. It will be clarified which processes of change we are referring to when we use the term Europeanisation and how these processes are visible in the construction industry. Section 3 contains an analysis of the construction sector in each of the three selected countries: Germany, Sweden and Denmark, with a focus on consequences for labour-market relations. The purpose is to present the over-all situation in the sectors following the process of Europeanisation, and to draw up the respective conclusions in relation to

disorganisation³. In section 4, a comparison between the three countries is conducted on the basis of the described five criterias for disorganisation, forming the basis for a discussion of the possible conclusions (Section 5) to be drawn with regard to the relationship between Europeanisation and disorganisation. Finally, in Section 6 we address some perspectives in relation to the general impact of Europeanisation on national labour markets.

2. European development

During the past 10-15 years the construction industry has undergone a process of *Europeanisation*, both politically and economically (Schnepf et al., 1997). For the purposes of this paper, the term *Europeanisation* is taken to mean a number of processes whereby a single country orients itself towards a larger, European market rather than towards the traditional domestic market.

In economic terms, investments – and firms – can move freely across national boundaries, while at the political level the national rules and regulations are being drafted and adopted within the framework of the EU's institutions, which promote open markets (Streeck, 1997). The single enterprise now has an opportunity to gain a market share in other European countries; it is no longer restricted to the domestic market. Transnational groups of companies, joint-venture enterprises and large-scale take-overs are among the visible results of *Europeanisation* (Lehrskov et al., 1995).

The construction industry is highly relevant in the context of a study of *Europeanisation* and labour market developments, for several reasons.

First, the construction industry constitutes an important sector in the EU – as is clearly shown by the key figures for the sector's turnover and size. Annual turnover amounts to some ECU 510 bn, while the sector has roughly 8.5 m employees, mainly in small and medium-sized enterprises. This corresponds to some 7% of all workers in the EU. If we include dependants, then the living conditions of roughly 40 m people – i.e. 1 out of every 8 EU citizens – are linked to the construction sector (Zachmann, 1993). These figures support the claim that the sector plays an important role in the national economies, on the labour market and in the daily lives of the workers.

The construction industry is a promising area of study, because its activities are traditionally conducted on and for a domestic market, with the focus on single projects (a bridge, a building, etc.). And most of the production involved takes place on-site. And when a product has been completed and delivered, the workers – and the relevant employees of the employer enterprise – must move to a new construction site.

These special features, which distinguish the sector from other more traditional production enterprises, make clear what is taking place – and what is at stake – on the

³. It is outside the scope of this article to present the full analysis of the three sectors with regard to the five criterias for disorganisation. For this analysis we refer to Lubanski, 1999; Lubanski et al., 1997.

labour market. The free movement of capital, goods, services and labour can be directly observed in the case of most major construction projects, e.g. a bridge, airport or tunnel. In the case of such projects, capital, goods and labour are all involved, co-operating across national boundaries, and it becomes equally clear that there is a need to clarify and determine the conditions of workers temporarily stationed outside the boundaries of their home country (Cremers, 1994).

The construction industry has traditionally restricted most of its activities to the domestic market, on which projects have been carried out by local contractors, using local labour. As mentioned above, the products are „one-off“ items, and no two projects are alike. Besides, the single project can be extremely complex. The workplace is a temporary one, and part of the work is carried out by specialist sub-contractors and co-operation partners from various inter-related branches. As opposed to other production enterprises, e.g. factories, the workforce in the construction industry must be exceptionally mobile.

At European level there are some 1.8 m enterprises in the industry, of which some 97% are small, with fewer than 20 employees (Atkin, 1993). This means that half of the workforce is employed in these small firms, which handle relatively small contracts, but are engaged in projects with larger firms and can offer a wide range of technical services.

The following is a list of some of the EU initiatives taken to promote a Europeanisation of the construction industry: The introduction of rules for public-sector tendering, in which a public-sector body is the client and the purchasers commit themselves to open the market to non-national contractors (Kom, 1996). This step triggered a controversial process – a process that is neither complete nor exhaustively debated. The so-called building materials directive intended to remove technical trade barriers impeding the export/import of building materials. Direct EU support for the construction industry is available, partly via the EU's structural funds (for less developed regions), and partly via the EU's infrastructure programme, if the aim is to provide support for construction projects carried out to develop the European infrastructure and thus promote the realisation of the Single Market.

Although these initiatives affect the entire industry, the infrastructure programme covers only projects of such a size that even the largest contracting groups have to form consortia to handle them. This is a question of large-scale projects that demand high levels of organisation and require rationalisation of resources, planning and implementation- also across national boundaries, which are actually being eroded in the case of such giant projects. Processes are being set in motion that affect the entire construction industry (Lubanski, 1998).

Open markets: the outcome

The creation of the European Single Market implies competition across national boundaries, and European enterprises are urged to rationalise and form groups of companies with the aim of achieving economies of scale. Many firms have entered

mergers, alliances and joint ventures across national boundaries. The 300 largest contracting firms in Europe now account for roughly half of the new building- and construction projects (Lehrskov et al., 1995). The situation is now very different from the situation about 15 years ago, when very few firms conducted extensive activities in another European country.

The origins of this development can be traced to the building boom in the UK in the 1980s (e.g. in London's dockland), when foreign firms –mainly French – acquired British firms. And since then there has been rapid development in the construction industry, with acquisitions and mergers, so that this industry now accounts for one third of all the mergers in the EU. In 1995, 796 acquisitions were registered in the industry, as compared with 683 the year before (Schnepf et al., 1997). Large groups are acquiring enterprises in other countries, while many medium-sized contracting firms are disappearing from the market as a consequence of a take-over or bankruptcy.

The Single Market, the liberal economy and free competition have had a major impact on the construction industry (Kom, 1996). Formerly, size alone did not confer any marked competitive advantage, as the small and medium-sized firms were capable – in many situations – of competing with larger entities. But the Europeanisation of the industry offers some opportunities to the large firms where the smaller firms can reap no benefit, primarily in the case of the large-scale, open tenders, situations in which a single enterprise undertakes the total project, hiring (or buying) sub-contractors and projects requiring high levels of technological expertise (Atkin, 1993).

In the single member state there is a tendency towards concentration, although there are differences in the extent of this development. In the case of the Swedish, French and UK markets, a small number of very large enterprises dominate the construction industry. The five largest firms thus account for between half and one fifth of the national turnover. In Denmark and in Germany the degree of concentration is smaller, as the five largest firms account for a „mere“ 10-15% of the turnover (Malsot, 1993).

The degree of concentration is often related to the public-sector's ordering strategy and the dynamics of the private sector (Malsot, 1993). In Germany, for example, public-sector purchasing is conducted by many regional and local entities – a system that confers an advantage on small and medium-sized firms when competing with the larger firms for a market share.

Differences in competitive pressure

The differences in competitive pressure on the markets will be addressed later, in the sections reporting the results of the study conducted in the three selected countries. But at this stage it is relevant to note that the degree of concentration appears to vary between – on the one hand – Sweden, and – on the other hand – Germany and Denmark. It is also interesting to compare the level of competitive

pressure from foreign firms in the three countries, based on the size of foreign investment capital and the use of non-national labour.

The largest amount of investment capital is channelled to Germany, as a consequence of the building boom following reunification in 1989, while the percentage of foreign building and construction workers in Germany is equally impressive (Syben et al., 1993). In the case of Denmark and Sweden it is difficult to determine the extent of foreign ownership. An investigation conducted in Denmark in 1996 estimates that about 4% of the contracts in the construction industry are in foreign hands (Eurobuild, 1996), but now that two of the largest contracting firms have been taken over by the Swedish NCC group, the percentage must be assumed to be somewhat higher. In civil engineering it is estimated that foreign firms, either directly or via subsidiaries, account for some 30-40% of the activities, especially in road building. In Sweden the foreign share is estimated at about 1% (Eurobuild, 1996).

Even though the figures reported might be somewhat unreliable, they suggest that the overarching process of Europeanisation and the subsequent intensification of the competition are having a different impact on the three selected countries.

3. Developments in the construction industry in the three selected countries

Germany

Recent German history serves as an interesting example of how Europeanisation has influenced the development of the construction industry. Up to the late 1980s, very few construction projects in Germany were carried out by foreign enterprises, but the picture changed dramatically following the fall of the Berlin wall and the subsequent reunification of the country. The new *Länder* (regions of the former GDR) and the city of Berlin, with their shoddy housing and neglected infrastructure, offered the construction industry a great opportunity for growth and expansion. The subsequent boom in activities in the sector involved labour and enterprises from the rest of Germany (the former Federal Republic) and from all parts of Europe.

The scale of this building boom can be attributed to several factors: The availability of large numbers of workers in the neighbouring countries and regions in Eastern and Central Europe; the collapse of COMECON, the East European trade organisation, with the closure of entire industries and mass unemployment; tendencies towards a slump in other European markets, and the simultaneous added impetus in the efforts to promote the European Single Market, with liberalisation and a determination to achieve the free movement of capital, goods and labour and the abolition of technical trade barriers (Lubanski et al., 1997).

The inevitable result was the presence – in great numbers – of foreign firms and workers on the German market. The first few years the market proved capable of accommodating both German and foreign firms, but gradually the competition became sharper, and prices fell, seriously affecting the German firms (Sörries, 1997). The foreign firms were often in a position to submit more competitive bids, on

account of the lower costs of hiring foreign workers. Large German groups of companies tried to cope with the new situation by assuming control of the entire building and construction process, while delegating the actual work to foreign sub-contractors.

In 1995 the boom began to subside, leading to even keener competition. The major investments in the eastern part of Germany could not stave off the stagnation in the country as a whole, and in 1996 there was a decline in construction activity in Germany for the first time since reunification. In 1995 there were 30,000 fewer jobs, and 3,700 firms were declared bankrupt. The average number of unemployed in 1995 was 108,000 (HDB, 1996).

The construction industry is now experiencing an economic downturn, a reversal of the halcyon days following reunification, but with an important new factor in the equation: the large number of actors from other European countries. The current situation is now one in which there is widespread unemployment among German building and construction workers, in a sector that has up to 400,000 foreign workers (Lubanski et al., 1997). The number of bankruptcies is growing, as is the number of withdrawals from employers' associations.

An aggregate assessment of this pattern of development, conducted on the basis of the five criteria for disorganisation listed above, reveals some tendencies towards disorganisation (cf. Table 1), but these tendencies are countered to some extent by a number of measures introduced to restore the strength of the conventional labour-market system, i.e. one in which collective agreements are concluded by organisations representing, respectively, workers and employers. But a process has undoubtedly been set in motion, leading to a situation in which competition is the sole determining factor – suggesting an end to the era during which pay and working conditions were determined solely via centralised collective agreements.

Denmark

Unlike its German counterpart, the Danish construction sector has currently experienced an upturn. Since 1993 there has been a general increase in turnover on the domestic market. The sector appears to have good prospects of maintaining the high level of turnover in the forthcoming period, on account of the favourable economic cycle.

In the Danish construction sector, however, there are some factors that are reminiscent of the economic recession in the early 1990s, when price competition caused earnings problems for some enterprises, resulting in the disappearance of a number of medium-sized firms – often as the result of a take-over by a larger firm. Thus, as in Germany, market concentration is taking place, although at a slower pace.

In Denmark the sector's parties (unions, employers' associations) have co-operated – to a considerable extent – with a view to ensuring the competitiveness of the enterprises. For many years a consensus has prevailed between the parties,

enabling the parties to conclude collective agreements on pay and working conditions that are closely geared to the current level of activities. The degree of flexibility at local level has thus been increased in the agreements, especially with regard to regulation of working hours. Future development is being promoted via the introduction of pension schemes for workers in all categories and the establishment of special training for construction workers.

Whereas turnover on the Danish domestic market has been increasing for the past five years, the contracting firms' share of the export market has been declining, although this cannot be taken as an expression of any halt in the move towards Europeanisation in the Danish sector. What has happened is that the Danish construction market has become more interesting for foreign enterprises, resulting in the acquisition of some Danish firms by foreign contractors.

The main reason for the foreign interest in the Danish market can be traced to two major projects: the bridge/tunnel over/under Great Belt (linking Zealand and Funen) and the fixed link over the Sound (linking Zealand to South Sweden). One of the outcomes is that the two largest Swedish groups, via their Danish subsidiaries, are taking vigorous steps to become leaders on the Danish market.

The review of the five criteria for disorganisation listed above indicates an overall conclusion that there are no tendencies towards disorganisation in the IR system of the Danish construction sector. (Cf. Table 1).

Even the growing foreign interest in the Danish market, with the active presence of the Swedish groups, does not seem to be having an influence on the industry's conventional labour-market relations. The Danish labour market is still highly organised, with high rates of unionisation and membership of employers' associations.

With regard to the issue of foreign labour, the parties have concluded collective agreements covering the relevant items, including procedures to be implemented by the organisations in dealing with the cases in which foreign workers in Denmark are offered worse working conditions than those stipulated in the Danish collective agreements.

At this stage there are many features in the Danish construction industry that support the view that while European developments do indeed have an impact on Danish developments, there is no justification for maintaining that comprehensive Europeanisation is leading to disorganisation of Denmark's labour market.

Sweden

The pattern of development in the Swedish construction industry is very different from that identified in Germany and Denmark, in particular with regard to the economic cycle. The Swedish construction industry has not been Europeanised to any great extent, and very few foreign firms are currently engaged in projects in Sweden (Eurobuild, 1996). One of the explanations is that the level of activity in the construction industry in Sweden is currently very low. Since the early 1990s the

Swedish construction industry has been experiencing a severe downturn, mainly on account of the economic crisis affecting the Swedish welfare state, caused by external and internal factors which are beyond the scope of this article (see Kjellberg, 1992).

In the building sub-sector, the crisis has been so severe that the increase in the housing stock is lower than in any other period during the 20th century, while very few major construction projects have been commenced. During the worst years of the crisis (1992-1995), several record „lows“ were registered for building activities and investments in the sector, in which the rate of unemployment approached 30%. The downturn was reversed in 1996, when there was increased investment in all sub-sectors, with the exception of civil engineering. A certain optimism prevailed.

The Swedish construction market also differs from the German and Danish markets insofar as it reveals a high degree of concentration. Thus the three largest enterprises account for 60% of all activities.

The two factors outlined above – the economic crisis and the concentration of activities in the hands of a few major operators – have dissuaded foreign firms from entering the Swedish market. The situation is rather the reverse, as the large Swedish groups have been interested in gaining a share of the European markets. By gaining market shares outside the crisis-ridden domestic market, the major Swedish firms have an opportunity of spreading their activities and continuing to develop their areas of competence. Swedish groups such as *Skanska* and *NCC* have focused primarily on the neighbouring Nordic countries, which are perceived as an extended domestic market with labour-market conditions closely resembling Sweden's. As indicated earlier, the expansion has taken place mainly in the form of acquisition of companies and the formation of subsidiaries, with the goal of becoming market leaders in the construction industry.

Table 1: Survey of Developments in the Construction Sector in Denmark, Germany and Sweden

Trend	Germany	Denmark	Sweden
Growing competitive pressure and political liberalisation	High level of competitive pressure General political liberalisation	Competitive pressure, mainly on large enterprises No significant move towards political liberalisation	High level of competitive pressure Some evidence of political liberalisation
Decentralisation of collective bargaining from multi-employer bargaining to single-employer bargaining, leading to a decline in the importance of overarching collective bargaining	Decentralisation, primarily via opening clauses and cancellation of membership of organisations No general abolition of collective agreements, but a	Centralised decentralisation Collective bargaining still the main method of settling pay and working conditions	No real decentralisation yet, but increasing pressure to introduce it Centralised bargaining still plays an important role

	decline in their importance		
Declining support for labour-market organisations	Yes. Both for employers' associations and trade unions	No – on neither side	No – on neither side
Deregulation in the form of repeal of existing legislation and collective agreements covering pay and working conditions	Yes – areas emerge which are outside the framework of regulation The state withdraws from regulation	No - The parties include additional areas in the collective agreements	No, but less tight regulation in certain areas – e.g. greater opportunities for temporary employment
Shift in employers' strategies towards more unilateral fixing of pay and working conditions	Yes – e.g. cancellation of membership of labour-market organisations	No – continued co-operation at centralised level But a transfer of competence taking place	Yes – expressed as a move towards greater scope for decision-making at local level

The major Swedish groups have not displayed the same level of interest in entering other European markets, but have been aiming at forming major alliances of contractors, capable of bidding for large-scale projects, such as the infrastructure projects supported by the EU. This development may well be linked to Sweden's decision to become a full member of the EU in 1995.

When conducting an assessment of the tendencies towards disorganisation in the Swedish construction industry, due account must be taken of the period of economic crisis in a society that is otherwise often held up as a model welfare state – the Swedish model (Kjellberg, 1992). The assessment must also include consideration of the dominance of very few firms on the domestic market, and the expansion in the neighbouring Nordic countries, via take-overs and the formation of subsidiaries.

The immediate conclusion is that there is little evidence of tendencies towards disorganisation – and that the Swedish labour-market system is thus, by and large, intact.

But at the same time it is strikingly obvious that the pattern of development has added to the pressure towards change in the Swedish system. It is possible to identify areas which in the longer term will be marked by transition and change. This pressure towards change will thus be addressed in our analysis of the Swedish construction industry, applying the five criteria for disorganisation (cf. Table 1).

4. Comparison of developments in the IR-systems (Construction Sector)

The comparison of the studies carried out in the three countries shows that it would, by and large, be an exaggeration to interpret developments as an overall trend towards disorganisation.

Germany emerges as the country revealing the most pronounced shift in the direction of disorganisation, thus making it appropriate to base the comparison on a closer examination of the factors that distinguish the German experience from the pattern of development in Denmark and Sweden.

In the German construction industry, all five criteria for disorganisation have been fulfilled to a certain extent: There is a distinct competitive pressure and a tendency towards political liberalisation. There are tendencies towards both decentralisation and deregulation, accompanied by a decline in membership of labour-market organisations. Employers' strategies are more exclusively oriented towards increasing the room for manoeuvre when determining pay and working conditions, by transferring the bargaining/negotiations to workplace level.

Why then – one may reasonably ask – are we reluctant to refer to the development in Germany as clear-cut disorganisation, if the evidence seems to be quite convincing? In the new *Länder* in the eastern part of Germany many workers will undoubtedly perceive the development as a disintegration of the conventional labour-market system. A building boom followed by massive unemployment, heavy pay cuts and the presence of many foreign workers with even lower pay levels obviously convey an impression of disorganisation in this part of the reunified Germany.

And although it might have been tempting to assume that this situation was restricted to the eastern part of the country, and that the rest of Germany remained as before (the fall of the Berlin wall, etc.), this is simply not the case.

There is, in fact, ample justification for maintaining that 'disorganised' decentralisation is taking place in the German construction industry, insofar as collective bargaining is being brought closer and closer to workplace level and the overall coordination is losing ground. Further, the trade unions have been forced to accept the fact that wage differences between workers in the east and the west will persist in the future. Similarly, the trade unions have to accept that the enterprises can – to a large extent – adapt pay levels and working conditions to meet the changing demands.

The withdrawals from membership of employer associations have contributed to the decline in the legitimacy of the collective agreements, although the level of coverage is still relatively high, and the central bargaining conducted between the industry's parties continue to serve a regulatory role.

Thus decentralisation does not necessarily mean the complete erosion of overarching collective agreements, although to a certain extent they lose their norm-setting role. Similarly, 'organised' decentralisation becomes an issue to be included in the collective agreements concluded at central level, primarily via the use of opening clauses.

It might strike some observers as odd that the employers see any advantage whatsoever in retaining the centralised system. But one of the reasons is that they can thereby improve their competitive position vis-à-vis foreign enterprises offering lower pay and inferior working conditions. At the same time the German employers see some advantage in transferring some of the agreement issues from workplace level to centralised level (Sisson, 1987).

One example was the approach adopted when dealing with the statutory provisions covering personnel temporarily stationed abroad. In this instance the parties could have conducted negotiations at central level on the introduction of a minimum pay scheme, thus preparing the ground for implementation of the provisions while at the same time solving a problem that affects the entire industry.

There is evidence to suggest that the parties want to effect changes via adaptation of the existing labour-market system. And this joint approach on the part of the unions and the employers' associations supports the argument that current trends in Germany cannot be interpreted solely as a move towards disorganisation.

Developments in Denmark and Sweden do not fulfil the five criteria for disorganisation, as only in the case of some of the criteria is it possible to detect any move in that direction.

In Denmark the changes in labour-market relations are taking place within the framework of the existing system, as is evident from the fact that there has been no attempt to exert political pressure to cope with the high levels of competitive pressure by releasing the market forces via political liberalisation.

Decentralisation is a relatively transparent process. In the Danish construction industry it is referred to as controlled or governed decentralisation (containing almost the same aspects as 'organised' decentralisation), and although Danish employers are obviously interested in achieving greater flexibility and more room for manoeuvre at local level, they seem to be intent on pursuing this path in co-operation with the trade unions (Due et al., 1994).

In Sweden the pressure towards change is greater than in Denmark, although there is no clear evidence suggesting a general tendency towards disorganisation. Developments related to two of the five selected criteria are not in themselves sufficient to support any claim that disorganisation is taking place. These developments are a) a tendency towards deregulation at the political level, with a view to removing restrictive terms of employment, and b) a tendency towards a change in employers' strategies so as to achieve more room for manoeuvre at local level, although not to the extent of achieving unilateral determination of pay and working conditions. The employers are interested in achieving a more direct relationship with representatives of the workers, but the trade unions have opposed this development and are still actively involved in the decision-making process, also at local level.

5. Discussion

In the reported study, we have been analysing the relation between Europeanisation and disorganisation in national IR-systems. Before entering into a discussion of this relationship, it should be mentioned that the study first of all substantiates that a process of Europeanisation has taken place in the construction sector. The analysis of the three sectors indicates that developments in the sectors are influenced – one way or another – by external processes whether it is the form of influx of foreign labour and investments or in the form of political regulation.

The political regulation at EU-level has not only aimed at opening the European markets. In a number of cases the political regulation has tried to deal with cross-national issues in connection with the creation of the Common Market. An example of this is the attempt to regulate the posting of workers from one EU-memberstate to another⁴. This issue very clearly shows the increased inter-dependency of the EU-memberstates.

Primarily, labour market cooperation in the EU provides a platform for dealing with cross-national issues, e.g. the undermining (or ‘dumping’) effect posting of workers might have. With the Posting of Workers Directive, agreed by the Council of Ministers in September 1996, it was attempted to create a regulation of terms and conditions of employment of workers who are required as part of their employment to cross frontiers within the EU. Thereby, the posted workers should meet key minimum terms and conditions of employment as specified in the countries to which they are posted.

Therefore, this example of specific EU-regulation could function as a partial brake on the process of disorganisation, but the situation turns out to be more complex. Firstly, in a number of cases due to the lack of transparency it has been hard to determine whether the posted workers were working under employment conditions that actually were in compliance with local standards. Secondly, as the German example shows, it is often difficult to control whether the rules are followed by foreign companies. The authorities and the social partners seldom have the resources to control the sites where foreign workers are a part of the workforce.

At the same time it can be concluded that there does not seem to be an unambiguous relation between Europeanisation and disorganisation. On aggregate, it is mainly in the German construction industry that there is any justification for arguing that there are signs of disorganisation in the IR-system.

On the basis of this development in Germany and of the relatively well-organised IR-systems in the three selected countries, we shall now attempt to identify the reasons for the differences in the patterns of development.

Three main differences can be identified to explain the developments:

- a difference in impact on the construction sector in the three countries;
- a difference in labour-market regulation; and

⁴. This issue is dealt with thoroughly in Sörries (1997) and Drucker et al. (1998), why only the main lines in the debate will be referred to here.

- a difference in the choices made by the labour-market parties.

Differences in the impact on the construction sector in the three countries

In all three countries there has been a tendency towards concentration in the construction sector. Despite the considerable differences in economic upturns and downturns, resources are being merged to form fewer but larger enterprises. These few enterprises operate as the main contractors, in co-operation with a number of smaller companies (Schütt, 1996). And this tendency towards concentration is mainly attributable to the phenomenon of Europeanisation. If an enterprise is to be capable of operating on European markets and of undertaking – or participating in – major projects, it must have high levels of capacity and competence.

But it is important to note that although the tendency towards concentration is evident in all three countries, there is a marked difference in its impact on the national IR-systems. This is most clearly seen in Sweden, where three large groups of companies have won more than half of the total market in the sector. These large groups have established independent divisions to draw up bids for European contracts. A joint company has been formed by a number of Danish enterprises with the same aim of operating on the European market.

The presence of foreign enterprises is, however, most clearly seen on the German market, which has attracted heavy foreign investment and resulted in the involvement of many foreign firms in building and construction projects (Syben et al., 1993). This development has led to a situation in which foreign enterprises have a larger share of the German market than the share reported in Denmark and Sweden. But the most significant outcome of the presence of foreign enterprises on the German market is the direct competition with regard to pay and working conditions caused by the large number of foreign workers sent by their (foreign) employers to work on a project in Germany. Whereas foreign building and construction activities in Denmark and Sweden are often conducted by foreign-owned subsidiaries, which comply with national/local conditions, in Germany there has been direct competition over pay and working conditions (Sörries, 1997). This direct competition on the market has served as an important dynamic in the tendency towards disorganisation in the German IR-system covering the sector.

Differences in labour-market regulation

The comparative analysis also shows that the German labour-market system has a number of features that distinguish it from the Danish and Swedish systems.

One factor that obviously plays an important role in this context is the lower rate of unionisation in the construction sector in Germany. In Denmark and Sweden the trade unions, by virtue of their coverage of the relevant branches (i.e. percentage of unionised workers) are often in a position to oppose or even obstruct developments that conflict with their interests. The high rates of unionisation (80-90%) and

economic resources (strike funds, etc.) make it possible for the unions to act as a major player in regulation of the construction sector.

In Germany the rate of unionisation is estimated at 30-35% – and falling (Jacobi et al., 1998). And although many of the provisions covered by collective agreements are guaranteed by legislation, the low rate of unionisation places the unions in a weaker position when presenting their arguments.

The success of the Danish trade unions in regulating the working conditions for foreign workers so as to comply with Danish standards cannot be replicated in Germany, where the unions lack the necessary strength and influence.

There is a further difference between the three countries. Denmark and Sweden both operate with a „single-strand“ representation structure, insofar as the trade unions are represented at workplace level, as members of the Health & Safety Committee and so forth (Kjellberg, 1998; Due et al., 1994). There is thus a link between the central collective bargaining and the bargaining conducted at workplace level. In Denmark assessors are often involved when determining norms for piece-work, while in Sweden it is standard practice for local trade union representatives to conduct pay bargaining at workplace level.

In Germany the link between the levels is different (Jacobi et al., 1998), as the structure at centralised level is not replicated at local levels, but is dependent on the extent to which the trade unions have gained influence in the work councils. In times of crisis, work councils in construction firms are more willing to seek compromises with management in order to save jobs. This can create a division of interests between the work councils and the trade union, thus making it more difficult for the German trade union to react in a crisis situation. The lack of cohesion between the levels often makes it difficult to achieve trade union solidarity when opposing unwanted developments.

Differences in the choices made by the labour-market parties

The third factor leading to a situation in which the tendency towards disorganisation is mainly a German phenomenon is the difference in choices made by the labour-market parties in the three countries (Walton et al., 1994; Kochan, 1984; 1986). Whereas the German industry has had to face competition from firms in other countries, this feature is less evident in Denmark and Sweden. And this difference has influenced decisions on the need to effect institutional adaptation. The reaction on the employer side is especially interesting. This study shows that – to a large extent – it is the employer side that has taken the initiative in recent years. The employers are to the fore when it comes to setting the agenda for the rounds of collective bargaining, although they differ widely in the steps taken to achieve their goals, their strategic choices have serious consequences for developments in the sector.

In Germany the employers adopted a relatively passive position during a period in which the German market attracted a growing number of foreign enterprises and foreign workers. Their decision to do so was based on their interest in reducing wage-

costs in the sector, as they felt that pay levels and recruitment costs in the sector had become too high (Sörries, 1997). They reckoned that the presence of foreign enterprises operating with lower costs would make it possible to lower German standards.

In Germany the employers have made serious attempts to avoid any relations with the trade unions, thus escaping the obligation to observe the pay rates agreed via collective bargaining. A number of firms cancelled their membership of the employers' associations, while regional associations withdrew from the national organisations, in both cases with a view to avoiding commitments to the standards laid down in the collective agreements. If a firm is not a member of an employers' association, then it is not obliged to comply with the terms of the collective agreements. A clear sign of 'disorganised' decentralisation as negotiations are carried out on a single-employer basis and no further coordination is taking place.

This employer strategy of promoting forced change by adopting a passive position was slightly modified only when the situation in the sector had deteriorated to the point at which many German firms began to declare bankruptcy (Lubanski et al., 1997). The employers' associations were then prepared to conclude collective agreements with the trade unions on adjusting pay and working conditions. At the same time they accepted a minimum-wage scheme, which would also cover foreign workers.

In Denmark the employers are implementing a policy of co-operation. The goal has been to adapt the IR-system via co-operation with the trade unions. The employers have tried to achieve their aim of introducing greater flexibility in pay and working conditions to meet competition requirements by making adjustments to the collective agreements. This strategy has not generated the same pressure towards change as the strategy pursued by the German employers.

In Sweden the employers are exerting considerably more pressure towards change than their Danish counterparts. The employers' association is taking steps to introduce a number of changes in the IR-system, focusing mainly on forms of recruitment and pay. And if this cannot be achieved in co-operation with the trade unions, they attempt to have the measures adopted during the collective bargaining, e.g. by refusing to grant pay rises and by appealing to the firms to introduce special schemes at local level. The strategy has led to tension between employers and unions, as the unions are not prepared to accept the changes.

The developments reported from the three countries thus show that the strategic choices made by the labour-market parties also play an important role in determining whether the IR-system is disorganised (Walton et al., 1994; Kochan, 1984; 1986).

6. Conclusions

The core question underlying this article is whether the creation of more open markets (in particular the Single European Market) has led to a significant change in the IR-systems of the three countries selected for our study, or whether the outcome

will be minor adjustments to the existing systems. The question could also have been worded: must the entire IR-system be redesigned?

The study of the construction sector in the three countries shows that it would be an exaggeration to argue that there has been a total reform or change of the IR-system following the emergence of more open markets in Europe. Europeanisation has had the greatest impact in Germany, for the reasons outlined above: extensive direct competition on the market, the low rate of unionisation and the strategic choices made by the employers. Despite the scope and scale of the changes, Germany's IR-system is neither totally disorganised nor totally changed. Admittedly, the collective agreements concluded at central level have diminished in importance and elements of 'disorganised' decentralisation has taken place, but to some extent the parties are working together to restore overall regulation of conditions in the sector. In Denmark and Sweden the response to Europeanisation has so far been restricted to minor adjustments to the respective systems.

As indicated in Section 1, following Traxler (1995) the three countries might all be expected to be instances of 'organised' decentralisation, but evidently there are marked differences between them. Traxler (1996b) states that under increased competition, declines in both union power and coverage reinforce each other in countries under exclusive bargaining. In this study it is shown that this process can take place even in systems that are characterised by inclusive bargaining patterns (Traxler, 1996b) and by 'organised' decentralisation (Traxler, 1995).

This points at two issues. Firstly, it can be said that the concepts of Traxler are too broad to capture the essence of change at the sectorial level. There is a need to go beyond the established pattern of bargaining and focus on the processes of change. This is to some extent what the concepts of 'organised' and 'disorganised' decentralisation aim at, but these concepts classify the process of change more than they explain it. In order to capture the complex processes of change at the sectorial level, the external pressure and the bargaining pattern must be combined with an analysis of the strategies of the social partners. Disorganisation does not occur by itself, somebody has to push in that direction.

Secondly, this study indicates that even though IR-systems are characterised by high coverage rate, union density and an inclusive bargaining pattern give only limited warranty of a stable and organised future. Especially the development in the German construction sector indicates that the internal coherence of the IR-system can be threatened in times of fierce competition. The pressure for change in Sweden points in the same direction, and even though there are currently no supportive evidence of disorganisation in Denmark, the increasing competitive pressure as the conjunctures begin to turn can lead to a reorientation on the employer-side.

The construction sector constitutes a special case because the product is created the place it is going to be used (on-site) and because the personell costs amount to a relatively high share of the total building costs. This makes competition on wage and working conditions interesting. As opposed to other sectors, where companies would

look for possibilities of transferring production facilities to countries with low standards in terms of wage and working conditions, competition in the construction sector will intensify in the respective IR-system – as the German development shows.

This aspect gives certain challenges in the construction sector. In addition to this, the three countries selected for our study are all examples of relatively highly regulated labour markets compared to other EU-memberstates. Both aspects can be seen as limiting the possibilities of generalizing the results of this study to other sectors in the EU. The case of the construction industry can be instructive for developments in other sectors in the way it attempts to adapt the respective IR-systems to a situation with more fierce competition.

The above developments suggest that in the construction sector there is no need to redesign the entire IR-structure to cope with the changes brought about by the emergence of the new, more open European markets. The existing system can accommodate extensive institutional adaptation. But the study shows that the systems must prove capable of facing a number of challenges if they are to be capable of retaining their status and applicational relevance in the future.

The main challenge is to ensure that the systems are capable of meeting the needs of a situation in which the market and market forces play a more important role (Hyman, 1996). The single system must not only be capable of dealing with situations in which foreign competition is prevalent, although it will be important for the parties on either side to be aware of the presence of foreign firms and workers in their environment. It will be equally important to ensure that the parties at workplace level again realise that pay and working conditions are the focal points in competition.

The significance of the viability of the IR-systems can be deduced from three shifts in themes currently being debated in all three countries. The first relates to the fact that hitherto the labour market has been regulated primarily via the bargaining conducted at central level, whereby the workers achieved more or less automatic improvements in pay and working conditions against a commitment to abstain from strikes during the agreement period and recognition of the management prerogative (Sisson, 1987). This sequence of events – bargaining, improvements, industrial peace – is no longer automatic. Today the debate on this theme focuses on how to limit the pay costs for the single enterprise and how to achieve greater scope for action by the employer.

The second shift represents a departure from a situation in which there was a broad measure of support for the collective agreements concluded at central level, because they were seen as ensuring uniformity in the sector. All firms could operate on roughly similar basic premises. Today the focus is on decentralisation, with the aim of empowering the firms to determine a growing number of factors at local level. Again we see a response to the market forces.

The third shift refers to a change in perception. Hitherto common conditions for all firms in the construction sector were perceived as an advantage, because they

created a level playing field. Today the drive is towards greater flexibility in determining pay levels and working conditions, thereby widening the gap between different groups of employees.

As stated, the notion of disorganisation essentially refers to a shift in governance from non-market institutions to the market. Even though non-market institutions continue to play a vital role, the market is given more leeway. The struggle in the construction industry on how decentralisation, a greater degree of flexibility and diversity should be incorporated into the IR-system appears to be instructive in terms of the development in other sectors.

In the future these shifts are likely to be incorporated as adjustments to the IR-systems, if the latter are to retain their influence on labour-market developments. The danger is that the systems will otherwise fail to reflect the reality they are intended to regulate.

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