INDUSTRIAL RELATIONS, FLEXIBILITY,

AND THE EU SOCIAL DIMENSION

- A comparative study of British and German employer response to the EU social dimension

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the requirements for the degree
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ABSTRACT

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Industrial Relations, Flexibility, and the EU Social Dimension (A Comparative Study of British and German Employer Response to the EU Social Dimension)

This study sets out to explore employer response to the EU social dimension, in answer to the question, "How are employers in the UK and Germany responding to the EU social dimension, and why?" Using case study evidence from nine large British and German engineering companies, as well as material from employers' associations at all levels, it is argued that there is little employer support for extending the social dimension. Focusing on micro-economic aspects of the debate, it is also argued that a common feature in both British and German employer opposition is a concern for the impact of EU industrial relations regulation on firm-level flexibility. This stands in direct contradiction of the EU Commission's own contentions about the flexibility-enhancing effects of its social policy measures, and appears paradoxical in light of earlier research findings of a German flexibility advantage over UK rivals on account of the country's well-structured regulatory framework for industrial relations. Evidence from participant companies, however, suggests that, in the global environment of the late 1990s, much of Germany's former flexibility advantage has been eroded, and the regulation-induced limitations on both the pace and scale of change are increasingly onerous to German companies. German managers perceive a need for targeted deregulatory reform of their industrial relations system; by strengthening (and often extending) existing industrial relations regulation, EU social policy measures meet with firm disapproval. In the UK, by contrast, the changed context has contributed to a significant increase in firm-level flexibility. British companies now operate to levels of flexibility often in advance of their German counterparts, at far lower 'cost' in terms of the time taken, and the extent to which change measures are compromised, to reach agreement. For British managers, EU social policy measures are perceived as a threat to these beneficial arrangements, and vigorously opposed. The thesis concludes by suggesting that such fixed opposition, in the face of Commission determination to extend the EU social dimension, points to an escalation of the controversy surrounding the social dimension.

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INTRODUCTION

This study sets out to explore employer response to the European Union's 'Social Dimension', addressing the question, *"How are employers in the UK and Germany responding to the EU social dimension, and why?"*

Applying the results obtained from case studies of nine large British and German engineering firms, in combination with evidence from employers' associations, it will be argued that employers in both countries are vigorously opposed to EU social and industrial relations regulation; there is also evidence to suggest that their position is indicative of employer response more broadly across the Community. Moreover, the thesis contends that a common feature of this opposition, encountered in both British and German companies as well as employers' associations at all levels, is a concern for the impact of such regulation on firm-level flexibility (itself regarded as a crucial component of corporate competitiveness). Such concerns appear somewhat paradoxical in light of the EU Commission's claims of the social dimension's positive contribution to such flexibility, as well as a significant body of academic literature (what I refer to as the 'new orthodoxy' - see pages 118 to 126) highlighting the flexibility-enhancing impact of a well designed and structured framework of industrial relations regulation, as encountered in the German system.

Evidence from participant companies, however, suggests various amendments to the 'new orthodox' view of industrial relations and flexibility. The environment in which these firms are competing at the end of the 1990s differs significantly from the situation pertaining

during the formative years of the 'new orthodoxy', the 1970s and 1980s: competition is more global and intense, over-crowded product markets have become extremely price-sensitive and unreceptive of a competitive strategy based solely on product quality and diversity (with little regard for cost), and companies face increasing pressure for rapid and radical organisational change. In this environment, while German companies continue to enjoy high levels of flexibility, it is qualified in various ways. In the first place the costs and constraints associated with 'negotiated adjustment' (particularly with respect to external forms of flexibility) have become significantly more onerous to companies. Furthermore, as changes to work organisation and processes come to be based more on the potentially distributive principles of 'lean production' than the traditionally integrative 'humanisation of work' programme, companies are no longer characterised by the levels of "*unencumbered internal mobility*" (Katz and Sabel, 1985) which earlier researchers encountered. Finally, German companies no longer enjoy the relative flexibility advantage over competitors in less regulated environments (such as the UK and USA) which they previously did. In light of these changed circumstances, although German managers remain largely positive about their industrial relations system and its many advantages, they perceive a growing need for reform. Such reform would entail an overall decrease in the level of industrial relations regulation and, insofar as EU social policy initiatives strengthen (and, in some cases, even extend) the current regulatory framework, they find little favour with German employers.

UK participants, on the other hand, have recently experienced significant improvements in firm-level flexibility. The same harsh industry conditions which have highlighted some of the short-comings of

the German system have, in conjunction with an altered political context and reformed management and trade union behaviour, resulted in a dramatic increase in flexibility. The hostile economic and political climate, combined with various features of trade union structure and strategy, have reduced union bargaining power, and forced them to abandon flexibility-inhibiting practices such as job demarcations, and greatly curtail the use of industrial action. Management has simultaneously been compelled to move away from an over-reliance on external forms of flexibility, and increase workforce participation (both direct and indirect) in change programmes. The result is a level of flexibility at least equal to and, in many cases, in advance of corresponding levels in Germany. On top of this, the costs of flexibility, in terms of time taken to negotiate change and the extent to which measures must be compromised during negotiations, is significantly lower in the British context. Under these circumstances, British managers oppose measures which they perceive to have little business benefit, but which threaten to curtail flexibility and increase costs.

The following six chapters set out to present the evidence and develop the argument. Chapter one will describe and account for the research methods by which the study was conducted, as well as provide some relevant background information on participant companies.

In chapter two, a framework for understanding the elusive concept of 'flexibility' will be presented. The chapter will also briefly outline some of the most salient differences between industrial relations in Germany and the UK, setting the scene for a discussion on the 'new

orthodox' view of industrial relations regulation and firm-level flexibility.

Chapter three begins with an outline of the social dimension's development, noting the influence of the German industrial relations system in the content of EU social initiatives, and of 'new orthodox' views of flexibility in the supporting discourse. The second part of the chapter introduces employer opposition to EU social and industrial relations regulation based, ironically, on allegations that such measures threaten to restrict flexibility at firm level. Although a political/ideological component to such opposition is noted (particularly for British managers), this reference to flexibility as source of opposition appears to make little sense either in light of the recognised success of industrial relations regulation in the context of the German industrial relations system, or the nature of EU measures themselves. The chapter concludes by suggesting that a clearer understanding of this apparently paradoxical response can only be gained by exploring the changed situation from within which employers in the UK and Germany formulate their responses.

Chapters four and five present the results of research conducted at both company and workplace levels into industrial relations and flexibility in the nine participant companies; chapter four focuses on the auto industry, and chapter five on electrical engineering. Following the framework established in chapter two, flexibility at the British and German companies is explored. Numerous surprises are encountered, not least of which is the finding that UK participant companies are, on most measures of flexibility, at least equal to (and often in advance of) their German counterparts. High levels of frustration among German

managers are noted, particularly with regards the costs (in terms of money, time, and compromised outcomes) associated with the extensive juridification of industrial relations. While the absolute levels of flexibility to which these firms operate are arguably no lower than they were at the height of Germany's flexibility advantage, they are increasingly being left behind by the accelerating need for rapid and comprehensive change at low cost. Furthermore, as German managers themselves are all too aware, the former flexibility advantage which they enjoyed over competitors in less regulated environments (such as the UK and USA) has largely been eroded, to the point where German companies not only incur higher costs in change processes, but must tolerate more diluted outcomes. By contrast, UK participant companies currently enjoy unprecedented levels of firm-level flexibility. Through the breaking down of traditional barriers to internal forms of flexibility, these British companies are now operating to levels of flexibility (both external and internal) at least equal to, and often well in advance of, their German competitors. In contrast to their German colleagues, British managers are highly satisfied with their current industrial relations arrangements, and perceive little requirement for reform.

Chapter six concludes the argument by returning to the issue of employer response to the social dimension, re-examining their opposition to EU industrial relations and social regulation in light of the findings presented in chapters four and five. The analysis presented suggests little hope for a resolution of the controversy over the EU social dimension in the short to medium-term future. In fact, there is every potential for an escalation of the conflict between EU political institutions and European trade unions on the one hand, and employers on

the other. As European integration proceeds, the case for further developing the EU social dimension is strengthened, while Community-level policy makers are presented with the institutional wherewithal to do so. At the same time, however, employers are confronted with intensifying competitive pressure for fast, radical and low-cost change, and declining returns from traditional industrial relations regulation. Unless the industrial relations actors at European level can agree to a new course for the social dimension, the implication is that its further development will be characterised by 'more of the same, only in stronger doses'. Piecemeal and diluted legislation will continue to be forced through the EU's institutional apparatus via political will and horse-trading, in the face of strenuous opposition from employers. The prospects of a true EU industrial relations system emerging are extremely limited. The thesis concludes by highlighting some of the questions to emerge in light of the study's findings, including the problematic relationship between flexibility and competitiveness, and the issue of alternative paths for the social dimension; in this respect, investment in human resources is highlighted as an issue with potential for development within the ambit of the EU social dimension.

CHAPTER ONE. RESEARCH METHODOLOGY AND COMPANY BACKGROUND

A. INTRODUCTION

This chapter consists of two main sections. First, the study's research methods will be outlined, starting with an explanation for the choice of qualitative methods, and then elaborating on the specific tools and procedures for collecting and analysing data. As will be noted, the study is based primarily on inductive analysis of data, broadly following the case study approach to research, and making use of various qualitative methods for gathering evidence. Five specific aspects of the study's research methods are described: the original design of the research process, the preparatory phases preceding data collection, 'focused exploration' (or the collection of data), analysis, and mechanisms used to enhance the study's 'trustworthiness'.

The second part of the chapter then considers some of the important organisational features of participant companies affecting either their response to the EU social dimension or industrial relations. Four such background features are explored for the nine participants (Vauxhall, Jaguar, LucasVarity, ABB Britain, and Siemens UK in Britain; and Opel, Daimler-Benz, ABB Germany, and Siemens AG in Germany). Firstly, the comparability of companies' scope of activities will be discussed as the primary criterion in selecting participants. Secondly, corporate nationality and ownership are examined, noting the 'polycentric' (Perlmutter, 1969) nature of parent multi-nationals' relationships with their local subsidiaries. Despite this largely 'hands-off' approach to personnel and operational issues, two corporate features are highlighted

as influencing local industrial relations. In the first place, participant companies' globalisation strategies are briefly discussed, noting the tension between pace and scale of a company's globalisation programme and the maintenance of consensual local industrial relations. Finally, corporate structure and the organisation of production are compared, noting a clear difference in the extent of centralisation and decentralisation between auto and electrical engineering companies, each pattern in turn having implications for industrial relations at company and establishment levels.

B. RESEARCH METHODS

1. Choice of Methods

At the broadest level, the social scientist is confronted with a choice between two divergent empirical research traditions[1]. One the one hand are 'quantitative' methods, with their roots in logical positivism and the natural sciences. The stereotypical quantitative methodology will utilise statistical and numerical tests of hypotheses using data generated through surveys, questionnaires, or experiments; data collection precedes analysis, which is conducted deductively (Easterby-Smith et al., 1991, chapter six). On the other hand are the 'qualitative' methods, related more closely to phenomenology and hermeneutics (Gummesson, 1991), and relying on data collected by the 'human instrument' (Lincoln and Guba, 1985) using techniques such as interviewing, participant observation, and action research; data collection and inductive analysis proceed, to varying degrees,

[1] For a more comprehensive discussion on the differences between quantitative and qualitative methods, see Bryman (1988, chapters two to four).

concurrently. Of these, qualitative methodology is perhaps the most elusive and difficult to pin down[2]. According to Strauss and Corbin (1990, p17), qualitative research broadly encompasses,

> *"any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification."*

Van Maanen (1983, p9) offers little more specificity in defining qualitative methodology as,

> *"an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world."*

While such vagueness may be considered a weakness, and is indeed attacked by quantitative researchers (Behling, 1980), two important concepts stand out in Van Maanen's definition: "*meaning*", and "*social world*". We shall return to these later.

A second generalisation concerns the criteria for selecting methodology. In this regard, two broad camps can be identified. The more ardent of these are proponents of the 'paradigmatic' school, who insist that the decision is a fundamental, philosophical one. So, for example, Filstead (1979, p45) maintains that,

> *"Quantitative and qualitative methods are more than just differences between research strategies and data collection procedures. These approaches represent fundamentally different epistemological frameworks for conceptualising the nature of knowing, social reality, and procedures for comprehending these phenomena."*[3]

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[2] As Lofland (1974, p100) puts it: "*qualitative field research seems distinct in the degree to which its practitioners lack a public, shared, and codified conception of how what they do is done, and how what they report is formulated.*"

[3] On a similar note, Rist (1977, p62) argues that, "*when we speak of 'quantitative' or 'qualitative' methodologies, we are in the final analysis speaking of assumptions about the social world which are*

The implications of this position are, firstly, that the primary criterion for selecting research methodology should be the researcher's own perspectives on social reality and the research process[4] and, secondly, that quantitative and qualitative methods are mutually exclusive within the same study:

> *"We **are** dealing with an either-or proposition, in which one must pledge allegiance to one paradigm or the other." (Guba, 1985, p80; Author's emphasis).*

The second, or 'pragmatic', school views the decision on choice of methods as more technical than epistemological (Bryman, 1988), arguing that, "*the problem under investigation properly dictates the method of investigation*" (Trow, 1957, p33). In other words, the nature of the topic being researched, and characteristics of the research question, best determine the methodology employed[5], and quantitative and qualitative methods can be used to augment one another in the same study. My own position on this debate is much closer to this second, 'pragmatic', school than the more rigid 'paradigmatic' camp[6]. As such, my choice of qualitative methods was based primarily on the nature of the subject I was researching, and the type of question I was asking; it

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philosophical, ideological, and epistemological. They encompass more than simply data gathering techniques."

[4] Referred to by Morgan and Smircich (1980) as 'ontological' and 'epistemological' assumptions. The former concerns the researcher's assumptions about the nature of reality, while the latter alludes to his/her understanding of the relationship between the knower and the known. According to these authors (Ibid., p499), "*The virtues of techniques and methods can not be determined and categorised in the abstract, because their precise nature and significance is shaped within the context of the assumptions on which the social scientist acts.*"

[5] Yin (1989, p19), for example, suggests that, "*the first and most important condition for differentiating among the various research strategies is to identify the type of research question being asked.*"

[6] To some extent, I also agree with Strauss and Corbin (1990, p36) in questioning whether there is any practical relevance in the debate over what criteria should inform the decision over research methods: what is the likelihood that a positivist researcher will choose to study a topic, or frame a research question, such that qualitative methods would be more appropriate to the conduct of the study? Or, alternatively, would a phenomenologist set about researching a problem which would better be addressed by quantitative methods? There is a high degree of self-selection in these matters, with researchers implicitly choosing subjects and framing questions in keeping with their own ontological and epistemological assumptions.

was, nevertheless, not without some understanding of the philosophical implications of my choice.

Few would contest that all social scientists enter the field with a set of (often implicit) assumptions about human nature, knowledge, and reality[7]. The importance of these assumptions is that they influence the researcher's perceptions and expectations of the research process and its outcomes. Following Morgan and Smircich (1980), such assumptions can be viewed along a continuum of philosophical approaches to the social sciences, ranging from extreme objectivism (captured in 'behaviorism') to extreme subjectivism ('solipsism'). For the pure objectivist, the social world is a concrete structure which lends itself to accurate observation and measurement; it is external and 'real', and any phenomenon which does not manifest itself in some form of observable activity is of questionable status. Human beings are a product of the external forces to which they are exposed and, although human perceptions may influence this causal relationship to some degree, people always respond to situations in a rule-governed manner. For the pure subjectivist, the social world and what passes for 'reality' is a projection of individual consciousness, an act of creative imagination of dubious inter-subjective status; reality is accessible to the human being only through conscious human processes of judgement and interpretation. Humans themselves are transcendental beings, shaping their world within the realm of their own immediate experience and understanding. As ideal types, few researchers would fall at either end of this spectrum, but between the two poles lies an infinite range of positions combining varying degrees of objectivism and subjectivism. The

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[7] For a more in-depth consideration of epistemology and ontology in the social sciences, see, *inter alia*, Burrell and Morgan (1979) ; Morgan and Smircich (1980); Bryman (1988, chapter five); Easterby-Smith et al. (1991, chapter three).

relevance to social science research is that different philosophical approaches are more compatible with different research methods; broadly speaking, quantitative methods are more appropriate to 'objectivist' researchers, while qualitative methods lend themselves to the 'subjectivist'.

Within this framework of understanding, it was clear to me that my own ontological and epistemological assumptions fell closer to the 'subjectivist' approach. From an ontological point of view, I do not believe that the social world is a single tangible reality 'out there' which can be fragmented into independent variables and processes, any of which can be studied independently, or that such a reality can, by converging inquiry, be predicted and controlled. Epistemologically I can therefore not accept that the inquirer and the object of inquiry are independent and that the knower and the known constitute a discrete dualism. As such, quantitative methods would hardly be appropriate to my study; perhaps unsurprisingly, the type of question I was asking, and the nature of my subject matter, also suggested the use of qualitative methods.

The question which this study set out to address was: "*How are employers in the UK and Germany responding to the EU social dimension, and why?*" The question's most significant feature is its indeterminacy: it is not an hypothesis or statement, and it suggests no potential answers. Furthermore, the question addresses a poorly researched topic, with little extant literature or empirical evidence on which to draw; as such, it contains a significant element of exploration (as well as explanation). In such open-ended circumstances, Marshall and Stewart (1981, p179) recommend recourse to qualitative methods:

"qualitative research and analysis methods ... are appropriate to a study aimed at achieving understanding in a broad, relatively uncharted area."

This analysis is supported by Purcell (1992, p2 - cited in Noel, 1996), who proposes that qualitative methods are most successfully employed when the purpose of research is to tease out explanations in answer to the question, *"what is going on here, and why?"* The principal advantage of qualitative methods under these in-exact and uncertain conditions, according to Lincoln and Guba (1985, p250), relates to their reliance on the highly versatile 'human instrument':

"the human instrument has certain special properties - chief among them being virtually infinite adaptability - that recommend the use of this form of instrumentation above all others."

The interpretive capacity of the 'human instrument' was another feature suggesting recourse to qualitative methods, particularly in light of the highly subjective nature of the research problem. In effect, I had chosen to explore, and account for, the choices and behaviour of one group of actors in a complex, multi-faceted debate - in short, I was looking for Van Maanen's *"meaning"* in a messy *"social world"*. Even after the initial, exploratory phases of research, there were only vague indications of what might be the important issues and constructs; further insights would have to be teased out and developed through the course of the research itself, and it was impossible at any early stage to develop testable hypotheses. It also became clear that, in accounting for employer response, I would have to make sense of a series of complicated interlinkages between actors, organisations, and environmental factors at various levels of an 'industrial relations

system' characterised, as we shall see, by undercurrents of power and ideology, as well as more obvious economic rationality. These various features suggest an open, flexible, and evolutionary research process, which is largely at odds with the planned and positivist methods and rigour necessary for the testing of *a priori* hypotheses; the subtleties of the research topic were simply beyond the relatively blunt tools of quantitative research. As Bryman (1988, p102) argues:

> *"The qualitative researcher is in a better position to view the linkages between events and activities and to explore people's interpretations of the factors which produce such connections."*

The same criteria informing my decision to use qualitative instruments and techniques also pointed towards the logic of case study research. Yin (1989) suggests that for 'how' and 'why' questions about a contemporary set of events over which the researcher has little or no control, data is best collected and analysed according to the case study approach. Similarly, Gill and Johnson (1991) recommend case studies when little is known about a topic, and where there is a dearth of literature and empirical evidence. As with the rationale of qualitative methods, the capacity for holistic interpretation of a phenomenon and its context is one of the principal strengths of case study research; as Valdelin (1974, p47 - cited in Gummesson, 1991) argues,

> *"The detailed observations entailed in the case study method enable us to study many different aspects, examine them in relation to each other, view the process within its total environment and also utilise the researcher's capacity for 'Verstehen'. Consequently, case study research provides us with a greater opportunity than other available methods to obtain a holistic view of a specific research project."*

According to Yin (1989), case studies can be exploratory, descriptive, or explanatory, or can contain elements of all three; this study

employed elements of all three. On the basis of the preceding analysis, I decided to design the study according to case study logic, making use of qualitative techniques for gathering evidence, which would then be analysed inductively.

2. Case Study Research

a) Research design

One of the principal advantages of qualitative research according to the case study method is the ability of the researcher to adapt to contingencies during the collection of data (Bresnen, 1988). As such, the design of the research process should remain fluid enough to accommodate changes to the original research protocol (Lincoln and Guba, 1985). This, however, does not imply an absence of careful thought and planning prior to the commencement of fieldwork[8]. Before even thinking about collecting data, four specific issues had to be addressed in the design of this study: the research question, a proposition regarding sources of information, the unit of analysis, and the sample of cases to be studied.

As discussed in the preceding section, formulating the research question was one of the most fundamentally important steps in the research process. Besides being an important determinant of research methods, the question also provides a 'focus' throughout the subsequent phases of

[8] According to Whyte (1984, p35), a delicate balance must be followed between rigour and flexibility in planning qualitative research: "*The planning process is begun but not completed before the researcher enters the field. I am not proposing that we enter with blank minds, leaving it to subsequent observations and experience to shape research plans. Striving for such a state of unconsciousness would be folly, but it is important to avoid the other extreme of becoming so fixated on a previously prepared and detailed research design as to miss opportunities to gather data about problems that may turn out to be more important.*"

research, by establishing the study's boundaries[9] (although these should remain flexible and open to adjustments), and determining inclusion-exclusion criteria for new information that comes to light (Lincoln and Guba, 1985). Such focus is particularly important for the qualitative researcher, for whom the threat of *"death by data asphyxiation"* (Pettigrew, 1988 cited in Eisenhardt, 1989) is an ever-present danger.

In exploring the social dimension according to the question, *"How are employers in the UK and Germany responding to the EU social dimension, and why?"*, I made two important choices. Firstly, the decision to research employer contributions to the debate was based largely on my background as a student of management. As noted in the introduction, this is an important factor to consider in interpreting the study's findings: had I approached the issue from the perspective of a student of sociology or politics, or had I focused on trade union or Commission views, the issues to have emerged as important would probably have differed as, no doubt, would the findings and conclusions. Secondly, the UK and Germany were chosen as contexts for the research because of the stark contrasts between various aspects of their respective business environments. In the first place, each represents a virtual prototype of the different 'forms of capitalism' (Albert, 1993) and systems of industrial relations: Germany of the continental European tradition of social-market capitalism and 'Roman-Germanic' industrial relations, and the UK of Anglo-American free-market capitalism and voluntarist industrial relations. As Hall (1994) notes, response to the EU social dimension is largely conditioned by domestic regulatory traditions, and the extent to which proposals are compatible with existing national

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[9] According to Strauss and Corbin (1990, p37), "*Another important aspect of the research question is the setting of boundaries on what will be studied. It is impossible for any investigator to cover all aspects of a problem. The research question helps to narrow down the question to a workable size.*"

industrial relations frameworks; from this perspective, some interesting divergences might be expected between British and German perspective on the social dimension. Furthermore, Germany and the UK have different political histories within the European Union. Germany, as one of the founding member states in the original Treaties establishing the European Community, is traditionally recognised as a staunch supporter of the 'European project', as well as its social dimension. The UK, on the other hand, was a later entrant into the Community, and has always been more ambivalent towards the project as a whole, and its social dimension in particular[10]. As such, the different frames of reference from within which employers in the two countries would be responding made for a potentially rich comparative study.

Following elaboration of the research question, the next consideration in the design of case study research is the determination of a proposition, or series of propositions (Yin, 1989). Propositions are not hypotheses, they simply assist the researcher in deciding where to look for relevant evidence; as Yin (1989, p31) notes,

> *"Without such propositions, an investigator might be tempted to collect 'everything', which is impossible to do."*

The sparse body of extant literature on employer response to the EU social dimension was of little help in developing a proposition for the study: as Sapsford et al. (1997, p236) note as regards employer response to the EU social dimension, *"surprisingly little factual evidence has been collected"*. One study which did provide some initial insights was the 'Cranfield study' assessing the influence of the European Community

[10] Appendix D presents a brief contrast between British and German political responses to the EU social dimension.

on employment practices and policies in the UK (see Brewster and Teague, 1989; Teague and Grahl, 1992). Results from this study correspond quite closely with the findings of my own MPhil research into British employer response to the social dimension, suggesting that such response is based primarily on informal business analyses, by senior managers, of the impact of EU social policy legislation on their own industrial relations situations. The proposition which was therefore developed was that these senior levels of management would be the best source of information on response to the social dimension, while an understanding of that response would require an exploration of the important industrial relations issues facing participant companies - the 'how' part of my question would best be answered by the senior managers themselves, while the 'why' part would require reference to the industrial relations context informing their response.

This proposition, in turn, had important consequences for the study's unit of analysis. The first implication was that companies, and not employers' associations, would be the primary unit of analysis in understanding employer response to the social dimension. This did not, however, exclude employers' associations as important sources of supplementary evidence. To a significant extent, and for two main reasons, all participant companies rely on employers' associations to formalise and transmit their positions on EU social policy matters. In the first place, the various components of the 'social dialogue' provide employers' associations with an unrivalled degree of input into, and influence over, developments in the social dimension. More than for any other aspect of the EU, this greatly increases the importance of collective response, and reduces the efficacy of isolated individual company endeavours, no matter how large and influential the enterprise.

Secondly, employers' associations provide a certain degree of anonymity in what is a politically and socially sensitive debate. The higher the level of aggregation, the less concern for companies being held accountable over contentious policies; responses tend to remain informal until the level of EU employers' groupings, at which point employer response is simultaneously most influential and most anonymous. For such large and publicly-scrutinised companies as participated in this study, employers' associations (over which they have significant influence in any case[11]) provide the safest and most effective means of bringing their positions to the debate over the social dimension. Seven representative bodies were therefore consulted to supplement the evidence gathered at company level: the CBI and EEF within the UK; the BDA and Gesamtmetall in Germany; and UNICE, the ERT, and WEM at EU level[12].

The second important consideration regarding the unit of analysis was the level within the company at which industrial relations would be studied. As the companies envisaged would all be large multi-establishment enterprises, there would be at least two inter-related domains of industrial relations, namely the corporate and business unit levels. While response to EU social policy legislation is determined at corporate level, any understanding of the industrial relations background to that response would clearly require reference to the situation at the operational (or business unit) level. A study of industrial relations at every business unit within a company was out of

[11] All senior committees for formulating policy towards the EU social dimension at the various employers' associations consulted are composed of top-level management from (invariably large) companies. See, for example, Berghahn and Karsten (1987) and Jacobi et al. (1992) on the enormous influence that corporate giants such as Daimler-Benz and Siemens AG have over the BDA and Gesamtmetall. While none of the participant UK companies are quite as dominant as these German behemoths, they were all represented on the 'Employment Policy Committee' of either the CBI or EEF (or both). See Eberlie (1993) for the role of companies in policy formulation within the CBI.

[12] See Appendix A for a glossary of acronyms and abbreviations.

the question, so it was decided instead to focus on one 'representative' site, and supplement this with an overview of industrial relations at the corporate level. Therefore, while the primary unit of analysis for the study would be the company as a national enterprise, significant reference would be made both externally to employers' associations (in order to supplement corporate response to the EU social dimension), and internally to business units (to provide insight into industrial relations opportunities and threats facing the company at the operational level)[13].

The final issue to consider in designing the project was the sample of participant companies. For multiple case study research, Yin (1989) recommends selection according to a form of 'theoretical sampling' (Glaser and Strauss, 1967) called 'replication logic': each case is carefully selected either because it predicts similar results (a 'literal replication'), or because it produces contrary results but for predictable reasons (a 'theoretical replication'). For this study, cases were selected with the potential of both 'literal' (within country similarities) and 'theoretical' (cross country differences) replication in mind. The primary criterion for case selection was comparability of industry coverage (see the discussion on 'Scope of Activities' later in this chapter). As Dunlop (1958, p59) argues, particularly with regards international industrial relations comparisons, it is preferable,

> *"to examine for comparable sectors and industries the component industrial relations system in the various countries. In such comparisons, with the technology and market*

[13] With multiple units of analysis, the case studies therefore correspond to what Yin (1989) refers to as *embedded* case studies. The principal advantage of such an approach is the scope for developing a synthesis of views and interpretations through analysis at different, complementary levels of investigation; this is, indeed, what the study set out to achieve. This is, however, not an automatic outcome, and Yin warns of the difficulty in drawing out the relationship between levels of analysis.

contexts relatively constant, it should be possible to highlight more sharply the effects and characteristics of the national industrial relations system."

A second stipulation was that companies should be large. From my own earlier research, as well as the findings of Sapsford et al. (1997), it was clear that only large companies with substantial resources could afford to (or perceived the need to) involve themselves in a debate which takes place at the rather distant European level[14]. In choosing an industry sector from which to draw participants, I settled on the metalworking sector. Some of the region's largest and most important companies fall within this sector, so my stipulation about the size of companies would be met. Furthermore, research conducted for my MPhil thesis had already provided me with a number of 'contacts' within the sector. The economic importance of the sector, along with its highly global and competitive nature, had also attracted a substantial amount of previous industrial relations research, and a significant body of comparative industrial relations literature was available. Within this broad sector, the automobile and electrical engineering industries were targeted and, within each industry, three sets of paired German and British companies formally approached about their participation in the study. In both industries, two of the three paired cases agreed to participate, providing eight companies in all: Vauxhall, Jaguar, Siemens UK, and ABB Britain for the UK, and Opel, Daimler-Benz, Siemens Germany, and ABB Germany for Germany[15]. To somewhat redress the size imbalance

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[14] It is only possible for me to speculate on the consequences of excluding small and medium-sized enterprises from the analysis but, if discussions with employers' associations are anything to go by, the response of these smaller companies is similar to their larger counterparts, only in exaggerated form. The impact of EU social and industrial relations regulation (as discussed in the concluding chapter) is not only more immediate for these smaller companies, it is also more pronounced, and their economic concerns are, if anything, even more marked than larger companies'.

[15] Organisation-level access was not quite as simple as this, and was one of the most stressful parts of the whole study. As various accounts of gaining access to organisations testify (Buchanan et al., 1988; Beynon, 1988), relationships and luck are equally as important as thought and planning in this process. In retrospect, I think that three factors worked in my favour in persuading companies to participate. First, contacts which I

between Jaguar and Daimler-Benz, and provide a counterpart for the latter's significant aerospace operations, LucasVarity's aerospace division was then also approached; they agreed to participate, bringing to nine the final number of companies participating in the study. As an additional advantage, three of these companies - Vauxhall, Siemens UK, and LucasVarity - had, in 1996, been involved in my MPhil research project, thereby providing me with initial insight into their response to the social dimension.

b) Preparing for data collection

From June 1997, I spent five months reviewing the literature on the EU social dimension and comparative British and German industrial relations, designing the forthcoming study, improving my German[16], and obtaining access to participant companies. During this time discussions were also held (and archival documentation collected) with employers' associations in the UK, Germany, and the EU, as well as with trade unionists, Commission officials, and consultants in Brussels.

By the end of 1997, a flexible design for the study had been drawn up, and I was ready to make final preparations. To maximise the comparative

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had developed through the course of my MPhil research who, in turn, put me in touch with other contacts. Wherever possible, I met face-to-face with these people to explain, in-person, the study's methods and objectives. Secondly, I made the study as attractive to them as possible, promising a report on the study's findings, and guaranteeing confidentiality for individuals and companies in any documents which would be published. Finally, I think I was assisted by a certain degree of 'novelty value' as a foreign researcher at Oxford University, with an interest in a field which is of growing importance to companies.

[16] As Lawrence (1988) notes, the ability to communicate in the local language is an important feature of research in foreign countries. Five months of German classes at Oxford's language centre improved my German to the point where I was confident enough to conduct interviews. As it turned out, almost all of my interviews with works councillors and line managers (and some with middle managers) were bi-lingual affairs, with me asking questions and prompting in a mixture of English and German, and respondents answering in their native tongue. Although many of these individuals understood English very well, they were often uncomfortable expressing themselves, and the fluency of the conversations was greatly enhanced by their answering in German.

value of the study, the same respondents were selected for both British and German companies, and questions kept as similar as possible. Supplemented with sufficient documentation, I calculated that a minimum of eight interviews per study would be required: three with relevant members of the corporate personnel department, two with the personnel manager at a 'representative' site, and one each with the operations manager, a line manager, and a senior workforce representative at the site[17]. I was also continually on the lookout for the opportunity to conduct unplanned interviews. The study's pragmatic aim was to gather as much relevant information as possible, fully exploiting all potential sources of evidence, and additional interviews were conducted at virtually all companies.

Of course, this flexibility also becomes important when a study faces potential setbacks. For, as Buchanan et al. (1988, p53) warn, the reality of research in practice is that it evolves as a compromise between *"what is theoretically desirable on the one hand and what is practically possible on the other."* This project faced two potential misfortunes. In the first instance, ABB Britain's HR director left the company under acrimonious circumstances just before I was to conduct my first interview with him. Under the company's extremely decentralised structure, the only other person in the corporate personnel department was a secretary. I therefore arranged to have discussions with the three HR directors at ABB Britain subsidiary companies who were deemed to have most insight (and input) into the corporate response to the EU social

[17] Logistical arrangements were important for the German studies (as well as the two in Newcastle and Dundee), as I could not afford to travel back and forth to conduct individual interviews. The protocol for German case studies involved my spending a week at the company, during which all respondents were available for discussion. Only three days were required in Newcastle and Dundee, as head-office respondents at Siemens UK and ABB Britain are based within driving distance of Oxford. For other UK companies I made day trips. In all cases, I ensured that I was always available for 'opportunistic' interviews.

dimension, and most understanding of the industrial relations situation across the company. In combination with documentation and discussions with the European vice-president for human resources management (to whom ABB Britain's HR director reported directly), a relatively complete picture of ABB Britain's response was pieced together. The second incident involved Siemens Germany where, despite my best efforts to ensure that the company understood and accepted the rationale behind the research protocol, I was denied access to the plant I planned to visit[18]. Extensive documentation on industrial relations within the company, and at various sites, was available, however, and I was able to secure two valuable discussions with a former plant personnel manager who had, the previous month, been transferred to head quarters. Although not ideal, the revised research protocol facilitated a relatively in-depth understanding of industrial relations at both company and plant level within Siemens AG.

On the basis of the preparation and exploratory research described earlier, and before embarking on any case studies, a series of research questions and interview guides were drawn up[19]. Without prematurely restricting the scope of the study, this facilitated the development of a research protocol for each participant company which was focused on aspects of the EU social dimension already identified as being of particular importance; the adaptability of qualitative research allowed for other issues which were subsequently identified by companies as

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[18] Siemens AG was the only German company to whom I made a special trip just to discuss the study and its research requirements. Suspecting that they were not altogether convinced by my letters and telephone calls, I visited the Munich head-office a month before the study was due to be conducted, and met with the company's EU social policy specialist. Upon my departure everything appeared to have been arranged but, when I returned a month later to conduct the study, I was informed that the plant was too busy, and I would not be able to visit.

[19] Appendix B presents a typical set of interview guides for one of the study's large multi-national companies, ABB. The study begins with three exploratory interviews at the level of the European personnel department, and then continues with eight interviews at both ABB Britain and ABB Germany.

pertinent to be followed up accordingly[20]. This, in turn, facilitated a more focused exploration of industrial relations at company and workplace levels; again, the research protocol for each company was constructed with specific topics in mind, but with sufficient scope to follow up unanticipated yet relevant issues. Roughly a month before I was to conduct a case study, these interview guides would be sent to my link within the company (usually the personnel director), with a request that they be distributed to the relevant informants. This served two purposes: firstly, it gave respondents an idea of what issues would be discussed and, secondly, I asked them to put aside any documentation which might be of assistance in answering the questions. After interviews had been conducted, I made a point of maintaining lines of communication so that further questions could be asked at later stages.

c) Focused exploration

The 'fieldwork' phase of this research project encompassed the better part of one year, from November 1997 (when the first case study was initiated) until September 1998 (when the final case study was completed). Although data was collected both before and after this phase, these 11 months provided a period of 'focused exploration', when attention was turned completely to the gathering of evidence.

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[20] The main EU social policy issues which were explored included the EU-level 'social dialogue', the EWC Directive, the Working Time and Part-Time Work Directives, and proposals for Directives on National Information and Consultation, and Participation (as part of the European Company Statute). In addition, in Germany, it became apparent that the VDU Directive was of some concern to managers; as such, it became incorporated into the research.

The primary instrument by which data was collected for each case study was the semi-structured interview[21]. As already noted, these interviews were conducted with the help of flexible interview guides outlining the set of issues to be explored with each respondent. As Patton (1990, p279) argues, there are a number of advantages to this form of data collection:

> *"The interview guide provides topics or subject areas within which the interviewer is free to explore, probe, and ask questions that will elucidate and illuminate that particular subject. Thus the interviewer remains free to build a conversation within a particular subject area, to word questions spontaneously, and to establish a conversational style - but within the focus on a particular subject that has been predetermined."*

In addition, the process of compiling interview guides was itself of great analytical value, forcing me to consider carefully which issues and topics were most salient, and how I might best make use of the precious time I had with each respondent. The structured nature of the guides, and the focus on similar issues, also facilitated systematic comparisons across companies. As with all aspects of the qualitative research process, however, interviews themselves were kept flexible enough to accommodate and exploit any new insights which might come to light through the course of discussions.

Following consideration of the pros and cons, I also decided to use a tape recorder (with a respondent's permission) to record all interviews. Although a number of concerns exist surrounding their use - principally relating to their obtrusiveness (discouraging candour) - I felt that

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[21] The advantages of the interview as a research instrument are summed up by Burgess (1982, p107) who highlights, "*the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience.*"

these could be overcome with genuine assurances of confidentiality[22], and were outweighed by a series of advantages. Firstly the tapes would provide completely accurate recordings of the interviews to which I could later refer. Secondly, it allowed me to pay full attention to what was being said, and keep the interview going at a conversational pace. This, in turn, was essential in facilitating the adaptability of interviews to take account of unexpected information. Despite the use of the recorder, I still took notes during all interviews, primarily as a non-verbal cue by which to pace, and control the scope of, interviews. Each interview was planned to last 60 minutes although, once the discussion was underway and the respondent engaged in the conversation, I was frequently allowed to over-run the time limit, sometimes quite considerably[23]. Discussions followed a loose sequence: after informally introducing myself and my research, the interview would start with questions about non-contentious present activities and experience, requiring straightforward descriptions, and minimal recall and interpretation. Having thus set the interviewee at ease, and allowed them to establish the context wherein they could express their opinions, the interview would gradually move into more complex and potentially controversial topics, and increasing use would be made of probing questions to elicit more detail, seek clarification, or prompt elaboration[24]. In this way, I attempted to establish rapport with the interviewee, while remaining neutral with regards the content of their response.

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[22] As Patton (1990, p355) suggests, despite recorders, "*people in interviews will tell you things they never intended to tell. Interviews can become confessions, particularly under the promise of confidentiality.*"

[23] These extensions of the interview time, in conjunction with additional interviews at most companies, left me with well over 100 hours of interviews by the end of the data collection phase.

[24] According to Patton (1990, p324), "*Quite simply, a probe is a follow-up question used to go deeper into the interviewee's responses. As such, probes should be conversational, offered in a natural style and voice, and used to follow up initial responses.*"

The semi-structured interview proved to be a highly effective data gathering tool, supplemented at all participant companies by an array of documentation. Ranging from letters, minutes of meetings and written reports, to formal studies and internal communiqués, these documents were of great value, not only in corroborating (or contradicting) details and factual information obtained from interviews, but often in augmenting such evidence. Archival records, such as organisational charts, and survey results were accessed at various companies, while the archives at employer associations were searched extensively for position papers and statements of policy. Finally, visits to company offices and tours of the shop-floor at all sites provided the opportunity for direct observation. In addition to these internal sources of evidence, a number of external, secondary sources were also consulted. A wide-ranging literature search was done for any previous studies at participant companies and/or sites. Companies were also closely followed in the press, and the University's extensive computerised data-base of newspaper publications proved to be a valuable resource in this regard. In all, as many sources of information as possible were used in an effort to cross-reference and verify any data which was to be used in the analysis. This process of triangulation by source of data (Patton, 1990)[25] contributed both to the consistency of evidence and the credibility of the findings.

[25] Although 'triangulation' typically refers to the use of different research methods, Patton argues for a broader understanding of the concept, suggesting four different forms of triangulation: method, source, analyst, and perspective.

d) Analysis

The first point to note with regards the process of analysis in this study, is that it was performed inductively[26]. No hypotheses were established *a priori*, or imposed on the data prior to collection. As Yin (1989, p105) notes, inductive analysis of data collected from case study research is a highly idiosyncratic process, for which there are no set procedures:

> *"Unlike statistical analysis, there are few fixed formulas or cookbook recipes to guide the novice ... Instead, much depends on an investigator's own style of rigorous thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations."*

For this project, the process of inquiry was guided by a non-specific research question which provided a general focus to data collection; this was further honed by the exploratory research which preceded the case studies and flagged up broad patterns and themes to be probed in more depth subsequently. An 'informal' process of analysis was maintained throughout 'focused exploration': as soon as possible after the completion of each interview, and in conjunction with the notes I had taken during that interview, I would listen to, and transcribe, my recording of the discussion. Any observations relating to people or the environment were noted in the transcriptions. In addition, all documents and archival records were also read during and immediately after data collection at the companies. As far as possible, case studies were

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[26] The process by which data was analysed corresponds to the definition offered by Strauss and Corbin (1990, p23) of 'grounded theory': "*A grounded theory is one that is inductively derived from the study of the phenomenon it represents. That is, it is discovered, developed, and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore, data collection, analysis, and theory stand in reciprocal relationship with each other. One does not begin with a theory, then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge.*"

arranged at intervals of three to four weeks to allow for this 'pre-digestion' of one study to be completed before the next one commenced. In this way, following Glaser and Strauss (1967), the collection and analysis of material overlapped to some extent, with the on-going process of informal analysis preparing the data for formal analysis (which began upon completion of the case studies). Furthermore, the early phases of analysis facilitated a more in-depth study of important topics which emerged during data collection, such as the issue of firm-level flexibility; according to Eisenhardt (1989, p539), this overlapping,

> *"not only gives the researcher a head start in analysis but, more importantly, allows researchers to take advantage of flexible data collection ... These adjustments allow the researcher to probe emergent themes or to take advantage of special opportunities which may present in a given situation."*

Following completion of the last case study, formal analysis of the accumulated data began. The first step involved full case study reports. Drawing on evidence from both the company's response to the social dimension and the major industrial relations issues it was facing, each case was analysed internally, in an attempt to answer the question, "How and why is this company responding to the EU social dimension?". The advantage of initiating the analysis process with such 'within-case analysis' is that, as Eisenhardt (1989, p540) notes,

> *"This process allows the unique patterns of each case to emerge before investigators push to generalise patterns across cases. In addition, it gives investigators a rich familiarity with each case which, in turn, accelerates cross-case comparison."*

The next phase of the process involved cross-case comparisons. The first step was to compare responses to the EU social dimension, looking for

similarities and differences across paired case studies. The studies were then grouped into various categories (starting with a simple dichotomy between British and German companies), and comparisons were made both within, and between, categories. This procedure was then repeated, but for different categories such as industry segment, and corporate ownership. The most meaningful comparisons to emerge from this process were those based on categorisation by country. Having identified patterns of response, the next step was to search for, and match, patterns of explanation. Again, these were compared, firstly between cases within the same country, and then between countries.

From these initial analytical processes, tentative themes and relationships began to emerge, and an early hypothesis was formulated. A strong relationship suggested itself between 'flexibility' as a dominant theme in employer response to the EU social dimension, and 'flexibility' as one of the major company and site-level industrial relations concerns of all participant companies. At this point I returned to the literature, because many of my findings, especially on change and firm-level flexibility, appeared to contradict earlier research evidence. Significant time and effort then went into defining and measuring 'flexibility' (clearly the study's most important construct), through a process of iteration between evidence from the case studies and various definitions and frameworks from the literature. The embryonic hypothesis, that employers were responding to what they saw as a threat to flexibility at company and workplace level, was also tested against the evidence from each case study, in an iterative process by which I hoped to refine the argument and take account of all the evidence which had been collected. It was at this point too that my early musings were exposed to scrutiny, as I began to formalise an argument in written

form, which was then reviewed by my supervisor, as well as two other academics who were invaluable as 'peer debriefers' (Lincoln and Guba, 1985) throughout the process of writing up the thesis[27]. This was to be the first in a seemingly endless series of attempts to define and measure constructs, and formalise an argument. The writing-up process itself proved to be as analytical as any of the formal stages of analysis, as it was only when expressed in written form that minor weaknesses and incongruencies between the hypothesis and evidence from the case studies became apparent.

e) 'Trustworthiness'

Although one of the principal arguments against qualitative research from the objectivist camp is its failure to fulfil positivist criteria such as generalisability and predictability, as Morgan (1983, pp.14-15) argues, these canons are themselves not unproblematic:

> *"the attempts in much social science debate to judge the utility of different research strategies in terms of criteria based on the importance of generalisability, predictability and control, variance, meaningful understanding, or whatever are inevitably flawed: these criteria inevitably favour research strategies consistent with the assumptions that generate such criteria as meaningful guidelines".*[28]

Instead, Lincoln and Guba (1985, chapter 11) argue that the qualitative researcher should seek to establish the 'trustworthiness' of their findings, with 'credibility' the most important criterion. The

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[27] Already cited in the acknowledgements, Owen Darbishire of Pembroke college, and Robin Pedler of the European Centre for Public Affairs provided critical appraisal of my ideas and theories throughout the formulation of my thesis.

[28] Furthermore, as Yin (1989, p 21) argues, generalisability is not necessarily compromised in case study research: "*case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a 'sample', and the investigator's goal is to expand and generalise theories (analytical generalisation) and not to enumerate frequencies (statistical generalisation).*"

procedures employed serve a dual function: not only do they serve to enhance the study's credibility, but they also subject the researcher and his/her ideas and hypotheses to additional scrutiny, thereby stimulating further analysis. Three of their techniques were used in this study.

Firstly, evidence was triangulated. As discussed earlier, I made use of as many sources of data as possible, both internal and external, in corroborating evidence from the case studies. The findings were also subjected to a 'member check'. Towards the end of the analysis phase of the project, copies of the findings were sent to participant companies, as had been agreed when I initially approached them about their participation; as well as 'repaying' companies for their contributions, this provided me with a further opportunity to verify the accuracy of my observations. Finally, my own analysis and hypotheses were continually subjected to 'peer debriefing'. As already noted, I was in regular and frequent discussion with my supervisor and two other academics at the University during the analysis and writing up of the thesis. Furthermore, in February 1999 some tentative results were presented at a seminar on comparative industrial relations organised by the school of management at Oxford, and again in April at a conference hosted by the European Centre for Public Affairs. Although daunting, and sometimes frustrating, this process of continually re-exposing my ideas to experienced researchers and practitioners proved invaluable in pushing me to refine and improve my hypothesis[29].

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[29] As Lincoln and Guba (1985, p308) note, "*the process helps keep the inquirer 'honest', exposing him or her to searching questions by an experienced protagonist doing his or her best to play the devil's advocate. The inquirer's biases are probed, meanings explored, the basis for interpretations clarified ... Hypotheses*

C. PARTICIPANT COMPANIES

1. Scope of Activities

As noted in the preceding discussion, the fundamental criterion upon which participant companies were selected was comparability of activities - in other words, that paired cases should be involved in the same industry segment and producing similar products. As the earlier citation from Dunlop (1958) suggests, this is considered a critical (arguably the most important) variable in comparative studies of industrial relations.

As far as possible, this was achieved by comparing British and German subsidiaries of multi-national companies. This contains an added advantage in that a number of other variables relating to ownership and management structure have also been kept constant across pairs. Six of the study's nine participant companies are thus related: Vauxhall and Opel are subsidiaries of General Motors; ABB Britain and ABB Germany belong to Asea Brown Boveri; and Siemens UK is the British subsidiary of Germany's Siemens AG. The other three participants (Daimler-Benz, Jaguar, and LucasVarity) were also selected on the basis of comparable industry coverage.

Although GM has significant interests outside of direct automobile manufacture, it is as the world's largest manufacturer of cars that the

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that may seem perfectly reasonable to an isolated investigator, desperate for some kind of closure, may appear otherwise in the view of a disinterested debriefer".

company is best known[30]. For GM's British and German auto subsidiaries, Vauxhall and Opel, the focus is purely on automobiles. To varying degrees, both companies are involved in the manufacture and assembly of body parts, engines, and complete vehicles; a significant degree of overlap even exists with respect to the models produced, with the Vectra and Astra being manufactured in both countries. The two plants visited, Luton and Rüsselsheim are even more directly comparable. Both plants have body, paint, and assembly shops for Vectras, while engines and powertrains are supplied by Kaiserslautern (in Germany). Although Rüsselsheim's scope of activities is somewhat broader, in that it has a press shop, and also manufactures Omegas as well as Cadillac Cateras for export to the USA[31], the two plants are so similar that, as we shall see, they are locked in direct and fierce competition with each other for investment and production scheduling.

ABB is a diversified electrical engineering company, comprising 57 business areas grouped into five main segments: Power Generation, Power Transmission and Distribution, Industrial and Building Systems, Financial Services, and Transportation (via Adtranz, a joint venture with Daimler-Benz). Of these the first two, focusing on the generation and distribution of electrical power, are by far the most significant; although concentrating on somewhat different sectors of the market, both segments are involved in what analysts refer to as the 'electrical machinery' (or 'power generation') industry. The UK and German

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[30] The focus on the automobile industry was enhanced by the decisions to spin off Electronic Data Systems in 1996 and Hughes' defence business in 1997, and the announcement in 1998 that Delphi (itself the world's biggest components manufacturer) was to be floated as a separate company (GM, 1998b).

[31] Rüsselsheim is also the site of GM's International Technical Development Centre which is traditionally responsible for the design and development of all GM's European models, as well as those for various other markets around the world (including parts of South America and Asia). The ITDC, however, is a separate entity from the Rüsselsheim plant, with its own buildings and staff. Apart from the ITDC using the plant's line to build test models, there is little interaction between these two independent units.

subsidiaries of ABB both cover all five segments of the parent company's activities, but their relative emphasis differs somewhat. ABB Germany is home to the parent company's largest production site for steam power generating apparatus, while ABB Britain has more substantial transmission and distribution operations. The two sites I visited therefore focus on slightly different aspects of the market for power generating machinery: the Käfertal plant is home to six different ABB companies involved in the production and servicing of steam turbosets and turnkey steam power plants, while the Dundee plant is a subsidiary of ABB Power Transmission and Distribution (UK), and produces power transformers, distribution transformers, and overhead fuse gear. As noted, these products are very similar, both in their technical nature, and the characteristics of their respective markets.

Siemens is, like ABB, a diversified electrical engineering conglomerate, and the two companies compete in various markets (including power generation). If anything, Siemens is even more multifarious than ABB, with products ranging from medical equipment and light bulbs to computers and power plants. The company's activities are grouped into eight key business segments: Energy (power generation and distribution), Industry, Communications, Information, Transportation, Healthcare, Components, and Lighting. The UK subsidiary, Siemens plc., also has operations covering all eight segments. The UK site which I visited was a recently acquired power generating facility, the Heaton Works in Newcastle-upon-Tyne. As noted, my trip to the corresponding plant in Mülheim, Bavaria, was unfortunately cancelled at the last minute, but I was fortunate enough to speak to a former manager at the Mülheim plant in his new capacity as managing director of the Heaton Works.

Since Jürgen Schrempp took over at the helm in 1995, Daimler-Benz's portfolio has been streamlined from 35 business units in mid-1995 to 23 by 1996, grouped into 5 major business areas (Daimler-Benz, 1997a). The first two of these, Personal and Commercial Vehicles, are legally dependent subsidiaries, while Aerospace (DASA), Services (Debis), and Directly Managed Businesses[32] are legally independent. Of these, by far the most important are the two vehicle divisions which, between them, accounted for 75% of revenues and 52% of the workforce in 1997; the passenger cars division alone accounted for 44% of revenues and over 70% of operating profits. By contrast, Jaguar is simply a manufacturer of luxury vehicles, where it competes with Daimler's Personal Vehicles division. The sites which I visited produce three highly comparable models: Daimler's Sindelfingen plant manufactures C-, E-, and S-Class cars, while Jaguar's Castle Bromwich plant produces the XJ6, XK8, and S-Type; again, both plants have body, paint and assembly shops (Sindelfingen also has a press shop). In addition, I visited Daimler-Benz's largest engine manufacturing plant at Untertürkheim.

The original logic behind LucasVarity's inclusion in the study was as a counterweight both to Daimler's size and its significant aerospace operations. As it turned out, I had little interaction with Daimler's aerospace division, but my visit to LucasVarity's aerospace plant in Wolverhampton generated a number of interesting insights into British industrial relations, which will be referred to in chapter four. LucasVarity itself has interests both in auto components (which form the bulk of the company's operations) and aerospace (which accounts for 11% of sales and 15% of the workforce).

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[32] The most important being the Adtranz joint-venture with ABB, the automotive electronics division, and diesel engines.

2. Nationality and Ownership

A feature common to all participants is the 'polycentric' (Perlmutter, 1969) approach adopted by parent multi-nationals to operational and personnel issues at their national subsidiaries. Despite a wide array of national ownership structures, all participating local companies consider themselves to be primarily British or German manufacturers, and are actively encouraged to integrate themselves into the national economy and establish themselves as local producers. This autonomy is particularly pronounced as far as the personnel function is concerned, with all companies expressing the view that it is strongly tied to national culture and legal systems[33]; GME's director of industrial relations and benefits sums up the views of the study's parent companies:

> *"Personnel has always been locally based. We believe our relations with our employees are based locally. We co-ordinate the business at a European level, but these businesses stand alone, make their own decisions, have their own relationships with their employees. We would not encourage a terribly European approach - we're decentralised within a co-ordinating pattern."* (29/01/98).

For many of the study's subsidiaries, this autonomy and sense of local identity are underpinned by long historical associations with the countries in which they operate. Opel, for example, was founded in 1862 (initially as a manufacturer of sewing machines and bicycles, switching to automobiles in 1899), while Vauxhall produced its first car in London in 1903. Both companies were acquired by America's GM in 1929, but

[33] As opposed to functions such as finance and accounting for which companies frequently have blue-print systems which are used at least across Europe, and often across the world.

retained their names and a significant degree of operational autonomy. Siemens UK was founded shortly after the German company in 1847, when Werner Siemen sent his brother Wilhelm (later to become Sir William) to establish a local branch in Britain. The UK company grew into one of Britain's largest engineering companies before its assets were nationalised during the two World Wars. It was then not until the 1960s that Siemens returned to the UK, at which point it even had to buy back its name from British owners. Jaguar was founded in 1922 and, despite being acquired by Ford in 1989, continues to operate to a high degree of autonomy in the design, manufacture, and sale of its cars, and even more so in its industrial relations and human resources management[34].

Although ABB has strong 'northern European' or 'Nordic-Germanic' credentials[35], much of the company's growth since its formation (through merger) in 1988 has been via acquisition. Furthermore, as we shall see, ABB is an increasingly 'global' company with a fervent policy of decentralisation. Based on the mantra, 'think global, act local', this sprawling conglomerate is held together by a highly acclaimed matrix organisation (Kets de Vries, 1996; Reed, 1997); official corporate policy states that the key to success in product and service markets is being perceived as a local actor, and subsidiaries such as ABB Britain and ABB Germany are expected to integrate themselves into the national environment in which they operate, and become 'local players' (ABB, 1992; ABB, 1997d).

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[34] The company's personnel director, for example, reports directly to Jaguar's chairman and CEO, with only indirect links to Ford's international personnel function. Jaguar uses its British heritage as one of the main features upon which its cars are marketed, and its association with Ford is deliberately downplayed.

[35] The two companies merging to form ABB, Asea of Sweden and BBC Brown Boveri of Switzerland, were themselves established in 1883 and 1891 respectively. By 1997, nearly 70% of the total European workforce was still employed within these countries, and senior management positions within Europe were predominantly held by Swedes, Swiss, and Germans (ABB, 1998a).

Of the other three participant companies, Daimler-Benz and Siemens have long histories as German companies, and have come to epitomise German engineering excellence: both companies were founded during the last century, and have been pioneers in their respective industries for over a hundred years. LucasVarity is the study's closest equivalent of a British-owned company. Legally, it has a dual ownership structure reflecting its origins in the merger of Lucas Industries of the UK (founded in 1897) and Varity Corporation of the USA.

The significance of their high levels of autonomy (and local sense of identity) is that the study's national subsidiaries respond to the EU social dimension as national companies, not according to policies or position statements developed by their parent companies. In fact, if the policy-formulating processes at GME and ABB are any indication, these parent companies go to great lengths to ensure that their own response is a bottom-up aggregation of the responses emanating from their European subsidiaries. The ABB response is formulated by the vice-president for HRM in Europe, in conjunction with senior managers from across the European operations. Issues of particular importance are dealt with at the bi-monthly country managers' meeting at the Brussels office[36]; positions on less critical topics are developed together with national personnel directors. The formulation of GME's response is even more a bottom-up process: GME management can not respond to an EU social policy initiative before a consensus position has been reached between national personnel directors[37]. As the company's director of industrial relations and benefits explains,

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[36] So, for example, the company's options in responding to the EWC Directive were discussed at these meetings for two years, between 1994 and 1996, before a strategy for implementing the Directive was finally devised.

[37] The consequence of this, in light of the expanding EU social agenda, is that three new positions have had to be created at GME's head-office in Zurich, and the number of meetings bringing together all national

> *"We don't have a European view, we don't try to encourage a European view. GME is just a co-ordinating company, it's just a legal name, a legal entity. GME doesn't do anything except co-ordinate the companies which build things for us. And what is important to us is that we help those companies create an environment where they can build their cars and components in a competitive way."* (GME's director of industrial relations and benefits, 30/01/98).

There is also no evidence to suggest that the nationality of a subsidiary's parent company was a significant factor influencing response to the EU social dimension. So, for example, there is little to distinguish Opel's response to the EU social dimension from that of Daimler-Benz, or Vauxhall's response from that of Siemens UK. Likewise, at the level of parent company, ABB and GM - despite very different national backgrounds - hold similar positions on the social dimension. With parent companies universally refraining from any substantial involvement in activities related to the personnel function, nationality of ownership was also found to be virtually irrelevant for industrial relations at subsidiary companies. Two features of parent companies which do, however, have consequences for industrial relations at subsidiary companies and establishments are the scale and pace of globalisation, and the corporate structure and organisation of operations.

3. Globalisation

A certain tension exists between parent companies' decisively 'polycentric' approach to personnel and operational issues, and their 'geocentric' (or global) approach to competition and markets. While

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personnel directors and GME senior personnel specialists has had to be increased from three to at least six (and often more) per year.

local subsidiaries are encouraged (and expected) to develop their own industrial relations, and their own solutions to local issues and problems, these procedures and interactions take place in the context of much broader strategies developed at trans-national levels of the company. These globalisation strategies - which involve the international transfer of value adding resources and activities[38] - inevitably have consequences for local workforces, and provide an important context for industrial relations at company and establishment levels.

Participants differ, however, in their approach to such strategies, and two broad patterns of globalisation can be identified. On the one hand, ABB, GM, and LucasVarity are unrelenting in their drive to 'go global', and see little scope for compromise in what they perceive to be an imperative, a crucial step towards survival (and possible success) in an intensely competitive international product market. On the other hand, Siemens AG, while intent on increasing its global presence, is also concerned to maintain consensual relations with its workforce representatives in Germany, and a certain degree of compromise is evident in the company's globalisation strategy. Daimler-Benz displays elements of both approaches.

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[38] Two principal considerations inform participants' globalisation strategies. Firstly, companies move facilities abroad in order to be 'close to the customer' in emerging growth markets, not only to avoid tariff and non-tariff barriers on products, but also to facilitate optimal service and establish goodwill as a local producer. Secondly, they see an opportunity to take advantage of a growing international division of labour: with many of the companies in the study producing virtual 'world products', it is often more cost effective to move labour-intensive tasks to low-cost production centres while retaining high value-added, capital-intensive operations in Europe and North America.

ABB goes out of its way to present itself as a global organisation. So, for example, the official corporate language is English, and the official currency the US Dollar (ABB, 1997d). The company makes no bones about its intentions of decreasing its traditional presence in western Europe and North America, and expanding in the world's developing economies (ABB, 1997c and 1998a), and between 1990 and 1996 ABB cut 59 000 jobs in western Europe and North America while simultaneously creating 56 000 jobs in developing countries, principally in south east Asia and central and eastern Europe[39]. In early 1997 the company announced that, over the next three to five years, a further 16 500 western European and North American jobs would go, and 30 000 jobs would be created in emerging economies[40]. ABB is already the biggest foreign investor in central and eastern Europe where, since 1991, over USD 300 million has been invested in acquiring 70 companies (employing 30 000 people), and USD 400 million on training (Kennedy, 1996). South east Asia has been another major priority for the company, with revenues in the region growing four-fold between 1988 and 1996 to over USD 8 billion; the Asian crisis notwithstanding, ABB expects this figure to double by 2002[41].

Such an aggressive globalisation strategy has won the company much support from analysts, investors and other managers. ABB has achieved an average return on capital employed of 16.4% over its first nine financial years (ABB, 1998a) and, since the merger in 1988, the company's shares have increased by five and a half times, significantly ahead of the Zurich stock exchange index (ABB, 1997c). ABB has also headed the league table of Europe's most respected companies since the

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[39] Financial Times, "*When capital collides with labour.*" 24 October, 1997.
[40] Financial Times, "*ABB chief sees quick Asian recovery.*" 27 February, 1997.
[41] Financial Times, "*ABB sees Asia sales doubling.*" 5 February, 1997.

Financial Times began a survey polling analysts and senior managers in 1994[42]. As noted earlier, however, it has also had important, and often difficult, consequences for industrial relations, especially in Germany.

GM is another company which 'acts locally', but 'thinks globally'. During 1998, the company was in the throes of an aggressive globalisation drive, in an effort to close the gap with arch-rivals Ford and Toyota in terms of standardising vehicle platforms, and cost-cutting in production[43]. The move towards a reduction in the number of basic vehicle platforms is aimed at reducing the costs and complexities of product design, development and engineering, and increasing the number of common components. The principal advantage of GM's move towards 'world cars' has been the establishment of a USD 70 billion global purchasing centre which, in 1997, saved an estimated USD 3.5 billion in costs (GM, 1998a). Unfortunately, it has also encroached on the traditional autonomy enjoyed by European design and development activities, especially in Germany, thereby heightening tensions with the works council at the company's biggest international auto subsidiary, Adam Opel AG[44].

In spite of a strong focus on cost-cutting throughout the 1990s, GM remains one of the most expensive of the major volume producers (GM, 1998b), and is under intense pressure to further reduce costs. To this end, the company has been actively expanding its operations in developing countries, often at the expense of employment and investment

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[42] (See Financial Times, "*Survey: Europe's most respected companies.*" 24 September, 1997.) This is all in stark contrast to Siemens AG where, as we shall see, management has been significantly more accommodating of domestic workforce concerns, financial performance has been less impressive, and the financial community is broadly critical of the company's relative conservatism.

[43] See, for example, GM (1998b); The Economist, "*The decline and fall of General Motors.*" 10 October, 1998; The Economist, "*Business this week - more motors.*" 17 January, 1998.

[44] Financial Times, "*GM feels strain of globalisation drive.*" 27 June, 1997.

in North America and western Europe. Like ABB, GM is globalising at an uncompromising rate as it seeks to exploit what the president for International Operations has referred to as *"a one-off opportunity"* to expand into developing markets as trade and political barriers come down[45]. During 1997, for example, the company had five new plants under development in Argentina, China, Brazil, Poland and Thailand, and was in negotiations over a further two in Russia and the Ukraine (GM, 1998a); by contrast, since 1990, 125 000 jobs have been lost in North America (GM, 1998b) and, as we shall see, employment at the company's two biggest European subsidiaries - Adam Opel and Vauxhall - has likewise been steadily declining. In 1998 the company announced that a further 20-30% of its European workforce would be shed over the next five years, with predictably negative consequences for local industrial relations[46].

The study's other aggressive globaliser is LucasVarity. Within a little over a year of the company's founding (and in spite of its relatively small size), LucasVarity had established subsidiaries in India, South Korea, and Argentina, as well as six joint ventures in China, and one each in India, South Korea, Indonesia and Brazil. The company has also set itself the target of 30% of turnover being generated in Asia by 2005.

The situation at the study's two German multi-national giants is somewhat more ambiguous. As noted, both Daimler-Benz and Siemens AG have roots in Germany dating back to the nineteenth century and, by 1998, both companies still employed more than half their respective workforces in Germany. Both are, however, increasingly moving production facilities

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[45] Financial Times, "*GM chief defends global strategy.*" 1 July, 1997.
[46] Wall Street Journal Europe, "*German labour leaders hit GM over plans to cut staff in Europe.*" 8 January, 1998.

abroad. In many ways, Daimler, although a later starter, is the more aggressive in this respect. In 1993 the company shocked the German corporate world by becoming the first German company to list on the New York Stock Exchange and subject itself to the USA's Generally Accepted Accounting Principles; by 1997, 37% of the company's shares were held by non-Germans. Until the mid-1990s, virtually all Mercedes cars were still made in Germany but, by 1997, Daimler was either building or upgrading plants in Spain and Poland (for the Vito light van), Argentina (for the Sprinter van), the USA (for the new M-class utility vehicle), Brazil (for assembly of the A-class), and France (for the new Smart Car). The greatest *coup* came in 1998 with the Chrysler merger, a move which was predicted to have significant implications for the whole auto industry and, in the longer term, for the company's own industrial relations[47].

Siemens, on the other hand, was an early starter abroad, opening offices in Britain and Russia within a few years of the German company's foundation in 1847. By the 1990s, Siemens already had 700 offices in 193 countries world-wide but, as we shall see, remained reluctant to jeopardise relations with its predominantly German workforce by stepping up the pace and scale of restructuring and globalisation. As noted, however, pressure on the company from the financial community is high, and even Siemens shows signs of the strain on local industrial relations which accompanies the move to globalisation.

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[47] The Economist, "*A new kind of car company.*" 9 May, 1998.

4. Organisation and structure

Finally, with respect to corporate structure and the organisation of operations, two distinct patterns emerge from the study's participants. In electrical engineering companies, operations (and, to varying degrees, industrial relations) have been extensively decentralised to the local level, while auto companies, which operate to a high degree of integration (and even replication) of activities between sites, tend to be more centralised.

As official corporate policy, decentralisation is pursued with near-religious zeal at ABB. The company itself is, in fact, just a holding corporation for 1 000 legally distinct companies and 5 000 profit centres. Official policy states that internal trade between profit centres is to be kept to a minimum, with companies being exposed to as much external competition as possible (ABB, 1992). The primary rationale behind this preoccupation with decentralisation goes beyond the dissimilarity of the company's operations, and is based on a particular view of economic efficiency and employee motivation:

> *"As part of an overseeable and transparent business entity, employees lose the 'false' sense of security of belonging to a big organisation and recognise that real security comes from having a profitable organisation."* (ABB, 1992, p29).

According to the company's highly-regarded chairman, Percy Barnevik, this is considered an important element in building a dynamic and fast moving corporation, and reflects his senior management team's ambition to:

"relentlessly push for higher targets and instil a mentality of continuous change." (Quoted in *Reed*, 1997, p22).

As we shall see, this decentralisation and dynamism, in combination with the company's aggressive globalisation drive, have significant consequences for industrial relations, particularly in Germany. Not only does the legal structure of ABB Germany, with 49 legally independent subsidiaries (which are further broken down into profit centres) play havoc with formal structures of employee representation, but globalisation, the devolution of decision-making, and the speed of change within the company have placed pressure on a system of industrial relations based on consensus, compromise, and a *Langfristkultur* (Reeves, 1997).

The only other participant to approach ABB's levels of decentralisation is Siemens UK. Like its German parent, Siemens UK is a diversified company with significant operational autonomy and responsibility devolved to segment, company, and workplace levels; Siemens UK is in reality a holding company for the 33 Siemens companies based in the UK. Unlike its German parent, however, Siemens UK has also completely decentralised industrial relations, right down to business unit level. In line with its commitment to building consensus with its workforce representatives, Siemens AG places far more emphasis on labour relations at the central level.

Within the auto industry, both in the UK and Germany, the similarity of operations and degree of integration between sites facilitates (and, to an extent, necessitates) a higher degree of centralisation, both with respect to operational issues and industrial relations. Even at the

study's two UK auto manufacturers, a fairly high degree of emphasis is placed on industrial relations at the company (as opposed to establishment) level. This degree of integration and replication across production sites has its own important implications for industrial relations.

Under GM's two major European brand names (Vauxhall and Opel) - which differ only for historic reasons and marketing purposes - there are six major product lines. At the top of the range, the Omega is produced in Rüsselsheim (Germany); the Vectra is also produced at Rüsselsheim as well as Luton, Antwerp, and Torbali (Turkey); the Corsa is manufactured at Eisenach (Germany) as well as Zaragoza (Spain), and Azambuja (Portugal); GME's largest production project, the Astra, is produced at Ellesmere Port, Bochum and Eisenach (Germany), Antwerp, Szentgotthàrd (Hungary), Zaragoza, and Azambuja; the Calibra sports coupe is made at Uusikaupunki (Finland); finally, the Frontera off-road recreational vehicle is produced at IBC Vehicles in Luton, a joint venture with Isuzu. The most important sites for powertrain and component manufacture are Kaiserslautern (Germany), Szentgotthàrd, Ellesmere Port, Zaragoza, and Aspern (Austria). GME, through a European planning department, co-ordinates a significant degree of production integration (increasingly on a Just-In-Time basis) between the various sites: up to 35 trains run daily between the various European plants, transporting approximately 95% of all freight within the production network (Enderle, 1997). This makes GME extremely vulnerable to industrial unrest - senior management at Opel AG estimate that within 72 hours of a total shutdown of the Kaiserslautern plant (which manufactures roughly 300 000 engines per year), virtually all production across Europe would grind to a halt. Management knows this, the workers know this, and so do the unions. On

the other hand, the extent to which vehicles and components are produced at more than one plant provides management with the opportunity to set plants up in competition with each other for investment and production scheduling, and GM management exploits this whipsawing opportunity with ruthless efficiency.

Such opportunities are not as freely available to management at Daimler-Benz, which is vulnerable to union attack due to its concentration of activities at a few major sites; this, in turn, also restricts management's ability to exploit competition between sites. Of Daimler's 12 production sites within Germany, the giant Sindelfingen and Untertürkheim plants, both located just outside Stuttgart, are undoubtedly the most important for the personal vehicles division. Sindelfingen produces 1 800 vehicles per day (nearly 60% of Mercedes-Benz passenger cars), and also supplies parts to various other production locations: all pressings for the A-class (produced at Rastatt) are done either at Sindelfingen or Bremen, while Bremen itself receives various reinforcement components from Sindelfingen. All powertrains (engines, transmissions, and axils) for Mercedes-Benz personal vehicles, including those produced in the USA and Brazil, are manufactured at the Untertürkheim plant; within the company's just-in-time supply strategy, most German production sites keep no more than two hours of powertrain supplies, and a complete shutdown at Untertürkheim would shut down production across the company within less than a day. As will be seen in chapter four, the IG Metall has not hesitated to exploit its strong position at these two plants to bolster its position in negotiations with the company and the regional employers' association.

Production at much smaller Jaguar is also highly integrated between the company's two main manufacturing sites at Brown's Lane and Castle Bromwich. The latter does all body and paint work for the XJ6 and XK8, as well as body, paint, and assembly for the new S-Type; complete parts for the XJ6 and XK8 are then transported to Brown's Lane for final assembly. So significant is the level of integration between these two plants, and so close their geographic proximity, that they share most management functions (including personnel and manufacturing), and are even run by the same manufacturing director. All engines come from Ford's engine plant in Bridgend, Wales. While Jaguar is, like Daimler, extremely sensitive to disruptions at either of its two manufacturing sites (or at the Welsh engine plant), Ford's numerous plants in the UK and continental Europe provide a real and immediate threat to Jaguar sites for new model investment, and this provides Jaguar management with a powerful leverage device, largely unavailable to their counterparts at Daimler.

D. SUMMARY

This chapter has addressed two of the study' contextual aspects: the research methods according to which the inquiry was conducted, and some of the pertinent background features of its participant companies.

The first part of the chapter dealt with research methodology. Having explained the choice of research methods and tools, it went on to describe the research process itself, highlighting five aspects of the study: its design, preparation for data collection, 'focused exploration' at the companies, analysis of the data collected, and

measures for enhancing the study's 'trustworthiness'. As explained, the study followed the case study research approach, using qualitative methods for collecting data, which was analysed inductively.

The second part examined those features of participant companies relevant to an understanding of either their response to the EU social dimension, or the industrial relations issues they confront at company and workplace levels. First, the comparability of companies' activities (or product market coverage) was described as the most important selection criterion when choosing participants; broad similarities and differences between paired cases were highlighted. Secondly, corporate nationality and ownership were examined, with a suggestion that these are not particularly significant factors influencing either response to the EU social dimension or industrial relations at national subsidiaries; parent multi-national companies were described as adopting a largely 'polycentric' approach to the management of personnel and operational issues at national subsidiaries. In spite of these conscious attempts to abstain from local issues, however, two features of participants companies were highlighted as indirectly influencing industrial relations at subsidiary companies and plants. In the first place, participants were contrasted in terms of the relative pace and scale with which they are pursuing a strategy of 'globalisation' - this, in turn, has important consequences for industrial relations at the local level, with an inherent tension between aggressive globalisation and consensual local relations. Finally, differences were noted between auto and electrical engineering companies with respect to their corporate structure and organisation of production, again with implications for local industrial relations.

CHAPTER TWO. FLEXIBILITY AND INDUSTRIAL RELATIONS

A. INTRODUCTION

This chapter sets out to establish a theoretical framework through which to interpret the findings presented in the following three chapters. It is divided into three main sections.

The starting point is the elusive notion of 'flexibility' itself. Flexibility at macro and micro-levels of the labour market are distinguished, and attention drawn to the latter as the focus of this study; the growing importance of firm-level flexibility in the context of globalising product markets is also noted. The strengths and weaknesses of various analytical models for differentiating between forms of flexibility are then discussed. The framework considered to hold the most potential for analysing the results of this study is one developed by Grenier et al. (1997), although it suffers from two important shortcomings in its failure to accommodate flexibility of labour costs, and its idealised rhetoric of 'strategy'. Having explained how these weaknesses are to be addressed, the section concludes with a depiction of the redesigned framework which will form the basis of analysis in chapters four and five.

Attention then turns to the different models of industrial relations in Germany and the UK. These are compared according to a systems approach, using a modification of the 'strategic choice' framework developed by Kochan et al. (1986). Based on the notion of tiers within the industrial relations system, the comparative analysis highlights the clear divergence in levels of external regulation in the two countries, with German industrial relations characterised by a highly developed

framework of regulation (in the form of legislation and extensive institutionalisation) which is, by contrast, relatively lacking in the UK context (trade unions being the only subjects of any significant regulation).

Finally, the implications of these industrial relations differences for firm-level flexibility are explored. According to a substantial body of research evidence dating from the 1970s, 1980s, and early 1990s, Germany's regulatory framework for industrial relations provides an environment within which companies enjoy significantly greater degrees of flexibility than do their British counterparts. Three outcomes of the highly-regulated German industrial relations system contribute to this apparent anomaly. In the first place, the extensive rights and powers afforded German workers and their representatives greatly enhance their security in the face of uncertain change, thereby increasing their willingness to accept and embrace such innovation. Secondly, the structure and functioning of interest representation is highly regulated, with the result that powerful German unions and employers' associations are coherent and encompassing, and in a far stronger position than their British counterparts to exclude the demands of sectional interests. Finally, at all levels in the industrial relations system, the regulatory framework forces management and labour to co-operate and interact on the basis of consensus and compromise, in turn facilitating flexibility by 'negotiated adjustment' (Thelen, 1991). So widespread are these contentions, and so ubiquitous the evidence in their support, that they constitute what will be referred to as the 'new orthodox' view of the relationship between industrial relations and organisational flexibility: superior German organisational flexibility is not only uninhibited, but literally enhanced, by the well-developed

regulatory framework within which industrial relations proceed; by contrast, the relative absence of external modulation and structure within the UK's informal model of industrial relations has been a debilitating factor associated with various rigidities at company and workplace level. This 'new orthodox' view is, as we shall discover in chapter three, a key factor in the controversy which surrounds the EU's social dimension.

B. CONCEPTUALISING 'FLEXIBILITY'

The contemporary preoccupation with 'Flexibility' in economic life is a relatively recent phenomenon, the origins of which are said to lie in the environmental turbulence which began with the two oil crises of the 1970s, and has not subsided since (Atkinson, 1987; Piore, 1986; Geary, 1992; Sefertzi, 1996)[1]. Until fairly recently, in fact, stability - the supposed antithesis of flexibility - was widely advocated as a virtuous characteristic of industrial relations, and industrial organisation more broadly (Geary, 1992; Streeck, 1987b).

The only real point of consensus in the current debate is that flexibility as a concept is poorly understood and much abused (Pollert, 1991; Gilman, 1998). Definitions abound but, as Meulders and Wilkin (1987) note, the broad range of different dimensions covered by the term 'flexibility' greatly limits the scope for an accurate demarcation of the subject; at most, the central theme of flexibility can be identified

[1] There are contrary interpretations, such as that of Smith (1991) who suggests that the debate bears much resemblance to, and is in fact a re-hashed version of, the 1960s debate surrounding *"automation as the panacea for industrial alienation"* (Ibid., p138); while there may indeed be parallels, however, much of the current debate - not least the vocabulary and discourse of "flexibility" - is new.

as, *"the capacity to adapt to change"* (Ibid., p5), or, *"the ability of a system or subsystem to react to various disturbances"* (Boyer, 1987, p113).

From the perspective of industrial relations[2], the debate over flexibility is centred on two main institutional levels within the labour market: the macro-economic level (focusing on trends in national labour markets), and the micro-economic (or firm) level. At the macro-economic level, the debate over flexibility has focused on the impact of economy-wide institutions (notably government policy) on the adjustment efficiency of labour and capital (Michon, 1987). The principal controversy at this level of the debate revolves around the impact of labour market regulations on employment, particularly the extent to which Europe's high levels of structural unemployment might, or might not, be the result of such regulation (OECD, 1994; Eltis, 1995a; Englander, 1996; Heylen et al., 1996; Van Den Noord, 1996; Sen, 1997; Guest, 1997).

The focus of this study, however, is flexibility at the micro (or firm) level. At its most elementary, firm-level flexibility can be defined as,

> *"the extent to which it [the firm] can adjust the utilisation of its productive resources to changes in the level and structure of demand."* (Rubery et al., 1987, p140).

In the face of extensive fluctuations in the competitive environment in which companies operate, there is a growing recognition of the importance of such adaptability and responsiveness; many commentators describe a generalised expectation that turbulence has become a

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[2] Following Poole (1986, p4), this thesis will understand 'industrial relations' to broadly encompass, *"the systematic study of all aspects of the employment relationship."*

permanent stimulus to which companies must perforce respond on an ongoing basis. As such, this capacity for adjustment is increasingly being recognised, not simply as a means, but as an end in itself, a crucial source of sustainable competitive advantage. From this perspective, firm-level flexibility in the broadest sense is perhaps best understood as,

> *"**a general capacity of enterprises to reorganise in close response to fluctuations in their environment** ... the particular experience of the 1980s seems to have given rise to a widely shared* expectation ***that strong turbulences and uncertainties will become a permanent feature of economic life for the foreseeable future** ... flexibility has turned, from a capacity to master a limited set of concrete adjustment problems, into a value in itself - a permanent property of economic organisations that is sought almost for its own sake in a situation in which **adaptation seems to consist above all in increasing the general capacity to adapt**."* (Streeck, 1987b, p290; Author's emphasis)[3].

The important point to realise then is that the required change is not a one-off adjustment, where-after conditions return to 'normal' - the environment in which organisations operate has become increasingly unstable, uncertain, and unpredictable, and any individual adjustment measures,

> *"even if they are not always temporary, are in any event liable to become rapidly obsolete."* (Michon, 1987, p154).

As such, flexibility is an essential feature, not only of outcomes, but of organisational processes. If firm-level flexibility is then understood to entail an on-going organisational capacity for change,

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[3] The view that flexibility is, first and foremost, necessitated by the requirement to adapt to external environmental fluctuations is perhaps somewhat contrary to a resource-based view of the firm (Kay, 1993; Grant, 1991; Prahalad and Hamel, 1990) which sees firms gaining competitive advantage by proactively moving to shape their competitive environment. Whether firms are reacting to, or proactively stimulating, changes in their competitive environment, however, the valuable point made by Streeck (and others) is that firms themselves have to be continually capable of a new round of internal changes.

either in reaction to or anticipation of environmental adjustments, the next important point to realise is that there are different forms which this capacity can take.

Any attempt to categorise 'flexibility' at the level of the firm, however, soon encounters the wide range of options, situations and measures by which this ephemeral concept is operationalised (Sarfati and Kobrin, 1986). In fact, according to Boyer (1987), there are as many forms of flexibility as there are components in the employment relationship. As a result, few commentators make any attempt to differentiate between forms or types of firm-level flexibility, and the terms of the debate extend little deeper than the conception of flexibility as a general organisational capacity to adapt to environmental change. As we shall see in both the extant literature on comparative industrial relations and flexibility, and the debate over the EU social dimension, surprisingly few efforts are made to analyse firm-level flexibility according to any conceptualisation of the different aspects or components of such flexibility.

One of the most significant exceptions to this rule is Atkinson's model of the 'flexible firm' (Atkinson, 1984 and 1987; Atkinson and Meager, 1986). The model, which is both analytical and prescriptive, differentiates between four different types of flexibility: numerical flexibility (encompassing 'atypical' forms of work and new working time patterns), functional flexibility (variability of tasks beyond fixed occupational boundaries), distancing (outsourcing and sub-contracting), and pay flexibility. Central to the notion of the 'flexible firm' is a clear dichotomy between a firm's 'core' and 'peripheral' workforces. Through this differentiation, it is argued, companies are able to

reconcile the inherent tensions between the different forms of flexibility. Numerical and financial flexibility are achieved through the lower levels of job security afforded peripheral workers, and through 'distancing'; in return for such low levels of commitment to peripheral workers, little is expected by way of functional flexibility. In contrast, the numerically stable core group of workers are provided with terms and conditions designed to promote functional flexibility: employment security, single status conditions, and pay systems which reward the acquisition and deployment of new skills and which are at least partially based on performance assessment. Through recourse to this dual labour force, companies are able to overcome the traditional incompatibility between different forms of flexibility, and exploit their additive potential.

Although the model of the 'flexible firm' represents a clear advance on the simple conceptualisation of flexibility as a broad capacity to change, it has two major weaknesses in terms of its applicability to this study. In the first place, various imperatives relating to products and production processes at participant companies greatly limit the extent to which these companies can even consider the use of peripheral workers. As Penn et al. (1992, p221) discovered in a study of paper mills, complex manufacturing operations are,

> *"not akin to the provision of retail services. What might be a rational strategy at Sainsbury's or Stockmann's would be a recipe for disaster in a capital-intensive, continuous process plant. In such environments, the 'core' workforce* ***is*** *the workforce."* (Author's emphasis).

The only participant company in this study making use of any real number of 'peripheral' workers is Jaguar; even here, temporary workers are only recruited immediately following a new model launch, and are either taken

on full-time or laid off within 52 weeks. This hardly conforms to Atkinson's model of the 'flexible firm' which is, in any case, conspicuous by its absence at any of the other companies and sites which I visited.

Secondly, it became clear through the course of the study that the simple lumping of flexibility in working time under the heading of 'numerical flexibility' represents an unjustifiable conflation. While numerical flexibility necessarily implies recourse to the external labour market, working time flexibility is a strategy based on the firm's current labour force; while both seek to address an imbalance between labour supply and demand at the firm level, they do so through quite different mechanisms. Any framework for understanding the different forms and levels of flexibility as encountered in this study would have to recognise the distinction between flexibility in workforce numbers and working time, and would not rely on a dichotomy between core and peripheral workers.

Although a review of other attempts to categorise firm-level flexibility reveals a general absence of unanimity on how best to group aspects of the employment contract under specific headings or types of flexibility, certain key components are common to most frameworks of firm-level flexibility. Clarke (1986) follows Atkinson in differentiating between wage flexibility (financial flexibility) and labour mobility (numerical flexibility), but inexplicably clusters flexibility in working conditions, practices and procedures (functional flexibility) with flexibility of working time. Again, this is a conflation which greatly limits the framework's applicability to this particular study. Flexibility of working time is not even addressed by Boyer (1987,

pp.109-111), although he again recognises numerical flexibility ("*weakness of legal constraints on the contract of employment*"), and financial flexibility ("*the sensitivity of wages to the economic situation*") as core components of general flexibility; functional flexibility is, in a somewhat convoluted fashion, subdivided into technological flexibility ("*degree of adaptability of productive organisation*") and worker polyvalence ("*the propensity of workers to change jobs*"). Sarfati and Kobrin (1986) provide a more complete and coherent picture of firm-level flexibility in distinguishing between flexibility in labour costs (financial flexibility), employment stability (numerical flexibility), working time, and work organisation, skill versatility and mobility (functional flexibility).

As well as the generally inadequate treatment of working time flexibility, these frameworks all suffer from two main shortcomings. In the first instance, with the exception of Atkinson's model, none of them addresses the issue of outsourcing as an entity distinct from numerical flexibility. As we shall see, companies making use of outsourcing do so for a number of reasons not always related to a reduction in workforce numbers; among the many considerations to outsource or subcontract are the potential to take advantage of other firms' specialisation in certain areas of production, an increase in design input, cost reduction, and the control of competition (Rubery et al., 1987). Secondly, they employ little analytical rigour in deciding which aspects of the employment contract belong to which components of general flexibility. The most obvious manifestations of this are the inconsistent and incoherent treatment of working time and functional flexibility.

One categorisation of firm-level flexibility which goes at least some way to addressing both of these concerns, as well as the inadequate treatment of working time flexibility, and which avoids any unrealistic reliance on core and peripheral workforces, is a typology developed by Grenier et al. (1997) (See Table 1).

Table 1	**FLEXIBILITY STRATEGIES**	
Type of flexibility	**Strategic focus** *External*	*Internal*
Volume of labour	***Numerical Flexibility***	***Temporal Flexibility***
Organisation of work	***Externalisation***	***Functional Flexibility***

The typology distinguishes firstly between "internal" and "external" strategies for promoting labour flexibility:

> *"Internal strategies involve efforts to increase the establishment's ability to adjust to changing circumstances through modifications of the internal labour market or the organisation of production. External flexibility strategies ... have recourse principally to the external labour market." (Ibid., p685).*

Either internal or external strategies can be applied to two distinct areas in which labour flexibility is typically sought - the volume of labour (also referred to by Michon [1987] as "quantitative flexibility"), and the organisation of labour ("qualitative flexibility"). The result is four distinct components of firm-level labour flexibility: *numerical flexibility*, *externalisation*, *functional flexibility*, and *temporal flexibility*.

Although this typology addresses most of the weaknesses of the other models discussed previously, and is appealing in its simplicity and clarity, it has two important shortcomings as far as the findings presented in chapters four and five are concerned. In the first place, and by the authors' own admission, it lacks reference to flexibility of labour costs (or *financial flexibility*). As we shall see, this is an increasingly important consideration for all participant companies, and needs to be incorporated into the analytical framework by which flexibility is assessed and compared. As with the volume of labour and organisation of work, companies can, broadly speaking, effect adjustments in labour costs through external or internal mechanisms. External approaches include recourse to industry agreements on wages and non-statutory non-wage labour costs, as well as government policy or tripartite bodies regulating statutory non-wage labour costs[4]; these efforts seek to adjust such costs in line with external indicators such as the rate of inflation or sectoral (possibly national) economic performance (Sarfati and Kobrin, 1986), and might be referred to as *'indirect' financial flexibility*. Internal mechanisms involve firm-level (or even establishment-level) actors and procedures in the adaptation of wages and benefits in line with the economic performance of the firm or plant; this is usually achieved through local bargaining, or forms of performance related pay, and may be termed *'direct' financial flexibility*.

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[4] This differentiation between statutory (regulated by law) and non-statutory (regulated by sectoral agreement) non-wage labour costs is based on a classification used by the German Economic Institute (*Institut der deutschen Wirtschaft* - IW). Statutory non-wage labour costs are comprised of elements such as contributions to social security, sickness pay, and paid public holidays; non-statutory non-wage labour costs include holiday payments, and so-called special payments and capital-forming payments.

The typology's second major defect is its relatively naive depiction of *"strategy"*; whether through poor forward planning or force of circumstance, many management efforts in pursuit of flexibility might more accurately be described as reactive and even opportunistic. To some extent, these criticisms can be accommodated through a looser interpretation of *"strategy"* as a concept. The most stringent criteria for judging the 'strategic' nature of actions or decisions are established by what Chaffee (1985) refers to as *"linear models"* of strategy. These stipulate methodical planning and directed, sequential action; Chandler's (1962, p13) definition epitomises this view of strategy:

> *"Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."*

On the other hand, various commentators argue that the rationalism inherent in these models does not reflect the political reality of organisations, and the many complex intervening factors in decision making (Johnson, 1987). Mintzberg (1978), for example, suggests a more flexible understanding of *"enacted"* strategy (as opposed to *"intended"* strategy) as, *"a pattern in a stream of decisions"*. According to this conceptualisation, strategy may only be evident retrospectively as a basic trend in a series of actions and decisions taken over a period of time. The evidence of industrial relations and flexibility presented in chapters four and five suggests a complex interplay between these 'intended' and 'enacted' strategies, as well as between decisions made at different strategic levels. On the one hand, many management initiatives are derived from clear, 'first-order' (Purcell and Ahlstrand, 1994) strategic intentions: as described in chapter one,

globalisation is a high-level strategic priority at all participant companies, with significant operational and industrial relations implications at company and plant levels. Within the framework of these 'first-order' strategies, companies develop 'second-order' strategies (on teamworking, for example) while, at plant-level, 'third-order' strategies are developed for the operationalisation and implementation of these higher-order strategies (whether to involve the unions in the change process or approach the workforce directly). As discussed in chapter one, parent companies are minimally involved in the actual implementation of their 'first-order' strategies, with most such decisions being devolved to company, and often plant, level. These functional and operational levels are, however, characterised by politics and power-play such that 'strategies' tend to emerge as compromises between what was originally intended and what is actually possible. At this point, pragmatic opportunism often becomes the favoured management tactic, as they strive to achieve outcomes by whatever process they can; the result bears little resemblance to 'linear' conceptions of strategy. Such considerations are important in any reference to 'strategy', either in Grenier's framework for flexibility, or in Kochan's model of strategic choice (see next section).

The framework's other components are largely unproblematic. As far as the volume of labour is concerned, *numerical flexibility* represents perhaps the most basic (and contentious) form of organisational adaptability. According to Meulders and Wilkin (1987, p7), it is defined as an external mechanism for adjusting the volume of labour,

> *"in response to cyclical or structural variations in demand and/or technological changes."*

Broadly speaking, there are two primary mechanisms by which such adjustments can be made. In the first instance, workers can be taken on or dismissed in line with the firm's requirements ('hiring and firing'). Alternately, as with Atkinson's model of the 'flexible firm', *numerical flexibility* may involve recourse to diverse and atypical forms of employment and a 'peripheral workforce'.

The alternative, internal mechanism for flexibility in the volume of labour is through *temporal* (or working time) *flexibility*, simply defined as,

> *"the adaptation of work schedules and the organisation of working time."* (Meulders and Wilkin, 1987, p9).

There exist a variety of forms of *temporal flexibility*, most notably overtime and short-time working, shift-working, 'flexitime' or 'corridor' working time models, 'annualised hours', weekend working, etc. One of the great advantages of this internal approach over *numerical flexibility* is the relative speed at which adjustments can be effected (Michon, 1987). There are, however, limitations in the extent to which this form of flexibility can compensate for significant discrepancies between labour supply and demand at the firm level.

The second broad area in which flexibility is often sought is the organisation of labour. The external approach to flexibility in the organisation of labour is referred to as *"externalisation"*. This usually involves 'putting out' various non-core aspects of the production process to other companies for whom those activities are core competencies. Outsourcing and sub-contracting are two of the most common examples of *externalisation*.

The internal approach to a flexible organisation of labour is *functional flexibility* (perhaps more accurately referred to as "technical-organisational flexibility") or:

> *"the capacity of the production unit to combine new techniques of organisation and diversified equipment into an overall structure, the purpose of which is to satisfy a demand which is uncertain"* (Meulders and Wilkin, 1987, p8).

Certain authors (such as Boyer, 1987) differentiate between *functional flexibility* through technology and work organisation, and worker polyvalence. To a certain extent, this is valid and, as we shall see, some companies concentrate more on technology as a source of functional flexibility, while others focus on multi-skilled workers. For the most part, however, these two aspects of *functional flexibility* are mutually dependent: flexible equipment requires flexible operators, while multi-skilled workers require a different form of work organisation to highly specialised craftsmen. In autos (and, to a certain extent, in electrical engineering), the focus in recent times have shifted decisively from an exclusive reliance on flexibility through automation to an increasing recognition that further advances can be achieved only through changes to working practices, processes and organisation with the emphasis on flexible workers. As we shall see, there are two requirements for such flexibility: the ability of workers to perform a variety of tasks (i.e. their skill levels), and their readiness to do so; one does not necessarily follow the other.

In light of these various amendments and elaborations, the revised framework by which firm-level flexibility will be analysed and compared in chapters four and five is presented below (Table 2).

Table 2	**FORMS OF FLEXIBILITY**	
	Level at which efforts are focused	
Source of flexibility	*External*	*Internal*
Volume of labour (Quantitative flexibility)	***Numerical Flexibility*** (e.g. layoffs, 'peripheral workforce')	***Temporal Flexibility*** (e.g. overtime, 'flexitime', shift-working)
Organisation of work (Qualitative flexibility)	***Externalisation*** (e.g. outsourcing, subcontracting)	***Functional Flexibility*** (e.g. multi-skilling, teamworking)
Cost of labour (Financial flexibility)	***'Indirect' Financial Flexibility*** (e.g. via industry agreements, government policy)	***'Direct' Financial Flexibility*** (e.g. via local bargaining, performance related pay)

It is important to note at the outset that, although these distinctions between different forms of flexibility are analytically valuable, such neat separation is not a characteristic of flexibility in practice. Significant degrees of overlap and interaction occur. For example, outsourcing as a form of *externalisation* may well be motivated by a desire to bring increased flexibility to the organisation of labour but, as noted, it is often also an accompaniment to *numerical flexibility* (the outsourcing of activities removes numbers from the payroll) and/or *financial flexibility* (outsourcing an activity often means the transference of workers to different industries with lower wage rates). While Atkinson and Meager (1986) contend that different forms of flexibility are potentially additive, many other commentators have pointed to significant incompatibilities between forms of flexibility. The most frequently cited example of this 'substitution' effect is the

incompatibility of *numerical* and *functional flexibility* (Boyer, 1987; Streeck, 1987b; Penn et al., 1992; Grenier et al., 1996). So, it is argued, the employee commitment and participation, as well as the training and multi-skilling, which are essential elements of *functional flexibility* can not exist in an environment of short-term contractual relationships and uncertainty about the firm's obligations towards its employees. Although the model of the 'flexible firm' represents an attempt to accommodate these incongruities by providing for a *functionally* flexible 'core' workforce supported by *numerically* flexible 'peripheral' workers, serious doubts have been raised about the practicality of this reconciliation (Geary, 1992; Penn et al., 1992)[5].

As will be seen in chapters four and five, each company in this study faced its own set of challenges and tensions between diverse flexibility mechanisms - these were resolved to varying degrees in a number of different ways. One of the important points about flexibility is that there is no single form of flexibility, or even combination or pattern of flexibilities, which is appropriate to all firms (Sefertzi, 1996).

Nor is flexibility available to all companies in the same forms or degrees; as Michon (1987, p156) notes, various features of an organisation and its environment impose constraints which limit the options of both type and level of flexibility:

> *"Technical constraints, previous organisational decisions, labour legislation, workers' preferences - a series of variables all tend to create a gap between the*

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[5] This is not to say that the theory of incompatibility is itself uncontested: Osterman (1994), for example, made the surprising discovery that American firms employing methods of *functional flexibility* were no more likely to offer job security to their workforce than those not focusing on this internal approach to qualitative flexibility; he concludes that, *"Evidently, contrary to expectations, it is possible to introduce innovations in work practices without reassuring employees that their jobs are not at risk."* (Ibid., p186).

optimal and the achievable. The size of this gap is a measure of the degree of rigidity in the enterprise."

Some of the most significant such 'variables' impacting on organisational and operational flexibility are contained within the industrial relations system in which firms must operate; in particular, the legislative and institutional features of the industrial relations environment are held to be of critical importance in determining both the forms and levels of flexibility available to companies (Streeck, 1984a; Maitland, 1983; Katzenstein, 1989). The next section outlines the different regulatory traditions in the British and German industrial relations systems, while the last part of the chapter considers the implications for flexibility.

C. INDUSTRIAL RELATIONS COMPARED - GERMANY AND THE UK

1. A Framework for Comparison

The study's primary focus, as far as industrial relations is concerned, centres on the impact of industrial relations arrangements in Germany and the UK on firm-level flexibility. As such, the analysis concentrates on actors, procedures, and outcomes at the company and establishment levels, and these will be outlined for participant companies in chapters four and five. We can not, however, ignore the important influence exerted by higher-order features of the economic, social, and political environments of the two countries. To this end, and as a background to the discussion on firm-level industrial relations and flexibility in chapters four and five, this section will sketch a broad comparison of

the German and British systems of industrial relations, guided by the 'strategic choice' model developed by Kochan et al. (1986).

The notion of an 'industrial relations system' was first developed in Dunlop's (1958) seminal work of the same title, primarily as an analytical abstraction,

> *"designed to highlight relationships and to focus attention upon critical variables".* (Ibid., p6)

One of the principal attractions of the systems model for the study of industrial relations is its emphasis on the relationships and interactions between the various actors, contexts, and processes operating within, and impinging upon, that system; as we shall see in the chapters which follow, any understanding of the industrial relations situation at company and workplace levels in both Germany and Britain can only be developed in the context of a broader appreciation of the many external variables which shape and direct relations and outcomes at the operational level. By recognising this inter-relationship among activities, a systems approach considers the effects that any changes exert on other elements of the system. In the extent to which the systems model provides a framework for conceptualising such integration between the various components of a sophisticated ensemble, it is of great value to the student of industrial relations. As a template outlining the basic features of such a 'system', it is also eminently applicable to comparative analyses of industrial relations arrangements in different countries, which share the same set of fundamental elements, but differ in the nature of those basic elements as well as their interactions.

The systems model is, however, not without its shortcomings. Perhaps most importantly, the original systems model is criticised for its over-emphasis on rules and procedures, and an inadequate treatment of the behavioural aspects of actors who, being represented as fixed structures, are assumed to be passive enactors of the system processes (Blain and Gennard, 1970, p403). According to Schienstock (1981, p173), the model,

> *"deals primarily with the macro aspect of industrial relations and neglects ... the individual workplace and relations therein ... it presupposes an obligation on the part of the individual to concede to external persuasion and makes no provision for a purpose-specific modification of the rules to comply with individual interests".*

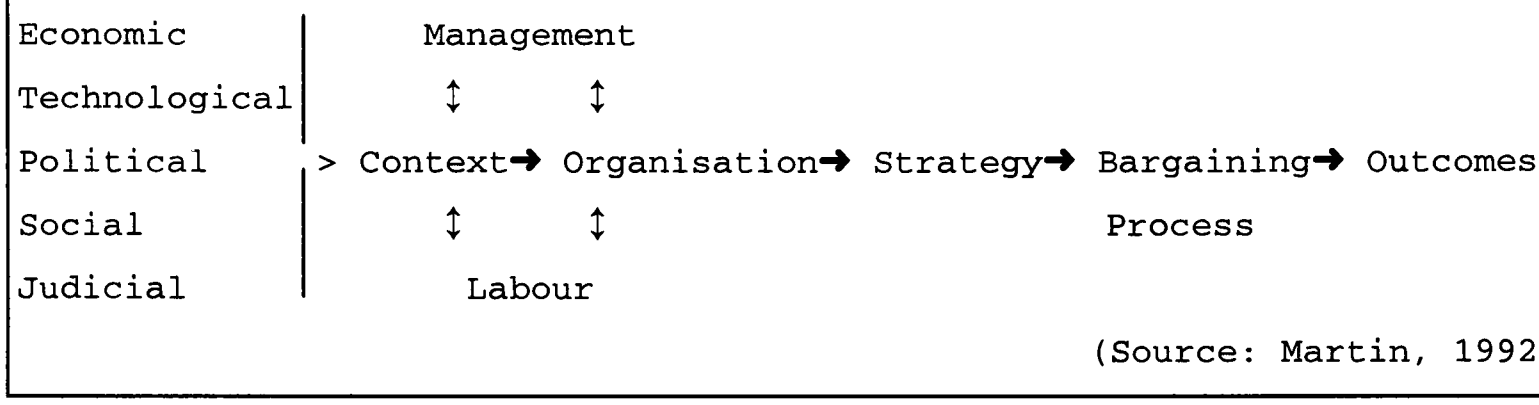
This criticism is particularly pertinent with respect to the passive role of management who, since the 1980s, have become a more forceful initiator of change in most industrial relations systems (Beer et al., 1984; Boxall, 1992 and 1993). Furthermore, this structural determinism and concentration on the macro aspects of industrial relations is compounded by Dunlop's reluctance to consider power and ideology at lower levels of the industrial relations system. Instead, these two important elements are 'defocalised', and their relevance restricted to the 'higher' regions of the system (Wood et al., 1975). According to Dunlop (1958, p99),

> *"The status of any one of the actors in an industrial relations system is defined to mean the prescribed functions of that actor and the relations with other actors ... These prescribed functions and relations may be largely imposed upon an industrial relations system from outside by the community, as in the case of legislation".*

As we shall see, this depiction of power is more valid for the situation in Germany than in the UK, but even in the German context it is inadequate and can not account for phenomena such as the famous ability of works councillors to extend their *de jure* rights and powers. For the

purposes of analysis, this thesis will use (a slightly modified version of) Martin's (1992) framework for bargaining power (see figure 1)[6], which represents a synthesis of behavioural, economic, and sociological theories of power.

Figure 1: Bargaining Power



(Source: Martin, 1992)

According to Martin (1992, p4),

> *"power refers to the success of one group in obtaining compliance with its wishes regardless of the opposition of others."*

In line with our framework for industrial relations, this model adopts a 'systems' approach to the concept of power, recognising various subtle interactions between actors, processes, and contextual factors. By selecting participants on the basis of industry, economic and technological aspects of the environment are kept relatively constant[7], with the result that judicial, political, and social influences on the balance of power are brought to the fore. Regarding actors and

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[6] Reference to 'unions' is replaced by the more generic 'labour' to account for the German situation where collective workforce representation is effected by unions, works councils, and supervisory boards.

[7] As discussed in chapter one, there are few technological differences between any of the paired cases. Industry conditions will be outlined in chapters four and five, with four economic features common to all companies: they are competing in highly global, and fiercely competitive industries, characterised by significant overcapacity and intense pressure on profitability.

processes, the discussion in chapters four and five highlights management strategy and ideology, labour organisation and strategy, and bargaining patterns as important determinants of power.

As with power, the original systems approach 'defocalises' ideology, which is viewed simply as an underlying consensus between the key actors (management, trade unions, and the state), defining and legitimising their roles. Dunlop (1958, p53) describes ideology as,

> *"a set of ideas and beliefs commonly held by actors that helps to bind or to integrate the system together as an entity. The ideology of the industrial relations system is a body of common ideas that each actor holds towards the place and function of the other in the system."*

In the dynamic and pressurised industrial relations environment of the late 1990s, this ideological congruence between actors can no longer be assumed. As we shall see in chapter three (pages 146 to 150) management ideology (particularly with respect to social control and 'managerial prerogative') is an important factor, not only in local industrial relations, but in employer response to the EU social dimension.

To a significant extent, these three related shortcomings - neglect of the micro aspects of industrial relations, and the defocalisation of both power and ideology - are addressed by the 'strategic choice' systems model developed by Kochan et al. (1986). Again, as with our framework for flexibility, use of the word 'strategy' is to be treated with some caution as none of the actors are immune to opportunistic and *ad hoc* actions and decisions, but, importantly, the model accords the key actors at various levels of the system an element of choice. Such choice is, in turn, significantly influenced by both power and ideology; according to the authors (Ibid., p 5),

> *"Our central argument is that industrial relations practices and outcomes are shaped by the interactions of environmental forces along with the strategic choices and values of managers, union leaders, workers, and public policy decision makers."*

The authors recognise that choices are constrained by historical and institutional structures, but argue for a heightened awareness of the influence of the actors themselves on the system in which they operate. Furthermore, they introduce an analytical distinction between three different levels (or tiers) within the industrial relations system at which these actors interact with each other as well as with important contextual features of the environment. At the top (or 'strategic decision-making') tier, policy is set and structure provided for relations at lower levels in the system. The middle (or 'functional') tier is the traditional focus of most industrial relations research, and is the realm of the actors and procedures associated with collective bargaining. Finally, at the 'workplace' level, choices are made pertaining to such issues as the organisation of work, the structuring of worker rights, and the nature of the workplace environment; as we shall see in chapters four and five, such choices have significant impact on firm-level flexibility, but it is important to recognise that they,

> *"occur within the context of policies and negotiated agreements decided at higher levels of the system. Thus the effects of higher-level activities in decision-making and industrial relations must be considered as explanations of behaviour and outcomes at the bottom tier."* (Ibid., p18).

As noted at the outset, no account of company and workplace industrial relations in the UK and Germany would be complete without adequate consideration of the wider systems in which these relations occur. To this end, a slight modification of the 'strategic choice' model is

proposed. With the ongoing decentralisation of industrial relations in both countries, it is no longer altogether clear at which level of the economy collective bargaining takes place; in other words, there is some confusion as to which is the 'functional' tier in the system. This is particularly pronounced in the UK where industry bargaining in engineering has ceased altogether, and negotiations now take place at either company or plant level but, even in Germany, important framework negotiations are often conducted at company level between management and the central works council. As such, I propose that the 'functional' tier be split into 'functional-industry' and 'functional-company' components, with different weightings in the two industrial relations systems.

This leaves us with a modified 'strategic choice' systems model by which to briefly compare and contrast the broader industrial relations arrangements in the UK and Germany. At the top tier of 'strategic decision-making', we shall explore the overall industrial relations framework established by national governments and social partners at the highest levels of the economy, through policies, laws, and tripartite social and economic regulation. At the 'functional-industry' tier, industry-wide institutions and processes will be examined, noting their persistent strength in Germany and relative weakness in the UK. Important actors and interactions at the 'functional-company' level will then be briefly outlined, followed by a generalised discussion of the 'workplace' level; as noted, these features will be explored in more depth (and for specific companies) in chapters four and five, this section will merely delineate broad patterns and trends. Perhaps the most prominent distinction between the British and German industrial relations systems is the extensive 'juridification' of the latter (at

all four tiers), with a significantly lower level of regulation in the UK context.

2. Germany's Comprehensive Regulatory Framework

a) National ('strategic decision-making') Level

One of the most prominent features of industrial relations in Germany, particularly when contrasted with the situation in the UK, is its extensive regulation[8] or 'juridification' (Berghahn and Karsten, 1987; Maitland, 1983). Furthermore, as Streeck (1984a and 1984b) notes, there is a clear and well established hierarchy of regulation, corresponding with the four institutional tiers described in the preceding discussion. Although the majority of regulation in the German industrial relations system is effected at lower levels of the economy, it is at the national level (the 'strategic decision-making' tier) that an important framework is established, setting the parameters for the conduct of industrial relations at lower levels. This framework is comprised of both substantive and procedural legislation[9], and is itself grounded in a broader commitment to a 'social-market economy' (*Soziale Marktwirtschaft*).

At the most fundamental level, Germany's constitution, the Basic Law (*Grundgesetz*), sets the tone for the country's industrial relations

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[8] Following Buttler (1987, pp.21-22) this study will understand industrial relations regulation to entail: "*the deliberate, non-price-determined influencing of the alternatives for behaviour of those who supply and demand labour or their collective agencies, in order to influence an agreement between the two sides, or to impose other controls through a third party.*" The two main sources of such regulation are labour market legislation and institutions.

[9] Such legislation is contained within the country's civil, industrial, and commercial codes, as no specific labour code exists (Pichot, 1996).

system. In Articles 20(1) and 28(1), the principle of Germany as a welfare state is established, while Article 9(3) guarantees the freedom of association (i.e. the right to form unions and employers' associations). These two principles, together with the requirement that the state establish a "fair social order", have given rise to a strong emphasis on 'social partnership' between labour and capital, with the state establishing the rules of the game and acting as non-intervening referee. Although this social partnership is most prominent at industry and company level, trade unions and employers' associations (the 'social partners') also play an important role in strategic decision-making at national level.

Tripartite bargaining reached its apogee during the 'concerted action' between state and social partners during the period 1966 to 1977. As in the UK, these attempts at tripartite consultation over economic policy and wage negotiations achieved only limited success, and little effort was made to save concerted action in 1977 when the unions withdrew their support in protest at employers' legal challenges to the 1976 co-determination act (Jacobi at al., 1992; Greiling, 1997). Despite this failure, however, tripartite institutions continue to play an important role in Germany's industrial relations and social policy formulation (Berghahn and Karsten, 1987). The *Bundestag* (lower house of parliament), for example, is obliged to consult with the social partners on all labour-related and social matters, either in the form of written communications or public hearings. The country's labour courts (at Federal, *Land*, and local level) are usually chaired by a professional judge who is aided by two assessors, one of whom is nominated by the trade unions and one by employers' associations. Both the national vocational and social security systems, while subject to state

supervision, are administered largely by the social partners themselves. In all, the social partners are well integrated into the policy-forming and strategic decision-making of Germany's industrial relations system, and contribute significantly to the framework of regulation governing labour relations at lower levels.

The first feature of this framework is an extensive floor of minimum substantive rights with regards employees' terms and conditions. Virtually every conceivable aspect of the employment relationship is covered by a foundation of substantive legislation, both general and specific (Greiling, 1997). The Civil Code (*Bürgerliches Gesetzbuch*) is the first in a series of laws containing stipulations on the termination of the employment contract; it also establishes an employer's duty to ensure the welfare of his/her employees and continue paying wages where an employee is unable to work through illness or accident. Gender discrimination is also prohibited by this legislation. Another general piece of legislation, the Trade Regulation Act (*Gewerbeordnung*), provides further employment protection, and again refers to employers' obligations with respect to the welfare of their employees and the continuation of pay in the case of sickness; this Act also regulates aspects of working time, specifically work on Sundays and bank holidays.

Employment protection is further enhanced through specific legislation such as the Dismissals Protection Act (*Kündigungsschutzgesetz*) which provides every employee who has been employed by a business for at least six months the right to appeal before a labour court and to contest the dismissal on the grounds of social justifiability. Other laws with implications for employment protection include the Employment Promotion Act (*Arbeitsforderungsgesetz*) and the *Gesetz über die Fristen der*

Kündigung von Angestellten (legislation concerning the length of notice required for white-collar workers). Working time too is the subject of numerous laws. The Code of Working Hours (*Arbeitszeitordnung*) regulates the maximum daily and weekly working hours, prohibits or limits night shifts, and makes certain stipulations on breaks and rest periods; like the Trade Regulation Act it prohibits (or limits) work on Sundays and bank holidays. Further laws with implications for working time include the *Feiertagslohnzahlungsgesetz* (legislation concerning payment for bank holiday working), the *Bundesurlaubsgesetz* (Federal Holiday Act), and the Labour Promotion Act (which regulates payment for short-time work). Work organisation and processes are regulated by the *Arbeitsstättenverordnung* (Decree on Workplaces), which contains extensive provisions on the layout of the workplace and working environment, and the *Gesetz über Arbeitnehmererfindungen* (Act concerning Employee's Inventions) stipulating rewards for employees coming up with ideas or proposals for technical improvements. Health and safety, parental leave, and discrimination are other subjects which are also covered by extensive legislation.

Much more important than these substantive laws, however, is the procedural legislation which establishes the basis for a comprehensive network of institutions at industry and company level. All aspects of the employment contract regulated through substantive legislation at national level are subject to further regulation in the form of collective agreements at either (or both) the industry and company level; according to the principle of a hierarchy of regulation, terms and conditions established at each of these lower levels can only be more favourable to employees than those set at the higher levels. As such, substantive legislation is merely the starting point of

juridification in the German industrial relations system, with legally-backed representative institutions and collective agreements providing the bulk of regulation.

Arguably the most important source of regulation in the German system, collective bargaining at industry level, does not itself operate under very detailed legal regulation. In the first place, the Basic Law defines the criteria under which protection is extended to associations formed by workers or employers; the resulting structure and configuration of interest representation at industry level (in particular, the principle of industrially concentrated unitary trade unions or *Einheitsgewerkschaften*) is considered one of the most important features of German industrial relations, and will be discussed in the next section. Secondly, the Collective Agreements Act (*Tarifvertragsgesetz*), first mooted in 1949 and amended in 1969 and 1974, guarantees the principle of free collective bargaining; in other words, the right of the collective bargaining parties to negotiate terms and conditions without state intervention (Lecher, 1995; Pichot, 1996). According to the Act, collective agreements consist of two components: an obligatory part establishing the rights and obligations of the social partners (the most important being the peace-keeping obligation [*Friedenspflicht*], the duty to implement the agreement, and the duty to strive for compliance by members [*Einwirkungspflicht*]), and a normative part establishing terms and conditions of employment. The agreements apply to all workers who are members of the trade union or whose employer is a member of the employers' federation party to the agreement; the geographic area to which the agreement applies is specified in the text (the bargaining areas are, for the most part, somewhat smaller than the *Länder*). As noted, the normative components of

collective agreements can only deviate from legislation on the same issue insofar as they are more favourable to employees. As for the obligatory component, perhaps the most interesting aspect is the peace-keeping obligation. According to a significant body of case law, numerous criteria for legal strikes are defined (Jacobi et al., pp.228-230; Greiling, 1997, p118; Berghahn and Karsten, 1987, p94). Among other points, only unions may invoke strike action[10], which must conform to the principles of 'proportionality' and 'social adequacy'; strikes are to be a measure of last resort (the *ultima ratio* principle) following extensive efforts at arbitration and conciliation; finally, a clear legal distinction is drawn between conflicts of rights over the interpretation of existing collective agreements (which must be resolved via a conciliation committee or recourse to the labour courts), and conflict of interest concerning terms of a new collective agreement (which, following the breakdown of mediation procedures, may give rise to strikes and/or lock-outs).

Finally, an extensive corpus of procedural legislation governing labour-management relations and decision-making within firms (at both establishment and company levels) has also been articulated. Of the individual laws governing co-determination, the Works Constitution Act (*Betriebsverfassungsgesetz*) is arguably the most significant. First drafted in 1952, the Act was extended in 1972 under pressure from the trade unions (Thelen, 1993), and again in 1988[11]. The focus of the Works Constitution Act (WCA) is the structure, functioning, rights and

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[10] According to the unions' own internal rules, 75% of members participating in a secret strike ballot must support strike action before it is sanctioned.

[11] As Baethge and Wolf (1995) note, however, legislation on works councils was first drafted in Germany in 1891, and extended in 1920; as such, this is an institution with deep roots in the German industrial relations system.

obligations of establishment-level works councils[12], for which it provides detailed regulation. The Act covers the composition and election of works councils, the term of office for works councillors (originally two years, this was extended to three in 1972 and four in 1988, reflecting the increasing professionalisation of works councillors[13]), the conduct of business of the works council, the frequency and ordering or meetings, and the representation of young and trainee employees. Of far greater significance, however, are the various legal rights of information, consultation and co-determination accorded these institutions. In a similar vein, although of much lesser significance, the Executive's Committee Act (*Sprecherausschußgesetz*) of 1988 established a similar (although virtually powerless) institution for managerial staff, with the focus again on the establishment level[14].

Co-determination at the company level was first introduced in 1951 in the form of the Act on Co-determination in the Coal, Iron and Steel Industry (*Montan-Mitbestimmungsgesetz*). This highly controversial Act (and its 1956 amendment) introduced the principle of a dual structure for company boards, and established true parity between share-holder and employee representatives on supervisory boards[15]. The 1952 WCA extended the principle of a dual-board structure and co-determination to all other companies with more than 500 employees; employee representatives

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[12] It also stipulates the conditions and procedures for establishing works councils at the level of the company (*Gesamtbetriebsrat* or central works council) and holding company (*Konzernbetriebsrat* or combine works council), although the functioning, rights and obligations of these bodies are only briefly sketched out.

[13] Turner (1991); Jacobi et al., (1992); Müller-Jentsch (1995).

[14] Provision is again made for aggregate institutions to be established at the company and holding-company levels.

[15] By the 1990s, fewer than 30 companies and 500 000 employees were subject to *Montan-Mitbestimmung*, but it remains of enormous symbolic value.

would, however, only constitute one third of places on the supervisory board, significantly short of labour's aspirations for full parity co-determination across German industry. Significantly, however, the 1976 Co-determination Act (*Mitbestimmungsgesetz*) brought near-parity to all companies with over 2 000 employees[16]. According to this legislation, supervisory boards are to be composed of equal numbers of share-holder and employee representatives; for the largest companies (with more then 20 000 employees, i.e. all participants in this study) that would mean a 20 member supervisory board with ten[17] representatives from each group. All members of the board are considered equal, with equal information and voting rights. Share-holders are, however, assured the upper-hand through the presence of a managerial representative among the worker representatives and, more importantly, the election procedures for the supervisory board's chairman which ensure that the post of chairman is almost inevitably held by a share-holder representative[18]; in the event of a tied vote, and if conciliation can not be reached between the two sides, the chairman has a double vote in a second round of voting. As we shall see, the supervisory board, which presides over the management board, has significant *de facto* influence over the company.

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[16] Companies with between 500 and 2 000 employees would continue to be subject to board-level co-determination according to the WCA.

[17] Of the ten employee representatives, seven are indirectly elected representatives of the company's workforce (including at least one blue-collar representative, one white-collar non-managerial representative, and one managerial representative), and three nominated by the industry union.

[18] The posts of chairman and vice-chairman are elected by two thirds majority. If, however, this two thirds majority is not attained in two consecutive ballots, share-holder representatives elect the chairman and worker representatives the vice-chairman from among their members (Berghahn and Karsten, 1987).

b) 'Functional-Industry' Level

As noted, there is surprisingly little direct legal regulation of industry-wide collective bargaining, but this aspect of the German industrial relations system is highly institutionalised and arguably the most important source of regulation in the system, various pressures for decentralisation notwithstanding (Lecher, 1995)[19]. The robust nature of collective bargaining and agreements at this level is, in turn, primarily due to the strength of trade unions and employers' associations, and their centralised, encompassing, and cohesive structures.

This is particularly true of the German trade union movement (Streeck, 1984a and 1984b; Berghahn and Karsten, 1987; Turner, 1991). In terms of membership numbers, German trade unions are not particularly powerful: roughly 35% of German workers belong to a trade union, more than 80% of them belonging to one of the 16 industry unions organised under the German Trade Union Federation (DGB - *Deutscher Gewerkschaftsbund*)[20]. This relatively low level of unionisation, however, belies the significant strength which these unions muster through their own internal organisation and co-ordination, their strength among blue-collar workers

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[19] According to Müller-Jentsch and Sperling (1995), and Jacobi et al. (1992), there are at least two powerful forces challenging the system of industry-wide bargaining. Firstly, escalating global competition is placing increasing pressure on German companies and demanding degrees of responsiveness which branch-level terms and conditions can not always provide. Secondly, German reunification has not only compounded these pressures, but placed significant strain on all the country's industrial relations institutions, and set precedents in the east for fragmentation and decentralisation in the west (Bispink, 1995; Ermischer and Preusche, 1995).

[20] The only other significant union confederations are the German Salaried Employees' Union (DAG), and the German Civil Servants' Federation (DBB). A fourth confederation, the Christian Federation of Trade Unions (CGB) has less than 300 000 members (Jacobi et al., 1992). For a detailed description of the structure and functioning of the DGB, see Berghahn and Karsten (1987).

in strategic manufacturing industries, the legislation supporting them, the qualitative commitment of their members, and the solidarity with union goals shown by non-members[21]. At least part of this strength and co-ordination emanates from the dominant position of one highly influential union, the mighty IG Metall. Constituting roughly a third of the DGB's membership (Greiling, 1997, p112), the IG Metall represents roughly 50% of workers (60% of blue-collar workers) in the all-important metalworking sector, and is the vanguard of the labour movement in virtually all aspects of industrial relations.

The IG Metall itself is a highly centralised union. This is, to a large extent, necessitated by the diverse interests which it represents, spanning 15 industries, including the giant electrical and mechanical engineering sectors, autos, and steel. With no single dominant industry sector, the maintenance of cohesiveness in the face of enormous internal heterogeneity requires a high degree of centralisation (Streeck, 1984a). This is achieved through a pronounced concentration of power in the National Executive Council (and, more specifically, its chairman and standing committee), which exerts control over virtually every aspect of the union from the selection of regional secretaries (who are regarded as 'representatives of the national executive in the regions' and expected to 'perform their functions in line with its instructions'), to the decision to strike. So, for example, although districts have their own rulebooks, they have to keep within the framework set by the

[21] In many ways, union membership in Germany is kept artificially low by free-rider problems. Because the Basic Law prohibits discrimination between union members and non-members, and because of the extensive coverage of industry agreements, there are few material advantages to union membership (unless a company is struck, in which case members receive payment from the union). The commitment of non-members to union goals, however, is demonstrated in their solidarity in industrial disputes, and their preference for union members in works council and supervisory board elections (Berghahn and Karsten, 1987).

national rulebook and, to conform with national standards, district rules need approval from the national executive before they come into operation; the national executive also has the right to alter the demarcation of districts 'when necessary or expedient' (IG Metall, 1993; Streeck, 1984a; Berghahn and Karsten, 1987). Although the IG Metall, for tactical reasons, prefers to bargain with its employer counterpart (Gesamtmetall) on a regional basis[22], the union's National Executive Council oversees significant co-ordination of bargaining strategies between regions, and all important decisions require that body's approval[23]. Typical union bargaining strategy sees negotiations opened by the IG Metall in the Nordwürttemberg-Nordbaden region, with its concentration of prosperous exporting companies, vulnerable to industrial action (particularly Daimler-Benz and Porsche). The agreement reached there will then be used as a starting point for negotiations in other regions and, under DGB co-ordination, other industries (Streeck, 1989; Schnabel, 1995). In this way, with the centralised and powerful IG Metall spearheading the well supported and co-ordinated DGB, and buttressed by significant legal bulwarks, the German union movement has fared better than most in the industrialised world under the onslaught of numerous challenges confronting unions throughout the 1980s and 1990s[24]. This, in turn, has been significant in maintaining the integrity

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[22] By bargaining regionally, the IG Metall is able to exploit existing differences in the economic situation of the various sectors of the metalworking industry. So, for example, the prosperity of the auto industry in the south and shipbuilding in the north make these areas attractive as starting points in negotiations over 'model' settlements which can then be extended more broadly. Furthermore, if there is a dispute, the financial risk for the union is less when negotiations take place on a regional rather than national level.

[23] As a last resort, the national executive even has the power to take negotiations out of the hands of regional officials and negotiate directly with Gesamtmetall.

[24] In line with their colleagues elsewhere, German unions have been confronted with the challenges of persistently high unemployment, as well as a shrinking industrial base and a workforce which has changed dramatically in composition (Lecher, 1995). The proportions of difficult-to-organise young, female and

of industry-wide regulation within the German industrial relations system.

Ironically enough, the strength and cohesiveness of German employers' associations has been another factor bolstering the trade unions and shoring up the practice of industry-wide collective bargaining (Maitland, 1983). Three different types of employer organisations exist: chambers of industry and commerce (peak organisation the DIHT), business associations (peak organisation the BDI), and employers' associations. Of these the latter are, from the perspective of industrial relations, the most important. Also organised along industry lines, they have exclusive responsibility for negotiating with their corresponding industrial unions the terms and conditions of most workers in the German economy. The peak employers' association is the German Employers' Association, the BDA, which, like the DGB, is a central body which plays no direct role in collective bargaining but has an important co-ordinating function. In total, the BDA represents roughly 200 regional and sectoral employers' associations, and it is estimated that around 80% of workers in the private sector are covered by the BDA's member associations (Jacobi et al., 1992). According to the Collective Agreements Act, these employees (and others covered by employers' associations not belonging to the BDA[25]) are subject to the terms and conditions negotiated in branch-level collective agreements; in this way, the coverage of these agreements - 90% of all German workers

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'atypical' workers in Germany, as elsewhere, have increased (Höland, 1995), as have the number of white-collar workers and managers (Baethge and Wolf, 1995,p251). Furthermore, reunification has brought with it a variety of strains on the traditional West German union movement (Bispink, 1995; Frege, 1998).

[25] The only significant employers' association not a member of the BDA is the Employers' Association of the Iron and Steel Industry.

(Pichot, 1996; Schnabel, 1995) - is much more extensive than union membership.

In line with the IG Metall's dominant strength within the DGB, Gesamtmetall, the employers' association for the metalworking industry, is by far the largest and most influential member of the BDA. Gesamtmetall is itself an umbrella federation for 15 regional member associations, with combined membership of roughly 7 900 firms, representing 75% of workers in the metalworking industry (Gesamtmetall, 1997). Although power within Gesamtmetall is not as centrally concentrated as is the case with the IG Metall, the union's centralised and co-ordinated bargaining strategy necessitates a similar response from Gesamtmetall. As with all German employers' associations, Gesamtmetall considers itself as having three main functions. In the first place, it co-ordinates the wage policies, bargaining strategies, and public awareness campaigns of its regional members associations. Secondly, it represents the social policy interests of its member companies vis-à-vis political institutions. Finally, it manages a 'solidarity fund' (*Gefahrengemeinschaft*) and pursues measures aimed at maintaining employer solidarity within the industry. The solidarity amongst German employers is a feature frequently remarked upon (Maitland, 1983; Berghahn and Karsten, 1987), and is a function of the high level of organisation and strength of German employers' associations. In line with a code of conduct established by the BDA, firms co-operate closely during industrial action, and comply with a series of strictly enforced rules; companies breaking with the accord are severely punished. In all, like their union counterparts, German employers' associations are described as broad, encompassing, and coherent, despite a high degree of internal heterogeneity.

Agreements negotiated between the social partners at industry level are wide-ranging and comprehensive, covering virtually every conceivable aspect of the employment contract for almost all workers across Germany[26]. Broadly speaking, three different types of collective agreement can be identified (Bispink, 1995). Firstly, agreements on wage or salary rates (*Lohn- oder Gehaltsabkommen*) regulate the wage or salary rates for the different pay groups, of which there are between eight and 14, depending on the region. They also set rates for piece-work, bonus-work, and time-work, as well as stipulating the wage differentials which are to apply to different wage brackets. These agreements are usually negotiated annually, and fall within the framework established by the second type of settlement, the agreement on wage or salary structures (*Lohn- oder Gehaltsrahmenabkommen*). These agreements define wage or salary brackets, general remuneration principles, terms of piece-work and bonus-work, and age differentials. Importantly for work organisation, they also specify the determination of time data and other aspects of measurement. Finally, 'framework agreements' (*Manteltarifverträge*) stipulate rules relating to various aspects of employment conditions such as the duration of the working week, the distribution of weekly hours over the individual working day, the definition of and supplements for overtime, night-work, work on Sundays and public holidays, the duration of and payment during annual leave, and periods of notice. Like agreements on wage or salary structure, they are not negotiated annually, but remain in force for an indefinite

[26] By the mid-1990s, for example, Lecher (1995) estimates that there were 35 000 sectoral agreements in force across the country. The social partners' propensity to negotiate branch-level agreements was demonstrated following the reunification of the two Germanies in 1990: within six months, over 700 such settlements had been reached in the new eastern *Länder*, in spite of the relative novelty of industry-wide collective bargaining.

period of time until the social partners decide to introduce changes. The terms and conditions agreed to in these branch-level collective agreements can only deviate from national substantive legislation insofar as they are more favourable to workers. The sheer number and scope of these industry-level agreements, in combination with the extensive array of substantive legislation at national level, already provides for a dense web of regulation governing virtually every aspect of the employment contract at company level; this is further enhanced by the impressive network of employee representative institutions within companies.

c) 'Functional-Company' Level

Although pressure for the decentralisation of industrial relations throughout the 1980s and 1990s has been as great in Germany as in most other industrialised countries, the German industrial relations system has proved significantly more robust than most (Turner, 1991; Turner, 1997; Wever, 1997). This is largely because extensive regulation at company and workplace levels has provided a foundation from which the system has been able to accommodate the new challenges imposed on it (Thelen, 1993). The cornerstone of firm-level regulation is, of course, Germany's famous system of co-determination, which operates at two main levels within the company: through central and combine works councils and supervisory boards (*Aufrichsräte*) at company level, and works councils (*Betriebsräte*) at the establishment level.

The most famous institution of German co-determination at the company level is the supervisory board. As noted, there are three 'types' of co-determination at board level, corresponding with three different legal

instruments: the 1951 Act on Co-determination in the Coal, Iron and Steel Industry (covering all companies in those industries with more than 1 000 employees), the 1952 WCA (applying to all other companies with between 500 and 2 000 employees), and the 1976 Co-determination Act (all companies with more than 2 000 employees). All participant companies in this study fall into the last category, and have supervisory boards composed of 10 representatives each from share-holders and workers. As its name suggests, the supervisory board oversees the management board. It appoints and dismisses members of the management board[27], determines their salaries, advises on general company policy, and monitors the performance of the company and its management. The supervisory board and its members also have full access to all information about any aspects of the company; in the words of Berghahn and Karsten (1987, p117), it is an institution with "*considerable influence*" in the running of German companies. Furthermore, it is a conflict-averse institution. Although, as discussed, the double vote of the chairman (almost inevitably a share-holder representative) in a second round of voting provides management with the final decision over contentious issues, determined efforts are made to reach a consensus position and therefore avoid the potentially divisive step of invoking such explicit use of power. This, in fact, applies to virtually all aspects of company and establishment-level industrial relations: with regards the functioning of the supervisory board, as well as management interaction with works councils at all levels in the company, commentators are unanimous on the importance of harmony, co-operation and consensus for their smooth operation (Berghahn and Karsten, 1987; Jacobi et al., 1992; Müller-Jentsch, 1995).

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[27] Of particular significance is the post of labour (or personnel) director, whose appointment or dismissal requires the support of a majority of workforce representatives.

Although the main arena for works council activity is the workplace, the WCA also makes provision for the establishment of aggregate works councils at both the company and holding company levels. Where there are two or more works councils in a company, a central works council (*Gesamtbetriebsrat*) must be established at company level; exact details are laid out for the composition, conduct of business, and meetings of the central works council. The institution is deemed to be competent "*to deal with matters affecting the company as a whole or two or more of its establishments*" (WCA, Section 50). Local works councils can refer issues to the central works council by a simple majority vote. Formally, the central works council enjoys only information rights over financial matters, staff and social affairs (Section 53) but, like local works councils, this institution is able to wield far greater *de facto* power and influence in most companies than is suggested by the legislation. In contrast to the central works council, the establishment of a combine works council (*Konzernbetriebsrat*) at holding company level is voluntary, and dependent upon approval by the central works councils for the subsidiaries of the holding company employing at least 75% of the total number of employees of the holding company (Section 54). The institution's competency is again "*matters affecting the combine as a whole or two or more of its subsidiaries*", and a central works council can refer issues to the combine works council by a majority vote (Section 58). This institution has even fewer legal rights than the central works council, although its true influence is largely a matter to be determined jointly by senior management and combine works councillors.

One of the most striking features of these company-level institutions is their level of integration and co-ordination, internally as well as externally to the union. Almost without fail, the same leadership figures are prominent on local works councils, central and combine works councils, as well as the supervisory boards of large companies; according to Müller-Jentsch (1995), around three quarters of worker representatives on supervisory boards are also works councillors. Again, the concentration of power within an experienced, networked and well-connected group of leaders, with access to all the legal rights of various institutions, provides works councils at all levels in a company with a degree of co-ordination and cohesiveness which greatly extends their influence (Berghahn and Karsten, 1987; Streeck, 1989).

d) Workplace Level

Although, in the minds of most non-German observers, the supervisory board is Germany's most prominent institution of co-determination, it is the role of the local works council at establishment level which provides real substance to worker co-decision rights. As well as stipulating various aspects of the works council's structure and conduct, the WCA affords this institution a series of significant legal rights, from information rights to consultation and co-determination rights[28]. As a general rule, the works council's legal rights are strongest with respect to social matters and weakest in economic

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[28] With respect to co-determination rights, because of the peace clause under which works council are obliged to act, failures to agree are to be resolved by a conciliation committee, as provided for in Section 76 of the WCA. This committee is to be composed of an equal number of assessors appointed by management and the works council, and an independent chairman approved by both sides; if agreement can not be reached on the chairman, he shall be appointed by the labour court. If either side considers the other to be in breech of their obligations under the WCA, they are entitled to bring their case before the labour court.

affairs. As far as information rights are concerned, Section 106 of the WCA prescribes that management shall inform the economic committee (*Wirtschaftsausschuss*) of the works council "*in full and in good time of the financial affairs of the company.*" These include figures for production, marketing and investment, rationalisation plans, new work methods, reductions or closures. Formal meetings of the economic committee are to take place at least monthly.

Various aspects of the establishment's operations are also subject to consultation, particularly personnel planning, changes in work processes, the working environment, and job content. Among the more important areas covered by co-determination are: the distribution of working time, over-time and short-time working, monitoring of employees, piece-work rates and bonuses, and the principles for suggestion schemes (Section 87); work design "*relating to the tailoring of jobs to meet human requirements*" (Section 91); technical, personal and social criteria to be applied in recruiting, transferring, grading or dismissing employees (Sections 95 and 99); and vocational training and retraining (Section 98). Furthermore, as widely recognised, works council are able to use their *de jure* rights to extend their *de facto* co-determination rights into a much wider range of issues (Streeck, 1989; Müller-Jentsch, 1995); this is particularly the case for areas in which they already enjoy strong consultation rights. So, for example, Section 102 of the WCA requires that management consult works councils over dismissals. Works councils may, in turn, oppose dismissals on various grounds, notably if management takes insufficient account of social criteria, or if the employee(s) could be kept on at another job in the company. Although the employer may ignore these objections, they have to be appended to the notice of dismissal sent to the employee(s);

should the latter choose to contest the dismissal before the labour courts under the Protection Against Dismissal Act (a frequent course of action), due consideration will be given to the works council's statement. In light of the frequency with which labour courts rule against (particularly large) companies, forcing them to re-employ the affected worker(s), management will rarely dismiss employees in the face of works council opposition. Another important area into which works councils are able to extend their influence is the issue of alterations which impact significantly on employees, such as the reduction or closure of operations, transfer of departments, changes in organisation, and the introduction of new work methods and production processes. According to Section 111, these issues are subject to information and consultation. Section 112, however, stipulates that, in the case of disagreement between management and works council (either over the changes envisaged or the 'social compensation plan' to compensate the workers affected), the issue is to be subject to mediation and conciliation; if still no agreement can be reached, it becomes the responsibility of the conciliation committee (comprised of equal numbers of employer and employee representatives, and chaired by a neutral third party) to establish a satisfactory social compensation plan. Again, few managers are willing to subject decisions to these ponderous and time-consuming mechanisms and, instead, negotiate with works councils from the start.

In line with the overall level of labour integration in Germany, the relationship between trade unions and works councils at company level is also described as close and mutually beneficial. In spite of initial union suspicions that works councils were a first step towards company (or 'yellow') unionism, and a campaign in the 1960s to subvert works

councils with their own local organisation (the *Vertrauenskörper*[29]), relations had improved significantly by the 1970s, to the extent that the 1972 amendments to the WCA strengthening works council rights were the product of trade union pressure (Thelen, 1993)[30]. Union policy shifted dramatically after the earlier power struggle, and local 'shop stewards' (*Vertrauensleute*) have subsequently come to assume a supportive role with respect to works councillors, acting simultaneously as the messengers of the works council and the representatives of their work groups (Jacobi et al., 1992). So close have the two local organisations become that, at many establishments, their leadership is now embodied in the same persons (Müller-Jentsch, 1995). According to Berghahn and Karsten (1987), roughly 80% of all works councillors are also members of DGB affiliated unions, a significantly higher unionisation rate than for any other sector of the workforce. Within large companies, senior figures on the central and combine works councils will frequently also hold official posts within the broader union structure.

The positive disposition of the unions towards works councils is at least partially due to their ability to exert control over works councillors through the election process. Although works councillors are voted for by the entire workforce at an establishment, and not just union members, candidates included on the 'election slate' of the large industrial union are significantly more likely to be elected than their rivals who do not enjoy this endorsement (Turner, 1991; Jacobi et al.,

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[29] The *Vertrauensleute* (more or less equivalent to shop stewards) are elected by union members in a department or group. They typically represent between 30 and 50 workers.

[30] This represented a stark contrast to trade union response to the original 1952 WCA which they fiercely opposed, describing its passage into legislation as, "*a black day in the development of democracy*". (Müller-Jentsch, 1995, p54).

1992); as such, they have a vested interest in appealing, not only to the workers, but to the union as well. Once in office, works councillors sympathetic to the union can be a significant asset. Formally, works councillors may not use their office for trade union duties but, more often than not, management 'looks the other way' (Streeck, 1984a). One of the results is that an estimated 97% of new union members have been recruited by works councillors (Müller-Jentsch, 1995). In return, trade unions offer works councillors information, advice, training, and general support, all of which further extends their common ground and enhances the works council's role as union mouthpiece within the company[31]. According to Streeck (1984a), works councils have come to represent "*the extended arm of the trade union*" in the metalworking sector, while various authors argue that they have been one of the primary factors shoring up German trade unions, especially the IG Metall (Shire, 1994; Müller-Jentsch, 1995)[32].

These relations between works council and trade union at the firm and establishment levels provide some insight into the extent to which Germany's regulatory industrial relations framework is integrated into a complex and sophisticated system. The system itself is composed, not

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[31] None of this is to suggest a complete convergence of interests between union and works council. The position of the latter is far more complex than a simple extension of the union at the workplace, and must take account of the company's own situation as well as union demands. In the end, works councillors are guided first and foremost by the interests of their electorate and, to do this, they must steer a delicate course between often opposing pressures from the company and the union. Nevertheless, the close ties (both ideological and pragmatic) between these two institutions of employee representation, especially in manufacturing companies, are unmistakable, prompting Shire (1994, p139) to refer to works councils as "*quasi-union bodies*".

[32] Direct representation on supervisory boards is also extremely valuable to trade unions, both in their resultant influence over company policy and unrivalled access to information (which is then used in collective bargaining). The works council's monopoly on representation and overall importance in the day-to-day functioning of firms, however, makes them an indispensable element in trade union strategy.

merely of myriad individual laws, institutions, and practices (only a handful of which have been touched upon), but of a complicated network of inter-linkages between these individual components. Commentators marvel at the elegant structure and internal coherence of this well-designed, smooth-functioning system (Allen, 1997), and are virtually unanimous in ascribing much of Germany's post-War economic success to its numerous beneficial features and consequences, not least of which has, as we shall see, been virtually unrivalled internal flexibility.

3. British Informality

a) National ('strategic decision-making') Level

One of the most striking differences between the German and British industrial relations systems is the relative absence of external regulation governing industrial relations at the company and workplace levels in the UK (Bean, 1994). Described as a system based on 'voluntarism' (Flanders, 1974)[33], or 'collective *laissez faire*' (Kahn-Freund, 1959), British industrial relations has traditionally been characterised by a low level of legislation. Industry-level collective bargaining, previously the main source of external regulation within the British system, was never as institutionalised in the UK as it was (and continues to be) in Germany: not only has there never been much in the way of legal underpinning for the processes of bargaining, but the

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[33] Gospel and Palmer (1993, p155) define voluntarism as, *"a preference by employers, unions, and the state for a non-legalistic form of collective bargaining."* Although commentators such as Phelps-Brown (1959, p177) have questioned the extent to which the idealised view of British 'voluntarism' ever existed, Flanders (1974) has convincingly argued that the UK's industrial relations system, until at least the 1970s, could indeed be classified as 'voluntarist' on at least two counts: it relied on collective bargaining instead of law to establish terms and conditions, and those collective agreements were not legally enforceable.

agreements themselves were, but for a brief period in the 1970s, never legally binding on their signatories, being viewed rather as 'points of reference'. The last two decades have seen numerous changes to the legal and institutional context of British industrial relations (including the virtual demise of industry-wide bargaining) but, if anything, the rather complex outcomes have even further reduced the level of industrial relations regulation within which British companies operate. In contrasting the systems of industrial relations in the UK and continental Europe midway through the 1990s, Pichot (1996, p31) notes that,

> *"In the United Kingdom the first point of reference in work and industrial relations isn't law. It is traditionally (and in line with the UK's general deregulatory approach) left to social partners to settle employees' working and employment conditions by bargaining ... The collective bargaining system is itself 'voluntary' and there is very little legislation on it. Minimum wages, working time and leave, continuing training, etc. are not determined by legislation or at a multi-industry level."*

An important starting point for understanding the UK's industrial relations system is the absence of a formal, written British constitution and, therefore, the lack of a fundamental basis for a regulatory industrial relations framework as exists in Germany. This, in itself, makes the industrial relations system inherently variable, and the position of its actors precarious, as there is nothing to prevent labour legislation passed by one government being repealed by the next. Until at least the 1970s, this was not a major consideration as the British state played a largely non-interventionist role in the industrial relations system:

> *"in the routine conduct of industrial relations the state was sufficiently detached from the main action to give credibility to the twin ideological postulates of the*

impartial state machine and the necessary separation of 'industrial' and 'political' issues. (Hyman, 1989, p213).

Tripartite institutions, for example, have never been a dominant feature of British industrial relations. Like Germany, the UK experimented briefly with corporatism in economic policy (in the form of 'incomes policies') during the 1960s and 1970s, but these were unsuccessful and short-lived (Crouch, 1979 and 1995; Hyman, 1989), and were, in any case, accompanied by no significant departure from 'voluntarism' in the industrial relations system (Flanders, 1974; McCarthy, 1992). The British system has also traditionally operated under a light framework of substantive legislation, and virtually no significant procedural legislation; as Sisson and Marginson (1995, p99) note,

"Legislation and labour codes requiring managements to introduce a framework of rights and obligations, together with statutory provisions for participation and involvement, such as works councils, are also noticeable by their absence."

All this is not to say that the UK industrial relations system has ever operated in the complete absence of legislation. Various important substantive laws were passed during the 1960s and 1970s (and amended subsequently), in particular with respect to employment rights[34], health and safety at the workplace (the Health and Safety at Work Act of 1974), and discrimination (the 1975 Sex Discrimination Act). The scope and content of substantive laws in the British system have, however, always been modest in comparison to similar substantive legislation in Germany (Bean, 1994). Even more importantly, what substantive legislation does exist has never been augmented with the all-important procedural

[34] Such as the 1963 Contracts of Employment Act, the 1965 Redundancy Payment Act, and elements of both the 1974 Trade Unions and Labour Relations Act (TULRA) and 1975 Employment Protection Act (EPA).

legislation which characterises the German system[35]. Traditionally, the only significant procedural legislation in the British system has been 'negative' statutory protection for trade unions in the form of immunity from various aspects of common law (as granted by ordinances such as the Conspiracy and Protection of Property Act of 1875 and the 1906 Trade Disputes Act). Even when a crisis in British industrial relations was identified at the end of the 1960s, the remedy proposed by the Donovan Commission eschewed legal regulation as a solution to the system's problems (Donovan, 1968), arguing instead for far-reaching reforms to collective bargaining within the 'voluntarist' paradigm. The one notable attempt to introduce procedural legislation comparable to German co-determination, the 1977 Bullock Report (Bullock et al., 1977), faltered on a general lack of support from all main industrial relations actors (including a significant proportion of the British trade union movement).

British 'voluntarism' is widely held to have ended when the Conservative Government of the 1980s broke with the non-interventionist tradition of former governments and resorted to the direct use of legislation to reinforce their industrial relations ideology (McCarthy, 1992; Undy et al., 1996)[36]. The principle target of this rather narrow legislation was

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[35] Two issues which are subject to some degree of legislated information and consultation are health and safety (through the 1974 Health and Safety at Work Act and additional legislation in 1977 and 1992), and collective redundancies (through the EPA 1975, the Trade Union and Labour Relations Consolidation Act [TURCA] 1992, the Trade Union Reform and Employment Rights Act [TURERA] 1993, and the 1995 amendment to the Transfer of Undertakings (Protection of Employment) regulation [TUPE]). To a significant extent, these laws were passed to comply with the requirements contained within EU legislation. Various other minor provisions for information and consultation of employees do exist (see Pichot, 1996, p35), but their relevance is "*extremely negligible*" (Ibid.).

[36] To some extent the Heath Government, through its 1971 Industrial Relations Act (IRA), had similar intentions to those of the Conservative Governments under Margaret Thatcher and John Major, but its

trade union governance and industrial action, and the purpose was primarily to reduce unions' regulatory influence over management (Smith and Morton, 1993). According to these authors (Ibid., p99), the Conservatives' incremental programme of industrial relations legislation comprised the removal of what few statutory and administrative supports had existed for collective bargaining (such as the complex recognition procedures which had operated through ACAS, and the Fair Wages Resolution and 'Schedule 11' procedures for extending industry-level collective agreements to non-unionised firms), partial deregulation of the employment contract (removing or diluting most of the individual legal rights which had been introduced by the 1974-1979 Labour Government), creation of legal rights for union members and non-members against trade unions (including a number of rules on union government, such as statutory controls over the admission, discipline and expulsion of members, and periodic ballots for senior union posts), a gradual reduction of union legal immunity during industrial action (through a narrowed definition of a trade dispute and restrictions on its geographic and organisational boundaries), procedural rules for the initiation of industrial action (compulsory postal ballots, deadlines, and possibilities of appeal), and financial liability for unions

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efforts were half-hearted and soundly defeated by union opposition (Mason and Bain, 1993, p339; Hyman, 1989, chapter 7; Kessler and Bayliss, 1995, p63). Virtually all of its provisions were repealed by the 1974 TULRA and the 1975 EPA which restored (and even extended) 1906-type union immunities, and advanced union recognition and collective bargaining coverage. These Acts themselves (as part of the Labour Government's 'Social Contract') made limited moves in the direction of juridification but, again, their intentions and impact differed widely from legislation within the German system of industrial relations, and were arguably aimed at bolstering 'voluntarism' rather than replacing it with legal regulation (McCarthy, 1992).

engaging in unlawful industrial action[37]. What tripartite institutions did exist (such as the National Economic Development Council, the Manpower Services Commission, and the Wages Councils for low-paid industries) were, for the most part, gradually weakened and finally wound-down altogether, while the concept of tripartite commissions of investigation for various topics pertaining to industrial relations were largely abolished (Crouch, 1995). Of possibly greater importance in setting the tone for industrial relations was the Conservative Government's actions as employer in the public sector. Significant attempts were made to expose as much of the public sector as possible to the forces of the market, either through privatisation, the contracting out of services, or forms of compulsory competitive tendering, while the Government's willingness to confront the trade unions (as evidenced during the famous 1984/1985 miners' strike) sent a clear message to private industry as to what constituted 'good industrial relations'.

As various commentators have demonstrated, however, the effects of Conservative legislation and actions were uneven and somewhat limited, with numerous unforeseen (and often unintended) consequences. Undy et al. (1996) and McCarthy (1992), for example, have shown how well organised groups of militants were, contrary to the intentions of legislation on union governance procedures, often able to extend their influence within trade unions. Likewise, strike ballots often served to strengthen the claims of unions against management through the real and direct threat posed by a strong ballot result in favour of industrial action. Furthermore, the extent to which the sustained campaign against

[37] For a more detailed discussion on the legislative changes introduced by the Conservative Government during the 1980s and 1990s, see also McCarthy (1992), Fosh et al. (1993), Kessler and Bayliss (1995, chapter 4), and Brown et al. (1997).

'Whitleyism' in the public sector delivered the results intended is widely questioned (Winchester and Bach, 1995; Storey, 1992b); as Kessler and Purcell (1996, p216) note with regards public sector industrial relations institutions and procedures,

> *"This machinery ... has been highly durable and continues to play an important ongoing role in the determination of terms and conditions of employment. In addition, residual features of the good employer model remain despite fundamental shifts in the government model. These include the strength, presence and role of the unions as well as employee and management expectations about certain processes and outcomes."*

It would, however, be naive to suggest that 18 years of Conservative Governments under Margaret Thatcher and John Major did not result in certain changes to the regulatory context of British industrial relations. Broadly speaking, the regulation of trade union organisation and behaviour was greatly increased which, in turn, served to reinforce the other component of Conservative strategy, the reduction of the regulatory burden on company management. The relative absence of external regulation on industrial relations at company level remained intact and was, with the exception of legislation on industrial action, largely enhanced by the policies of successive Conservative Governments during the 1980s and 1990s.

b) 'Functional-Industry' Level

As with legislation at the national level, industry-level regulation of industrial relations is significantly less developed in the UK than in Germany. Although many industries (including the engineering industry) were, until the 1980s, covered by sectoral agreements between employers associations and trade unions at the national level, these agreements, as well as the institutions negotiating them, were never as strong or

influential over firm-level industrial relations as their equivalents in Germany. The overall relevance of these supra-firm institutions was arguably even further diminished by the changes which occurred during the 1980s and 1990s.

One of the most frequently highlighted differences between British and German industrial relations is trade union structure. In the absence of external regulation limiting the number and configuration of bargaining units, British unions are significantly more numerous[38] and structurally complex than their German counterparts. This largely reflects their different historical paths of evolution. German industrial unions were re-established after the Second World War with specific objectives in mind, and various regulatory criteria limiting both their number and structure (and, indirectly, their government). British unions, as the oldest in the world, have evolved gradually since their emergence during the industrial revolution, directed almost entirely by the initial need to maintain a monopoly on craft skills and unilateral job regulation and, later, by the pressures of attracting members (Clegg, 1976 and 1979). More recently, waves of union mergers since the Second World War (accelerating in the 1980s and 1990s) have further rendered British union structure simultaneously more complex and more general (Undy et al., 1996)[39]. The result has been the emergence of a large number of general and craft unions, often overlapping industrially and

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[38] By 1991, despite a dramatic fall in the number of unions from a peak of 453 in 1979, Undy et al. (1996, p32) calculate that there were still 275 unions operating in the UK, 74 of them (representing over 80% of all union members) affiliated to the TUC.

[39] As these authors observe, a certain degree of industry logic has come to characterise the sub-structure of these general unions as they have increasingly encouraged a greater degree of internal differentiation between different groups of members. This does not, however, come close to the well-defined industry logic underlying German union structure.

occupationally, and competing for membership. As a result of the sheer number and diversity of British unions, and their competition for membership, their level of co-ordination (both internally within any one union, and across the union movement) is also significantly less than is the case in Germany (Hyman, 1983)[40]. According to Undy et al. (1996, p281), the British union movement is,

> *"characterised by marked decentralism, a considerable craft and occupational fragmentation, and a marked orientation towards sectoral bargaining and inter-union competition."*

As far as union government is concerned, British unions are significantly more decentralised than German equivalents, with *de facto* power not concentrated in official union machinery, but resting with lay members and activists at workplace level (Katz, 1993). In stark contrast to the situation in Germany, local union leadership has historically been in a position to conclude agreements with company management which may not be invalidated by more senior levels within the union's organisation (Pichot, 1996); in fact, much local negotiation has been said to take place without the knowledge, let alone consent, of official union machinery, and British unions have often been described as notoriously unable to exert significant authority and control over the apparently 'ungovernable' activities of militant lay members at the workplace (Maitland, 1983; McCarthy, 1992, p15)[41]. To at least some

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[40] The co-ordinating influence of the TUC was further eroded after 1979 by the Conservative Government's withdrawal from tripartite institutions (thereby excluding the TUC from public policy forums), and increasing concern among affiliated unions over the continued utility of the TUC's Bidlington Principles for inter-union relations. Despite TUC policy reform in 1988 and 1993, the TUC's co-ordination capacity was still widely questioned (Waddington and Whitston, 1995), and generally held to be well below that of the DGB (Bean, 1994).

[41] As Waddington and Whitston (1995, p192) point out, this characterisation of British unions as decentralised and 'activist-driven' was only ever applicable to certain industries, such as engineering, docks,

extent, this decentralisation of power to shop stewards has been a response to some of the difficulties resulting from the highly complex arrangements associated with British multi-unionism (Clegg, 1979); As Maitland (1983, p37) notes,

> *"In Britain this system [of shop stewards] has grown up outside the official union structure in response to pressures, needs and opportunities in the workplace. And it has remained a semi-independent force in the industrial relations system, with tenuous ties to the old established machinery."*

This combination of features - a labour movement characterised by multiple, decentralised, and fragmented unions, frequently locked in destructive competition for membership - left many British unions in a poor position from which to counter the many hostile environmental changes with which they were to be challenged during the 1980s and 1990s.

The 18 years of Conservative rule starting in 1979 are widely held to have been bad years for British unions. Overall union membership losses during this time were, on the whole, quite dramatic: between 1979 and 1991, total union membership across the economy fell 28% from over 13 million members to around 9.5 million (Undy et al., 1996, p32); this continuous and unprecedented decline resulted in a fall in employment density from a peak of 56% in 1977 to 31% by 1993 (Waddington and Whitston, 1995, p157). At a more disaggregated level, however, the extent of decline has been uneven, with unionisation rates holding up

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and printing. In these unions, "*local organisation retained some autonomy from union head quarters, became more important than the national level in the setting of pay and conditions, and often opposed national priorities.*"

relatively well in certain sectors of the economy[42]. In engineering, for example, employment density in 1993 remained above 65% (Waddington and Whitston, 1995, p162). This relatively high level of unionisation masked two relatively extreme poles within the sector: at large, established brown-field sites, union derecognition was extremely rare and unionisation rates (especially among manual workers) remained high[43], but a growing phenomenon was the establishment, particularly by foreign multi-national companies, of non-union greenfield sites (Millward et al., 1992, pp.70-77). These years were also characterised by a hostile government approach to trade unions. As noted earlier, however, the impact of Conservative Government legislation on both trade union government and behaviour was somewhat limited and uneven (Undy et al., 1996). In terms of union government, there were various opposing forces for centralisation and decentralisation during this period. Despite the rhetoric of 'returning unions to their members', one of the major consequence of Conservative legislation on industrial action and union government was to marginally reinforce the influence of official union machinery over lay members (Ibid.). This resulted from the supplementation of constitutional authority with external legal sanctions and financial penalties: in the uncertain and potentially hazardous environment which followed in the wake of decentralised collective bargaining and legislative changes, union leaders were compelled to increase their control over local union representatives in order to prevent the union from being exposed to legal injunctions and

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[42] Unfortunately for the unions, these tend to be industries where employment is contracting and so, although union density levels may not have fallen dramatically in these industries, absolute membership numbers have.

[43] At all the sites participating in this study, for example, blue-collar unions were well established and had membership rates of close to 100% on the shop-floor.

fines. Furthermore, the requirement to maintain records of members' names and addresses and publish financial information stimulated improvements in accounting and communication mechanisms. Even highly decentralised engineering unions such as the AEU, EETPU, TGWU, UCATT, and GMB took steps to increase official control over industrial action (Ibid., p209). A degree of centralisation was also facilitated by the accelerated amalgamation of trade unions, often resulting in the concentration of financial control within the newly-formed central executive; the re-writing of rule books following mergers also facilitated changes in favour of a greater centralisation of decision-making authority. On the other hand, the end of national negotiations in the engineering industry, and the subsequent decentralisation of collective bargaining to company and even establishment-level, served as a powerful countervailing force to these centralising pressures. Union structure in the engineering industry was simplified to some extent by two important mergers. In 1988, TASS amalgamated with the ASTMS to form the MSF union, while the AEU and EETPU merged in 1992 to form the AEEU. A number of other unions (such as the TGWU, GMB and UCATT unions) continued to be active in the industry, however, and the basic characteristics of multiple, strong, yet decentralised unions representing a broad (and overlapping) constituency of grades and types of worker remained the predominant pattern in engineering throughout the 1980s and 1990s.

Another characteristic feature of industry-level industrial relations in Britain has always been the relative weakness and lack of solidarity within employers' associations (Brown et al., 1995). According to the extensive Workplace Industrial Relations Surveys (WIRS), only a quarter of British establishments were members of employers' associations in

1980; by 1990, this proportion had halved to a mere 13% (Millward et al., 1992, p45). As with trade union density, the figure is somewhat higher for the engineering industry, 32% of establishments belonging to an employers' association (primarily the EEF) in 1990 (Ibid.). In terms of simple membership figures, this compares well with Gesamtmetall - which covered roughly 38% of German metalworking companies in 1995 (Gesamtmetall, 1997) - but the qualitative strength of UK associations like the EEF is significantly lower than that of their German counterparts. In contrast to the strict discipline and unity maintained by Gesamtmetall, for example, the EEF has little control or even influence over their member companies, who have been extremely reluctant to cede power to a centralised organisation (Marsh et al., 1981); in testifying to the Donovan Commission, at a stage when the EEF was still negotiating on behalf of its members, the organisation suggested that the advantages of membership, "*are such as would accrue from membership of any club.*" (Cited in Maitland, 1983, p116). If anything, the power of the EEF over its members has declined even further since the termination of industry-wide collective bargaining with the CSEU (Confederation of Shipbuilding and Engineering Unions) in 1989 (Brown, 1993).

In stark contrast to Gesamtmetall, the EEF maintains no strike fund, nor would it dream of attempting to co-ordinate bargaining strategy or maintain solidarity among its member companies. According to the organisation, its principal services to members involve representation of their interests to political institutions, and advice on a wide range of legal and technical matters (EEF, 1998). Even the advice function of employers' associations had declined significantly by the 1990s, prompting Millward et al. (1992, p351) to declare that,

"In short, employers' associations [which had never been particularly strong] were a far less important part of the institutional structure of industrial relations in 1990 than they were a decade or more earlier."

The EEF's weakness vis-à-vis its member companies has, in turn, served to weaken both its industry-level agreements with trade unions as well as the trade unions themselves (Maitland, 1983). Because, as noted, industry-level collective agreements were traditionally not considered to be legally binding (Edwards, 1995), their successful application depended on extraordinary commitment by the two signatory parties to the terms and conditions which had been agreed; but the weakness of employers' associations and the decentralised nature of the trade unions meant that there were few ties binding local actors to the centrally-negotiated agreements. Under the prevailing economic and political conditions, trade union members themselves were only too aware of the inability of individual, unsupported employers to resist their local claims, and focused their attention on the workplace level. As a result of these weak institutions and agreements, the UK's industry-level regulatory framework for industrial relations was always significantly weaker than Germany's. The decentralisation of collective bargaining, which had began in the late 1950s but accelerated rapidly during the 1980s and 1990s (Katz, 1993), has virtually removed it altogether. The proportion of British workers whose terms and conditions were covered by industry agreements fell dramatically during this period as employers in virtually every sector of the economy decentralised collective bargaining to company and even workplace level. The exact level to which negotiations were decentralised depended largely on specific features of the company itself, particularly the degree of integration of service and production processes (Sisson and Marginson, 1995) but, according to Beatson (1993, p416), plant-level bargaining - accounting for roughly

68% of employees covered by collective bargaining arrangements in 1990 - became dominant in engineering.

The result of these changes is that the loose regulatory framework provided by the former practice of industry-level collective bargaining was removed altogether. Company and workplace-level labour relations, always the most important tier of industrial relations within the UK system, became simultaneously more important and more autonomous as the focus shifted almost entirely onto local actors.

c) 'Functional-Company' and Workplace Levels

Unlike the neat and well-ordered hierarchy of tiers within the German industrial relations system, the distinction between company and workplace levels in the UK is somewhat blurred. At some participant companies (notably Vauxhall and Jaguar), the company level is the tier at which collective bargaining is conducted and important policies are set, and remains quite distinct from the workplace level. At other participants (LucasVarity, Siemens UK, and ABB Britain), collective bargaining is conducted at workplace level, and only broad policies are set by actors at the company level. As such, generalisation over these two tiers as distinct entities are difficult and, for the purpose of this broad outline, they will be considered together.

While the dense network of industrial relations regulation in the German context has greatly limited the behaviour of local actors, constraining them to relations based on consensus and compromise, few such limitations on the actions of management and trade unions exist in Britain. The result has been a traditional 'distance' between management

and workforce representatives, with relations based largely on distrust and the defence of privilege.

Shop stewards enjoy few legal rights. Where trade unions are recognised by employers, "reasonable" time off must be granted to stewards so that they can carry out their duties and receive training[44]. Furthermore, there is legal protection against discrimination for belonging (or not belonging) to a union and against unlawful dismissal after two years of service; these rights, however, are granted to shop stewards "on an individual basis". With no positive legal rights as a source of influence over company management, the traditional power of British trade unions at local level is based on their ability to control the supply of labour. This, in turn, is effected through occupational control, the defence of custom and practice, or the threat of industrial action (enhanced by their various immunities from common law).

Management, on the other hand, is vested with direct (and jealously guarded) decision-making authority and responsibility in their capacity as the agents of capital. While management has long fought to protect their 'managerial prerogative' against incursions by workers or unions into decision-making processes, trade unions have simultaneously rejected any attempts to induce a greater degree of co-operation and concertation in the management of companies. Both sides have, in the absence of regulation governing the behaviour of firm-level actors, chosen to pursue arms-length and adversarial relations, with a minimum of trust or co-operation. To aggravate an already volatile and conflictual environment, competition between unions for members and the

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[44] TULRA 1974, Article 29; Employment Protection (Consolidation) Act 1978, Article 27; ACAS Code of Practice on time off for trade union duties and activities 12-13.

defence of sectional interests within the workforce has traditionally led to in-fighting between unions and groups of workers.

At the same time as industrial relations were being further decentralised to company and workplace level during the 1980s and 1990s, the rise of human resources management (HRM) was drawing attention away from collective relations with trade unions towards a greater focus on the development of individual workers as firms' most important assets (Beer et al., 1984; Hendry and Pettigrew, 1990; Purcell, 1995). In many ways, the emergence of HRM represented a response to the short-termist, utilitarian view of labour as a simple factor of production, which was widely held to be one of the great failings of UK and US models of industrial relations, especially in comparison to the more resource-based approach of Japanese and continental European companies. While much of the ensuing literature on HRM turned out to be prescriptive and based on highly questionable unitarist assumptions (Boxall, 1992 and 1993; Brewster and Hegewisch, 1994), various analytical attempts have been made to differentiate between types of HRM (Guest, 1987) as well as management strategies with respect to the development and deployment of human assets (Purcell and Ahlstrand, 1994). As far as its content is concerned, Storey (1992a and 1995) condenses the espoused strategy of HRM into four key elements. First is the view of a firm's human resources as the fundamental source of sustainable competitive advantage. Secondly, 'people-management' decisions are no longer to be incidental operational matters, but become issues of crucial top management importance which are not only to be derived explicitly from the corporate plan, but constitute a key set of considerations which feed into that plan. Third, HRM is thus seen to have long term implications on the core performance of the business and also becomes

the intimate concern of line managers. Finally, the key levers for effecting these strategies are to be used in such a way as to generate commitment and not merely establish compliance - the way employees are recruited, deployed and evaluated is of fundamental importance to winning their commitment.

HRM has, however, not been universally or unconditionally welcomed. Many commentators see in HRM little more than sophisticated employer rhetoric disguising attempts to undermine unions through the re-establishment of managerial prerogative (Legge, 1995a and 1995b), thereby exposing workers to less obvious (yet more effective) forms of exploitation (Legge, 1989; Willmott, 1993; Keenoy and Anthony, 1992; Sewell and Wilkinson, 1992). Although not all perspectives on the subject are as pessimistic, few see in HRM any real potential for overcoming the underlying weaknesses of British industrial relations (Sisson, 1994). By and large, HRM is held to be more rhetoric than reality in any case, with little concrete evidence of systematic and strategic application of the principles espoused (Legge, 1995a and 1995b).

In summary, the general image portrayed by much of the literature on UK industrial relations (particularly in traditional industries such as engineering) by the mid 1990s was essentially 'more of the same only in stronger doses' (Legge, 1995a and 1995b; Sisson and Marginson, 1995). Although significant changes had occurred to the British industrial relations system as a whole - to the extent that many commentators declared the end of a distinctive British 'system'[45] - certain sectors of

[45] Beatson (1993, p405), for example, contends that, "*Without fear of overstatement, the 1980s can be said to have seen a sea-change in the structure and conduct of industrial relations in Britain.*" Such radical assertions are, however, less common than analyses balancing change and continuity in the fundamental elements of British industrial relations (Gunnigle et al., 1994).

the economy were characterised by significant continuity in the fundamental characteristics of industrial relations. In the words of Millward et al. (1992, p350),

> *"in workplaces where trade union representation and collective bargaining persisted, surprisingly little altered. That is to say, change occurred more because the proportion of workplaces operating the British 'system' of industrial relations declined so markedly, rather than because there was uniform decline of trade union representation and collective bargaining across all sectors and types of workplaces."*

If anything, the regulatory industrial relations environment impacting on companies was weakened by the further progression of decentralisation, and the virtual abandonment of industry-level collective bargaining. The Conservative Government had made an unprecedented break with the long-standing tradition of State abstention from the industrial relations system but, apart from a few (mostly EU-induced) measures enhancing employment rights, virtually all legislative initiatives were aimed at regulating the unions and lessening their influence over management. In concurrence with a number of economic, social, and political factors, and the generally defensive and reactive response by the unions themselves, this led to a rather dramatic fall in overall union membership from its peak in the 1970s. This pattern was, however, not ubiquitous, and union density among certain work-groups in specific sectors of the economy (such as blue-collar workers in engineering) remained at high levels. Management was accused of continuing to 'muddle through', reacting in an ad hoc and opportunistic fashion to external stimuli with little or no strategic forethought (Hunter et al., 1993). In short, voluntary interactions between management and trade unions, conducted primarily at the company and/or workplace levels and in the virtual absence of regulatory intervention,

continued to be the pattern of industrial relations for much of the manufacturing sector. As Brown et al. (1997, p81) note,

> *"certain distinctive features of the British system - most notably the weakness of centralised bargaining mechanisms and the absence of a comprehensive statutory floor of rights - were reinforced by the policies of the 1980s and 1990s. The new laws also confirmed an underlying assumption of adversarialism and separation of interests in British labour-management relations."*

D. COMPARATIVE FLEXIBILITY: THE 'NEW ORTHODOXY' OF A GERMAN ADVANTAGE

Despite a profusion of apparent rigidities within the German industrial relations system, in the form of extensive juridification and institutionalisation of labour power, and the virtual lack of any such formal impediments in the UK system, a number of comparative studies[46] in the 1970s and 1980s pointed to an interesting paradox. In practice, German companies operated to significantly higher degrees of flexibility than did their UK (or US[47]) counterparts. Far from being an obstacle to such flexibility, most analyses actually pointed to the dense web of industrial relations laws and institutions which characterise the German system as a major source of competitive advantage through *"unencumbered internal mobility"* (Katz and Sabel, 1985, p305)[48]. The argument hinges on three differences in the countries' industrial relations systems.

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[46] See, for example, Streeck (1984a and 1989); Katz and Sabel (1985); Maitland (1983); Katzenstein (1989); Thelen (1991); Lane (1988, 1994a, and 1994b); Piore (1986); Buttler (1987); Herrigel (1989) to name but a few.

[47] Many of the institutional features of British industrial relations seen as impediments to organisational change were analogous to similar shortcomings in the American context, only the situation in the UK was worse: *"Great Britain demonstrates in a magnified form the tendencies which have slowed change in the United States."* (Katz and Sabel, 1985).

[48] As noted earlier in the chapter, little attempt is made in these comparative studies to differentiate between forms of flexibility, and the argument is simply that Germany's industrial relations environment facilitates a

First and foremost, the extensive legal rights afforded workforce representatives in Germany remove much of the threat implicit in change because, as Streeck (1988, p25) notes, co-determination,

> *"gives the workforce effective means to protect themselves from the negative effects of technical change ... The result is a pattern of sometimes considerable rigidities in the external labour market going together with high flexibility of internal markets"* (Quoted in Lehrer and Darbishire, 1997, p13).

With the sure knowledge that strong worker institutions at establishment, company and industry level will look after their interests, workers have significantly less to fear from economic and technological change, and flexibility is facilitated through *"negotiated adjustment"* (Thelen, 1991). In the words of Katzenstein (1989, p334):

> *The legal protection that co-determination has granted West German labour has ... maintained corporate policy in the face of technological change. The strong role of the works councils in recruitment, dismissal, and assignment of workers within the plant has similarly encouraged a long-term approach to manpower policy that has been conducive to accommodating technological change."*

With the respective rights and obligations of both management and works councils clearly laid down in law, it is far easier for either side to trust the other during the uncertainties and ambiguities which accompany any change process. For workers, the security of knowing that, come what may, management is bound by certain fixed obligations which protect the

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greater degree of general 'flexibility'. The content of the argument, however, suggests that the principal advantage of German companies is in the internal deployment of labour rather than the external ability to adjust the volume of labour. In other words, the real strengths of German industrial relations lie in *temporal* and (especially) *functional* forms of flexibility, although it should be noted that little is made of possible disadvantages with respect to *numerical* and *financial flexibility* or *externalisation*; insofar as shortcomings in these forms of flexibility are mentioned, they are, paradoxically, viewed as advantageous in the extent to which they have forced management to concentrate on 'high-road' competitive strategies based on internal forms of flexibility.

rights of the workforce removes much of the apprehension towards the process of change. As Kluge (1998, p43) notes, these are the preconditions of *negotiated adjustment*, which is only possible,

> *"on the basis of mutual confidence that the other side will honour and implement its obligations ... The value of co-determination is that, given an uncertain outcome of innovation processes, it can create security for the workers during the transition, thus increasing their willingness to support the innovations."*

With this sense of safety, workers and their representatives have themselves often become the most vocal proponents of change. This is enhanced by the tendency of works councils to identify with the enterprise and thereby support change as a competitive measure; the dominance of skilled workers, who understand and are not afraid of technology, on works councils has further provided management with a highly competent and constructive negotiating partner (Streeck, 1987a). Perhaps most importantly, however, it is the independent and formalised nature of works council power which provides workers with a sense of security:

> *"But broad job classifications and informal work rules are likely to be acceptable to workers only if they are guaranteed that management will not abuse its privilege of redeploying labour."* (Katz and Sabel, 1985, p299).

By contrast, lacking any such formally codified rights and powers, British workers and their unions have had to secure what influence they could by whatever means they have had at their disposal. This has largely been achieved through strict adherence to custom and practice and, in particular, to job and skill demarcations. Such inertia presents management with a major obstacle to change at the workplace, even if, theoretically, there should be few such barriers to flexibility. Study after study has produced the same results - resistance to organisational

change and the adoption of new technology at UK companies and plants (Maitland, 1983; Hartmann et al., 1984; Daniel, 1987; Lane, 1988 and 1989). Even by the early 1990s, despite more than a decade of attempts by Conservative Governments to undermine trade unions restrictions, thereby relieving management of what were perceived as the major obstacles to flexibility, significant obstacles to internal forms of flexibility were still widely encountered (Whittaker, 1990; Storey, 1992a; Lane, 1994a and 1994b; Legge, 1995a and 1995b). At a manufacturing plant researched by Penn et al. (1992), for example, management had sought to remove a debilitating demarcation between high voltage supply electricians and instrument mechanics, but:

> *"Negotiations had failed to remove this demarcation and in the end management had been forced to draw up a detailed and piecemeal inventory that allocated one set of new tasks to electricians and another set to instrument mechanics. At the same plant there had also been widespread resistance by the maintenance craftsmen to managerial attempts to allow production workers to perform some minor routine tasks ... Such results confirmed [earlier researchers'] general research findings which suggested that successful implementation of functional flexibility was rare in contemporary British manufacturing industry."* (Ibid., p220).

As noted, workforce resistance to change is perceived as the natural product of insecurity; if anything, Conservative 're-regulation' of the industrial relations system, through the deregulation of employment contracts in combination with the regulation of union organisation and behaviour, has merely served to increase the levels of workforce insecurity. Organisational change, by definition, means the erosion of custom-and-practice rules and, often, of job demarcations, unions' main sources of influence over management: little wonder then that they should fight tooth and nail to preserve the only controls they have over their working environment and conditions. By contrast,

> *"West German unions, being industrial unions, have never needed to impose restrictive job demarcations. This together with wage maintenance and retraining under protection against rationalisation agreements, as well as steady employment under co-determination and internal labour market human resource management, has made for a highly flexible shop floor capable of absorbing technical change without disruption."* (Streeck, 1989, p132).

The second strand of the argument for greater German workplace flexibility relates to the structure and organisation of interest representation in the two industrial relations systems. Most important of these is the *"encompassing"* (Streeck, 1984a and 1984b) nature of German industrial unions, representing all types of worker within a particular industry and region (*"unit singularity"*). Such a broadly inclusive union structure - the WCA and Collective Agreement Act in effect exclude small, specialised unions from collective bargaining - has facilitated interest aggregation to a far greater extent than has been the case in the UK, where fragmentation of bargaining units and fierce inter-union competition have been the result of the unregulated number and structure of trade unions (*"unit multiplicity"*). This has also had important implications for the introduction of change:

> *"While the introduction of such flexible production systems has been compatible with the German system of industrial unions the British principles of craft unions and multi-unionism within firms have made the implementation of new technology more problematic."* (Lane, 1994b, p193).

Furthermore, the scope of bargaining is clearly defined in Germany, as are bargaining rights for different topics. A hierarchy of bargaining levels also exists, with certain topics the exclusive domain of either industrial, company or workplace bargaining. No such organisation exists in the UK - not only the outcome, but the scope and level of bargaining are matters to be decided according to positions of relative strength and, with sectional worker preoccupations taking precedence over

collective workforce interests, it is little wonder that the UK industrial relations system had degenerated into a *"war of all against all"* (Maitland, 1983, p47). The relative strength and organisation of employer organisations in Germany has also necessitated a greater degree of centralisation and coherence within German unions, again requiring that internal rifts and divisions within the labour movement be overcome. Summing up the argument, Streeck (1984a, p141) notes:

> *"Because of the way corporatist [i.e. German] organisations aggregate, process and transform the interests of their members, they allow for a good deal of flexibility of the productive apparatus and a high rate of adjustment and restructuring ... [this] contributes to industrial flexibility by excluding from representation demands of negatively affected member groups for job control and job ownership, and by permitting a high degree of mobility within and between plants. Pluralist [i.e. British] systems, on the other hand, give small groups in a strong bargaining position a chance to establish defensive veto rights over changes in the organisation of their work and thus obstruct industrial adjustment".*

Again, Conservative reforms during the 1980s and 1990s had done nothing to address the fundamental structural short-comings of interest representation in the UK system, and little to rectify the inadequacies of trade union government; if anything, the further decentralisation of industrial relations which they oversaw exacerbated the lack of structure within the UK's industrial relations system, and magnified the attendant disadvantages.

The third well-known feature of German industrial relations which is argued to have contributed to greater flexibility at the workplace is the co-operative and consensual nature of relations between management and labour (Wever, 1995). Kern and Schumann (1989), for example, note the importance of co-operative industrial relations in their model of *"new production concepts"*, listing, as one of the principal prerequisites of the new strategy,

> *"The degree to which capital and labour are used to compromise and co-operate even in areas sensitive to both ... The more used to combining bargaining and co-operation both parties are, the more willing they will be to accept 'live-and-let-live' arrangements and to abandon restrictive practices that hinder change."* (Ibid., p93).

Again, Germany's industrial relations regulation is perceived as a great benefit in this regard:

> *"Their flexible performance depends in large measure on the capacity of the industrial relations system for co-operative conflict resolution, which, in turn, is enhanced by a legal and political framework that facilitates and encourages 'social partnership'."* (Streeck, 1989, p136).

In stark contrast, UK industrial relations is renowned for its conflictual and often destructive interactions between (and even within) the two sides of industry, with disastrous consequences for both sides, and the UK economy as a whole (Maitland, 1983). In their own confrontational approach to trade unions and industrial action, as well as their encouragement of 'macho management' in the private sector, Conservative Governments of the 1980s and 1990s did little to overcome this traditional antagonism and replace it with the type of relations, based on consensus and compromise, which have facilitated such impressive flexibility in the German system.

The message of the 'new orthodox' view of German industrial relations as a facilitator of firm-level flexibility is clear: such flexibility requires a well-designed and carefully structured framework of regulation at both national and industry levels to guide the behaviours and actions of management and labour at the workplace level towards mutually beneficial outcomes. In the absence of such a regulatory framework, industrial relations at the workplace will proceed in a

disorderly and adversarial fashion, characterised by workforce insecurity and hostility to change.

Even where rigidities have occurred in the German system - principally with regards *numerical* and *financial flexibility* - they have still been of benefit to German industry. With a surplus of highly skilled, highly paid workers protected by extensive legal rights and powerful representative institutions, German companies have been forced to take the 'high road' response to intensifying product market competition, and move into the production of up-market, price-inelastic goods. Much of German industry's success during the economic turbulence of the 1970s and 1980s has been ascribed to this rigidity-induced strategy of 'diversified quality production' (Sorge and Streeck, 1988; Boyer, 1987; Streeck, 1989). 'Low road' alternatives were further restricted by union and works council calls for a *"qualification offensive"* in response to the crisis, forcing companies to take on more apprentices than they appeared to need. In the UK, on the other hand, no such barriers existed to prevent companies blundering on down the road of low-wages, low-productivity, and low-quality.

By the 1990s, a few dissenting voices were beginning to question what had come to be regarded as the 'new orthodoxy' of superior German flexibility. Turner (1991), himself a great proponent of the German industrial relations system, noted, for example, that previous descriptions of flexibility within the system may have been overstated, even with regards *functional flexibility*:

> *"in fact, all reassignments are subject both to complex wage security provisions ... and to works council approval ... and quite often shop-floor workers effectively (if informally) resist such 'flexibility'. For all longer-term assignments, including those resulting from work reorganisation, the works council can effectively block*

management moves so that consensus is sought before the use of West German industry's famous shop-floor flexibility." (Ibid., p94).

Research in the fast-changing telecommunications and airline industries directly challenged the *"new conventional wisdom"* of a relative German flexibility advantage (Lehrer and Darbishire, 1997; Darbishire, 1997). The findings suggested that, in industries characterised by dramatic technological and market changes, UK companies in fact enjoy flexibility advantages over their German competitors, particularly when the scope for 'integrative bargaining' (Walton and McKersie, 1965) is limited.

Such contrarian voices have, however, remained an isolated minority, and the apparently paradoxical orthodoxy of a German flexibility advantage has remained largely unchallenged. One of the most appealing features of this orthodoxy is that, in theory, it provides for the best of all worlds. Not only does the German model of industrial relations deliver greater democracy at the workplace and higher social standards, but its inherent flexibility provides a source of competitive advantage for German business as well - a truly 'integrative' solution to one of the fundamental dilemmas of capitalism.

E. CONCLUSION

The three sections of this chapter contribute to a theoretical framework by which to interpret the results presented in the chapters which follow.

In the first place, the concept of 'flexibility' was explored, noting the overall lack of analytical rigour in the debate over micro (or firm-level) flexibility. Various attempts to categorise and classify

different forms of firm-level flexibility were then described, alighting on a particular framework, developed by Grenier et al. (1997), as most applicable to this study. Having expanded the model to incorporate flexibility of labour costs, and qualify the rhetoric of 'strategy', the section concluded with a depiction of the restructured framework by which firm-level flexibility at participant companies will be analysed (page 68).

Next, the discussion turned to a comparison of British and German industrial relations, guided by a modified version of the 'strategic choice' systems model of Kochan et al. (1986). By comparing and contrasting the two countries' industrial relations systems at four different tiers, the sharp distinction in levels of regulation was highlighted. At each of the important levels within the system - 'strategic decision-making', 'industry-functional', 'company-functional', and 'workplace' - German industrial relations is characterised by a highly developed regulatory framework which, apart from recent (and relatively piecemeal) legislation on trade union structure and behaviour, is largely absent in the UK context.

Finally, the implications of these industrial relations differences for firm-level flexibility were assessed. Drawing on a substantial body of literature from the 1970s, 1980s, and early 1990s, the discussion pointed to the rather paradoxical finding of a significant German flexibility advantage. Furthermore, this research suggests that German firm-level flexibility is not only un-impeded by the high levels of industrial relations regulation, but that it is enhanced and facilitated by the regulatory framework. This was referred to as the 'new orthodox' view of industrial relations and flexibility: the apparently incongruous proposition that a well-designed and structured regulatory framework for

industrial relations is a *sine qua non* of firm-level flexibility; in the absence of such a guiding framework, informal rigidities proliferate unchecked. There could be no clearer evidence of this phenomenon than the contrasts between flexibility in British and German companies.

CHAPTER THREE. FLEXIBILITY AND THE EU SOCIAL DIMENSION

A. INTRODUCTION

Following chapter two's discussion on comparative industrial relations and flexibility in the UK and Germany, the focus in this chapter shifts to the EU's social dimension.

The first part of the chapter will examine developments in the social dimension itself, noting the influence of the 'Roman-Germanic' model of industrial relations. A précis of the arguments in favour of the social dimension will also be presented, focusing on contentions that the well-structured framework of regulation being established will serve to enhance firm-level flexibility. These arguments, it will be noted, are very similar to the 'new orthodox' view of Germany's highly regulated model of industrial relations as a source of significant flexibility advantage over the UK's more voluntarist model.

The discussion then turns to employer perspectives on the EU social dimension, noting how sharply these diverge from the views of the Commission and other proponents of the social dimension. Citing evidence from companies and employers' associations, it is argued that employers in the UK and Germany are unambiguously opposed to EU social and industrial relations regulation; there are also strong indications that their views are representative of EU employers more broadly. Two bases are identified for this opposition. First, drawing from radical theory, a 'political rationality' of managerial control over organisations is cited as a source of opposition to EU regulatory measures which would interfere with managerial prerogative. Although this perspective

anticipates employers' recourse to politically-neutral rhetoric in accounting for their opposition, the choice of 'flexibility' as basis for this opposition appears somewhat paradoxical in light of Commission assertions (supported by the 'new orthodoxy') that the social dimension will benefit the competitive strength of European companies through enhanced firm-level flexibility. The chapter concludes by suggesting that these various inconsistencies can only be accounted for by reference to industrial relations and flexibility at the firm level, and a re-examination of the 'new orthodox' view that German companies enjoy a flexibility advantage over their UK rivals as a result of the framework of regulation which characterises the German industrial relations system.

B. THE EU AND ITS 'SOCIAL DIMENSION'

1. The Influence of the 'New Orthodoxy'

a) Style and Content

Appendix C provides a brief historical outline of the institutional development of the EU 'social dimension'[1], focusing on the significant advances made during the last decade since the Single European Act. As a synopsis, two elements of the most recent rounds of reform (initiated at Maastricht in 1991, and consolidated in the recent Amsterdam Treaty) stand out as being of particular importance to the further development of social and industrial relations policy at EU level. In the first place, social policy has, through a circuitous route, finally been awarded full Treaty status, through the inclusion of a new 'Social

[1] This thesis will follow Due et al. (1991, p86) in according the 'social dimension' a very wide interpretation, *"as a general designation for regulation of industrial relations in the EC."*

Chapter' in the Amsterdam Treaty. To a significant extent, this alleviates what was widely regarded as one of the principal weaknesses responsible for the limited progress made by EU social policy over the last four decades: the absence of a specific legal base in the founding Treaty (Teague and Grahl, 1992; Teague, 1991, 1993, and 1994; Davies, 1992; Streeck, 1993; Bercusson, 1995; Szyszczak, 1995). Secondly, and accompanying this breakthrough, five important policy areas are brought within the scope of qualified majority voting: improvement of the working environment to protect workers' health and safety; working conditions; the information and consultation of workers; equality between men and women with regard to labour market opportunities and treatment at work; and the integration of persons excluded from the labour market. Some potential implications of these advances will be examined in the concluding chapter.

As far as the principles upon which the social dimension is founded, the shape which it has assumed, and content it has acquired, numerous parallels can be drawn with the German model of industrial relations. In fact, Germany is sometimes cited as the ideal role model for an emerging European industrial relations system (Muhr, 1990; Timmann, 1997); Soskice and Schettkat (1993) even suggest that the historic successes achieved by Germany's model of industrial relations, and its proven transferability (as demonstrated following German reunification), make it the ideal industrial relations system for an enlarged and unified Europe. The unrivalled success of German industrial relations at reconciling high social standards with world-beating competitiveness would inevitably be extremely attractive to the architects of the EU who, likewise, seek to maintain and strengthen the cherished 'European

social model' while simultaneously improving the competitive position of the continent's companies in the ever-tougher global marketplace.

Besides being an example of 'best practice', Germany is also a very influential member state whose interests are not easily dismissed in any of the EU's institutions. The influence of the German industrial relations system at EU level is further enhanced by the importance of German employers' association and, particularly, German trade unions within UNICE and the ETUC respectively (Gorges, 1996). In short, although (as Bercusson, 1994, has argued) it would be incorrect to view the EU social dimension as a simple extension of member state practices to European level, the tendency of EU social policy legislation to reflect the dominant 'Roman-Germanic' model of industrial relations[2] is well noted (Due et al., 1991; Wise and Gibb, 1993; Turner, 1993; Hall, 1994; Addison and Siebert, 1994; Gold and Matthews, 1996; Larragy, 1997); as the largest and most successful example of the Roman-Germanic model, it is not surprising that the German industrial relations system has been (and continues to be) highly influential in the development of the EU social dimension, particularly with regards measures relating to employee participation in management decision-making (Cressey, 1993; Bercusson, 1995; Wedderburn, 1997).

As the EU social dimension gradually advances, it is taking shape along the lines of the famous German industrial relations system at all four main tiers. At the 'strategic decision-making' tier, it is clear that

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[2] According to a widely used typology (CEC, 1989; Due et al., 1991; Hall, 1994; Keller, 1995), the industrial relations systems of EU member states fall into three distinct groupings: Roman-Germanic (with an emphasis on legal regulation and the state as an important actor), Nordic (collective agreements are the central element of regulation) and Anglo-Irish (voluntarist tradition with a limited role for statutory regulation).

the Commission and European Parliament perceive as one of their principal obligations the creation of a 'fair social order'; to this end, they employ two main strategies. Firstly, the EU's political institutions are striving to establish a substantive regulatory framework defining the boundaries within which negotiations between actors at lower levels can proceed. So, for example, the Working Time, Part-Time Work, and Parental Leave Directives, along with a host of other substantive Directives and Regulations (primarily relating to health and safety and equal opportunities), have all contributed to a basic foundation of substantive employee rights, thereby demarcating the scope of subsequent negotiations over such aspects of the employment contract[3]. In the second place, the Community has focused substantial effort and resources on cultivating the 'social partnership' between capital and labour at the European level. Negotiations between management and trade unions have been institutionalised in the form of the 'Maastricht' social dialogue, and reinforced by a variety of other bipartite and tripartite committees[4]. If anything, the EU 'social partners' are provided an even greater degree of influence over the Community's social and labour market policies than are their counterparts in Germany.

At 'functional-industry' tier, EU political institutions are also unstinting in their efforts to develop the EU-level sectoral social dialogues, because this is widely regarded by proponents of a European system of industrial relations as the most appropriate tier for the

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[3] According to an update of EU social and labour policy legislation, around 50 such EU Regulations and Directives were in force by the middle of the 1990s (Gold and Matthews, 1996).

[4] For more information on the various forms and institutions of the social dialogue at European level, see CEC (1996); Gorges (1996); and Teague (1991).

establishment of framework agreements regulating change at lower levels in the European economy (CEC, 1996[5]); again, the extraordinary success of Germany's industry-based structuring of industrial relations is a source of inspiration.

Increasingly, the Commission is also turning to relations at the 'functional-company' and workplace levels, where there exists a perceived need to facilitate, through procedural regulation, the social partnership and consensus-based decision making which are such hallmarks of the German industrial relations system. Direct measures to encourage social partnership and 'negotiated adjustment' have, to date, concentrated on the national and trans-national company levels, with the expectation that the effects will filter down to establishment-level relations as well.

Although numerous regulatory initiatives to encourage co-operation and co-determination at the level of the European enterprise have been attempted by the Commission[6], no major breakthrough was made until September 22nd 1994 when Council adopted, under the terms of the TEU's Social Policy Agreement, the European Works Council (EWC) Directive (CEC, 1994a). According to Article 1(1) of the Directive, the purpose of this particular instrument is,

> *"to improve the right to information and consultation of employees in Community-scale undertakings".*

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[5] See also Eironline, "*Commission publishes first annual review of the EU-level social dialogue.*" May, 1997; and Eironline, "*The future of the social dialogue at Community level.*" February, 1997.

[6] Initiatives such as the proposed 'Vredeling' Directive on information and consultation, the Proposed 'Fifth' Directive on company structure and administration (containing various clauses on co-determination), and the proposed European Company Statute (advocating employee participation on the board of a European company).

Thus, it was hoped, the Directive would *"promote dialogue between management and labour"* (Preamble), particularly with respect to organisational change. The list of topics over which such rights are established, contained within the Annex on Subsidiary Requirements, closely resembles the famous Section 111 of Germany's Works Constitution Act (WCA), and includes issues such as employment trends, changes concerning organisation, and the introduction of new working methods or production processes. Responsibility for implementing the Directive's arrangements is entrusted to negotiations between management and an elected group of employee representatives, the 'special negotiating body'. Even the terminology resembles Germany's WCA; in a phrase reminiscent of Section 74 of the WCA, Article 6 instructs that,

> *"The central management and the special negotiating body must negotiate in a spirit of co-operation with a view to reaching an agreement".*

As with most EU legislation, the rights contained within the EWC Directive fall well short of equivalent German rights, but the intentions of the Directive are clearly founded on the underlying principles of 'negotiated adjustment'[7]. This is demonstrated even more clearly in the various proposals for a Directive on participation to accompany a European Company Statute. Since 1997, the European Company Statute - which would enable European multi-nationals to operate under rules governed by EU company law instead of a diverse set of national regulations (and potentially enjoy various tax advantages) in return for employee participation on the board of the company - has been the focus

[7] European trade unions, in fact, interpret the EWC Directive as an important first step on the long road to the ultimate form of trans-national 'negotiated adjustment': EU-level collective bargaining (Hall, 1992; Foster and Weber, 1998; Ramsay, 1997; Weston and Lucio, 1997).

of much renewed interest within the EU. Following a report by a committee of experts in May 1997 (Davignon, 1997), new compromise texts were presented first by the Luxembourg Presidency in the second half of 1997, and then the UK Presidency in the first half of 1998. Although nothing has yet to come of these attempts to reconcile differences between member state positions, the European Company Statute enjoys a high profile with the Commission, as a central plank in efforts to encourage 'negotiated adjustment' at supra-national company level.

The first steps towards 'negotiated adjustment' at national company level were achieved in the late 1970s, with the adoption of the Transfer of Undertakings and Acquired Rights Directives. Again, however, it was not until the late 1990s, in the wake of the debacle surrounding Renault's closure of its Vilvoorde plant[8], that the Commission looked likely to achieve a major breakthrough in its efforts to develop a platform of procedural rights to underscore social partnership. The draft proposals for legislation on National Information and Consultation (CEC, 1998a), issued in November 1998, again demonstrate the influence of German industrial relations legislation. Where, for example, Section 2(1) of the WCA requires management and works council to co-operate in a spirit of mutual trust for the well-being of employees and smooth running of the establishment, Article 1 of the draft legislation states that,

> *"the employer and the employees' representatives shall work in a spirit of co-operation ... taking into account the interests both of the undertaking and of the employees."*

[8] See Weber (1997b); Weber and Gilman (1997).

As far as information and consultation rights are concerned, Section 90 of the German WCA provides for the right of works councils to be informed fully and in good time by the employer, and the right to be consulted after a period of thinking time with the view to expressing an opinion. In a similar vein, Article 2(1)(d) of the Commission's draft Directive obliges management to provide workforce representatives with:

> *"information containing all relevant facts ... ensuring that the timing, means of communication and content of the information are such as to ensure its effectiveness, particularly in enabling the employees' representatives to examine the information thoroughly and ... prepare consultations."*

Although the draft Directive envisages rights for employee representatives nowhere nearly as comprehensive as those afforded German works councils by the WCA, Article 2(1)(e) introduces two subtle elements of co-determination. Firstly, management is obliged to justify its actions when they contradict the opinions of the 'works council'; employee representatives are provided with the right:

> *"to meet with the employer and obtain a response, and the reasons for that response, to any opinions they may formulate."*

Secondly, the draft proposal requires management and works council to address contentious matters with a desire to reach agreement. According to Article 2(1)(e), with regards management decisions likely to lead to changes in work organisation or contractual relations, management is legally required to *"attempt to seek prior agreement"*.

In drawing inspiration from Roman-Germanic principles of industrial relations, EU political institutions have been guided by a clear analysis of the many benefits associated with such arrangements, and encouraged by the successes achieved in countries like Germany. The

influence of the 'new orthodoxy' is clearly visible, not only in the choice of instruments and measures, but in the assertions which have accompanied them.

b) Supporting Discourse

Arguments for the extension of the EU social dimension can broadly be grouped into four categories: political, social, macro-economic, and micro-economic. Although the political and social aspects of the debate fall largely beyond the scope of this thesis, they provide an important context within which the narrower economic arguments must be understood.

From the outset, the EU was a political project based on economic means. The ambitious purpose of this project: to put an end to four centuries of virtually uninterrupted war in western Europe (Nicol1 and Salmo, 1994). The first of the European Communities to be established, the European Coal and Steel Community (ECSC), was founded explicitly on this aspiration. According to the famous 1950 'Schuman declaration'[9],

> *"The pooling of coal and steel production will immediately ensure the establishment of a common basis for economic development ... and change the destiny of those regions for so long dedicated to the making of weapons of war of which they have been the most constant victims. The interdependence of production thus established will make all war between France and Germany not only unthinkable, but physically impossible."* (Cited in CEC, 1990).

Similar philosophies and objectives inspired the subsequent establishment, in 1957, of two further Communities: the European

[9] The declaration took the form of a speech, delivered in Paris in 1950 by Robert Schuman, then French foreign minister. The speech, inspired by Schuman's close friend Jean Monnet (widely regarded as the spiritual founder of the EU), called for the establishment of various European Communities as the flagships for European integration.

Economic Community (EEC), and the European Atomic Energy Community (Euratom). By the end of the 1980s, the degree of economic integration which had been achieved across the EU indeed suggested that the unlikely goal of making war in western Europe 'not only unthinkable, but physically impossible' had indeed been achieved. Nevertheless, many felt that economic integration alone was an unreliable basis upon which to ground so important a project, and that the EU suffered from a lack of political legitimacy; the social dimension, by delivering concrete social benefits and bringing the EU 'closer to its citizens', was seen as one way of improving the Community's political credibility[10]. That issues of political legitimacy continued to be of importance was highlighted in the near failure of the TEU's ratification[11]. Even before the TEU was completed, however, commentators were warning that,

> *"already there is a consensus that unless decisive measures are taken in the social field the citizens of Europe will not feel that they are part of the process of European unity."* Espina (1990, p203).

Such concerns about a political backlash to the process of economic integration were first raised in the early 1970s (Davies, 1992). By the late 1990s they were considered no less relevant, and many viewed the extension of the social dimension as a necessary counterbalance by which to increase the appeal of the EU to its citizens:

> *"The EU must face a fresh set of challenges in the years to come. None of these challenges can be met without the support, involvement and co-operation of the citizens of the Union. We have to take them with us. The most effective way of getting*

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[10] Furthermore, as Münch (1996) has argued, centralised social and welfare policy were important factors in facilitating the replacement of regional groups' provincial identities with an identity of 'nation'. Likewise, a fully-fledged EU social dimension might add to the breaking down of national identities, and the emergence of a European 'nation'.

[11] The proposed Treaty was only very narrowly accepted in France and in fact rejected in a first referendum in Denmark before being narrowly accepted in a re-run.

them on board is to transform the social provisions of the new Treaty into concrete action." (Flynn, 1997e).

The second set of arguments for the social dimension centre on its social indispensability. At the most basic level, there are obvious social justifications for legal intervention in the functioning of the market and, as European economic integration has progressed, the case for developing social legislation at the European level has also grown stronger. As Muhr (1990, p3) has argued:

"Pollution of the atmosphere and rivers does not stop at national frontiers any more than do unemployment and poverty. Transborder co-operation is a prerequisite in dealing with these problems."

Commission president Delors and other influential political figures (particularly German and French) were adamant during negotiations over the SEA that the greater economic efficiency of the envisaged single European market had to be complemented by considerations of equity, as the cornerstone of a common democratic and European inheritance; as such, the single market had to be accompanied by the creation of a 'single European social space' (Story and Schwartz, 1990). Before 1987, apart from gender equality and worker health and safety, virtually all EU social policy legislation had been 'market completing' (Wedderburn, 1997; NESC, 1996) in the sense that its objective (and the grounds upon which it had to be justified) had been to remove barriers to the proper functioning of the market. Institutional advances over the last decade have, however, opened the way to 'market correcting' measures with specifically social goals, such as the preservation of the 'European social model' (CEC, 1995b; Comité des Sages, 1996)[12].

[12] The extent to which the Commission's confidence in its social competence has grown is demonstrated, for example, by its reasoning behind a series of proposed social measures in the 1998 Social Action

Thirdly, a number of macro-level economic arguments are advanced in favour of the development of the EU social dimension. First, and least contentiously, a certain level of intervention is regarded as essential in facilitating the free movement of labour within the single market. To the extent that an EU social dimension has facilitated the removal of obstacles to this free movement - principally through steps towards the mutual recognition of qualifications and portability of pensions - it has found favour in most quarters. Through its administration of various structural funds (particularly the European Regional Development Fund and the European Social Fund), DGV[13] has also contributed to the balanced economic development of EU regions, and helped alleviate some of the adverse effects of the radical changes induced by the creation of a single market. On a much more controversial note, the prospect of 'social dumping' between regions has often been used by the Commission, along with governments in some of the wealthier member states, as a justification for the upward harmonisation of European social and labour legislation (Comité des Sages, 1996). The concern expressed by adherents to the 'social dumping' theory is that, in a competitive single market with free movement of capital and labour, pressure would be brought to bear on member states and regions with relatively high levels of social protection through their exposure to competition from regions where such 'costs' were often significantly lower. This would then render producers in countries with high social standards uncompetitive vis-à-vis their

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Programme: "*people want a cohesive and inclusive society, based on solidarity and equality, as well as a high standard of life and health. Public policies have a crucial role to play in helping to achieve this ... by promoting income redistribution and alleviating poverty, by providing a safety net for those genuinely in need, and by fighting discrimination and inequality.*" *(CEC, 1998b, III.3).*

[13] 'Directorate-General Five': the Directorate-General within the Commission with responsibility for social and labour policy.

low-cost competitors, prompting them to relocate to these countries with lower social costs; this in turn would increase their bargaining power with which to drive down costs in their domestic sites, and would tempt governments in high social cost countries to lower these supposed barriers to competition. The result would be a sustained bout of 'competitive deregulation' and a social 'race to the bottom', discouraging competition on the basis of technology, production methods, and a highly-skilled, highly-productive workforce. Faced with these prospects, the Community had a duty to limit such a self-destructive cycle before it started (CEC, 1994b)[14].

Finally (and most importantly for the purposes of this thesis), a number of micro-level competitiveness arguments - very similar to the apparently paradoxical assertions relating to the beneficial effects of regulation in the context of the German industrial relations system - are advanced in favour of EU labour legislation. The first point to note, however, is that the Commission does not place as much emphasis on this as do European employers; nor do they share employers' pessimistic views on European corporate competitiveness. So, for example, the director-general of DGV has stated his view, *"that Europe does not have any basic problem of competitiveness"* (Larsson, 1998a), while Commissioner Flynn (of DGV) has expressed his belief in,

> *"the facts of the European economy's rude competitive health and prospects, and the fact that our social model has helped, not hindered that achievement, these prospects"* (Flynn, 1997b).

[14] Commentators have, however, pointed to a number of short-comings in the 'social dumping' thesis (see, for example, Mosley, 1990; Due et al., 1991; Curwen, 1995), and it appears less frequently now as an argument for upward harmonisation.

The Commissioner has also argued the relative competitive strength of Europe as a business location compared to the USA and Japan (Flynn, 1997c and 1997f); as we shall see, these contentions do not mesh with employer perspectives on competitiveness. Be that as it may, as the above quotation from Commissioner Flynn suggests, the social dimension is viewed by many as a source of competitive advantage to companies and to Europe as a whole. The arguments in favour of EU social policy legislation as a competitive asset centre on 'positive flexibility' (CAG, 1996) through 'negotiated adjustment'. They are reminiscent of the arguments extolling the flexibility advantages inherent in Germany's regulated model of industrial relations.

In light of the many similarities highlighted earlier between the principles and content of the EU's social dimension and the German model of industrial relations, it is perhaps not surprising that many of the arguments for EU social policy legislation as an aid to flexibility and adaptability parallel similar arguments for the German system. For example, the president of the Commission has spoken of his conviction that the social dimension should be understood,

> *"as a source of **dynamism** which will enable us to take on the challenges of the future, including that of international competition."* (Santer, 1996. Emphasis added).

At a fundamental level, proponents of EU labour legislation contend that change, within organisations as much as within wider society, needs to be accepted by all affected parties if it is to be successfully designed and implemented:

> *"we believe that one key element of our [European social] system which we must not abandon at any price, is the search for social consensus in the brokering of change. Attempts to impose change from the top down will not win the hearts and minds of the people whose consent is necessary to make those changes work ... only changes which*

are willingly accepted, and subscribed to, will produce the results which we need." (Flynn, 1996).

Such acceptance can only be achieved through negotiation between the social partners at various levels of the economy, within a framework of legal rights and responsibilities. The role for EU-level institutions is two-fold. Firstly, to establish a legal framework defining the boundaries within which negotiations can take place, and then to encourage and facilitate subsequent negotiations over change. Crucially, as the evidence from German industrial relations has shown, change at company level needs to be labour-inclusive, with independent and institutionalised rights for workforce representatives, to put them on a more equal footing with management (Streeck, 1993; Turner, 1993). 'Negotiated adjustment' is based on the balancing of interests between parties of equal strength:

"That framework and strategy [for organisational change] can be best developed, and best applied, if it is a product of informed dialogue, and ***equal partnership****, between the social partners."* (Larsson, 1998c. Emphasis added)[15].

The contrasts between British and German industrial relations have also made it abundantly clear that such partnership for flexibility does not evolve without regulatory intervention. Again, EU institutions have taken the lessons on board:

"Regulation is an important element in this process [of change] ... We need well designed regulation, within a coherent employment system, to create a labour market which is flexible". (Flynn, 1997d).

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[15] According to Commissioner Flynn (1997a), "*if you want adaptability, you must build partnership ...* ***Involvement isn't enough. It has to be a deeply rooted partnership***." (Emphasis added).

As the discussion on German industrial relations demonstrates, successful regulation takes the form of both legislation and institutionalisation, in the shape of strong, centralised representative institutions and collective agreements. The Commission's conviction that organisational change will not proceed without a regulatory framework (comprising a range of measures from legislation through collective agreements, to joint declarations) developed by institutions and actors at the European level is reflected, not only in numerous speeches[16], but in publications such as the Green Papers on *Partnership for a new organisation of work* (CEC, 1997b)[17] and *European Social Policy* (CEC, 1994b), the two consultation documents on *The information and consultation of workers within the national framework* (CEC, 1997a and 1997d), and the Davignon report on *European systems of worker involvement* (Davignon, 1997). The November 1998 draft proposal for a Directive on National Information and Consultation (CEC, 1998a) provides further evidence of the Commission's conviction that such regulation will enhance organisational flexibility. In an impact assessment annexed to the proposals, the Commission contends that this particular legal instrument will,

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[16] In addition to the speeches already cited, see also Larsson (1998c) in which the Director General argues *"the need for a policy framework that can give momentum and structure to the process of modernisation ... we need to move from good practice to good policies. That really is the point of our work here: identifying good practice, and translating good practice into good policy."* Similar sentiments are expressed in Larsson (1998b), and (1998d).

[17] This document is something of a rarity for the Commission in that it explicitly cites numerous examples of German (as well as other Roman-Germanic) best practice in 'negotiated adjustment' which could form the basis of an EU policy framework. The Commission is usually careful to avoid direct reference to its sources of inspiration so as to avoid opening its initiatives to criticisms about copying from member state arrangements.

"develop the flexibility of work organisation ... and the improved ability of undertakings to cope with new, constantly changing situations (particularly where the organisation of work and restructuring are concerned)".

C. EMPLOYERS AND THE SOCIAL DIMENSION

1. Some Theoretical Conjectures

There are at least two possible perspectives from which to theorise over employer response to the EU social dimension. First, as the agents of capital and important economic actors, managers have goals of economic efficiency and profitability which would clearly inform their choices; we might speak of this as the 'economic rationality' of employer response. The discussion thus far has focused on firm-level flexibility as a crucial element of economic efficiency and competitiveness, presenting numerous arguments (and a strong body of evidence) suggesting that social and industrial relations regulation developed at EU level is potentially of great benefit in developing such flexibility and competitiveness.

But, as a growing number of organisation theorists recognise, firms are not clearly delineated economic entities inhabited by simple, economically rational beings (Lee and Lawrence, 1985). In fact, such a naive view of a firm and its actors can be misleading (and even sinister):

"The economic model presents a benign view of social organisation. By stressing markets and the operation of voluntary exchange, power, coercion, and exploitation are left out of view ... Thus, the economic model permits and, in fact, encourages one to avoid dealing with or even thinking about the potential conflict of interest between individuals and organisations and about issues such as power and social control." (Pfeffer, 1997, p54).

An alternative interpretation of management action and choice is provided by proponents of a 'radical perspective' who argue that,

> *"control is ... the central concept for all management systems."* Braverman (1974, p68)[18].

According to this school of thought, management is at least equally as concerned with maintaining control over the firm and its workers as it is with improving economic efficiency and maximising profits; some would argue even more so (Maglin, 1974)[19]. From this perspective, management would perceive any apparent economic benefits of EU social policy measures to be outweighed by their restrictive impact on managerial prerogative, and would reject such initiatives out of hand. Although it is somewhat questionable whether management is, in fact, in such a position vis-à-vis financial markets and shareholders to prioritise control over profitability, and although the treatment of 'management' as a homogenous class disguises complex differences across functions, companies and countries (and between individual managers), the important point to be taken from the radical perspective is that any 'economic rationality' in employer response to the social dimension must be considered alongside a 'political rationality'.

We might expect these two dimensions to sit rather uneasily together in British employer response. On the one hand, evidence from the 'new orthodoxy' suggests little scope for criticism on the grounds of

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[18] According to Goldman and Van Houten (1977, p109), management proceeds, "*as much from the desire to effect organisational control as from the need to apply continually advancing technology to production.*"

[19] As Pfeffer (1997, pp.179-180) puts it, radical theory, "*asserts that control, not efficiency, is the objective of organising arrangements and that when there are trade-offs involved, efficiency concerns are frequently subservient to the achievement of control over the labour process.*"

'economic rationality'; in fact, the Commission would not be unreasonable to expect some degree of support from British managers for the EU social dimension. Constrained, as they are, by a variety of rigidities and obstacles to change associated with their 'free-for-all' industrial relations system, British managers should welcome this opportunity to gradually introduce elements of a regulatory framework based on Roman-Germanic best practice. As chapter two suggests, following more than a decade of failed attempts by the Conservative Government to solve companies' flexibility problems through further deregulation of the industrial relations system, the proven success of Roman-Germanic principles of co-operation and consensus should be highly attractive.

On the other hand, British managers, particularly in engineering, have a long track record of vigorously defending their 'right to manage' (Wigham, 1973). In an agreement with the industry's unions in 1898 (which followed a crushing defeat of the unions through a 30 week lock-out), engineering employers formally established the 'General Principle of Freedom to Employers in the Management of Their Works', which declares that employers,

> *"would admit no interference with the management of their business, and reserve to themselves the right to introduce into any federated workshop, at the option of the employer concerned, any conditions of labour".* (From the *'Terms of Settlement of 1898'* cited in Marsh, 1965, p250).

This was reinforced by agreement on 'Managerial Functions' (again following dispute) in 1922 which states that,

> *"The employers have the right to manage their establishments and the trade unions have the right to exercise their functions."* (Ibid., p272).

These rights were formally defended by the EEF until 1971 and, even after they had been removed from the procedure agreement for the industry, continued to be an informal point of reference for engineering employers; according to Elliot (1978), the EEF's categorical rejection of the Bullock Report was based on a continued attachment to the premise of 'managerial functions'[20]. While employer attitudes would, no doubt, have changed somewhat by the late 1990s (by which stage explicit defence of 'managerial functions' would have been socially and politically even less tenable), this historical attachment to managerial control is an important antecedent to contemporary issues.

In short, we might expect British employers to be in a somewhat ambivalent position with regards the social dimension. Pressure from fierce global competition and demanding capital markets would make the 'economic rationality' of embracing the EU social dimension difficult to dismiss; furthermore, they would be hard-pressed to come up with socially and politically acceptable rhetoric in which to couch their ideological opposition. Whatever line of argument they might take, any reference to organisational flexibility as a basis for such opposition would appear positively absurd.

Nor would we expect any such ideologically-motivated UK opposition to be shared by German employers. As far as 'economic rationality' is concerned, the German 'social market economy' has created a particularly favourable context within which German industry has thrived and, as

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[20] It is interesting to note, however, that the CBI was more conciliatory and, in light of the obvious shortcomings of the status quo in British industrial relations (as well as political pressure), was indeed prepared to envisage legislation on participation agreements. The CBI's alternative to Bullock-type arrangements provided for worker directors, usually union based, to occupy one-third of the seats on a supervisory board. (Elliot, 1978).

noted in chapter two, the country's highly regulated industrial relations system has provided companies with a distinct flexibility advantage over competitors in the less regulated environments of the UK and USA. This chapter has also shown how Germany's industrial relations system has been a source of inspiration for the EU social dimension, and much of the ensuing EU labour legislation has been based quite closely on equivalent German regulation, albeit in much diluted form; EU social regulation is therefore hardly foreign to German managers. Furthermore, as Wever (1995) has demonstrated, German employers greatly value their own model of industrial relations, and harbour none of the ideological concerns about legislative incursions on managerial prerogative which might be anticipated in UK employer response[21]. In all, it is not difficult to see how German employers (like their politicians[22]) might support efforts to raise the standards of EU social legislation, and thereby prevent 'social dumping' from undermining the German 'social market economy' and destabilising flexibility-enhancing industrial relations; if other member states' industrial relations systems are not yet mature enough to benefit from such sophisticated arrangements, then all the better for German companies who would be placed at a competitive advantage (at least in the short-term) over their European rivals. At worst, German companies might be indifferent towards an EU social dimension, the impact of which would be minimal in the German context. Again, opposition to EU social policy legislation on the grounds that it

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[21] Historically, there has also been a relatively high level of animosity among German employers to power-sharing (particularly, as noted in chapter two, with respect to the 1976 Co-Determination Act), but, as recognised by the 'new orthodox' school, this has subsequently been replaced by a pragmatic appreciation of the many benefits associated with 'negotiated adjustment' (see pages 118 to 126). As such, any 'political rationality' of rejecting EU social policy measures is greatly reduced for German employers.

[22] See Appendix D for a brief outline of the contrasting political responses to the EU social dimension in the UK and Germany.

was detrimental to organisational flexibility would appear wholly out of place.

As the next section will show, however, these conjectures, based on the assertions of the 'new orthodoxy', do not in any way reflect the reality of employer response. Not only is there unanimous employer opposition to EU social policy measures from employers in the UK and Germany (as well as from EU-level employers' associations), but a central theme in this opposition is a paradoxical concern for the negative impact of such legislation on organisational flexibility.

2. The Reality of Unambiguous Opposition

Although employers generally recognise the social justifications for legal and political intervention in the functioning of the market and, thereby, a need for social policy legislation, it is their contention that Europe's social objectives can only be secured through the improvement of the region's business competitiveness[23]. The argument that economic competitiveness precedes social advancement, is one of the cornerstones of any employer response to Commission proposals for EU social policy initiatives, as summarised by UNICE:

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[23] For employers, competitiveness, as the *sine qua non* of employment and social progress, should be the supreme priority for the EU and its policy-makers. While organisations such as UNICE and the ERT express their commitment to social progress and maintenance of the European 'social model', they are unambiguous in their assertions that competitiveness should come first, and social policy should follow in its wake (UNICE, 1994a, 1994c, 1997b; ERT, 1997c; Eironline, "*UNICE urges IGC to prioritise competitiveness.*" May, 1997).

"Employers defend social progress. However, this can only occur on the basis of economic prosperity which presupposes defence of the competitiveness of European companies." (UNICE, 1993a, p2)[24].

The employer view of competitiveness differs from that of the Commission in two respects. Firstly, employers are unequivocal in their emphasis on competitiveness. They frequently express frustration at what they view as the Commission's neglect of economic efficiency at the expense of social and political objectives. Secondly, they do not share the Commission's confidence with regards, *"the European economy's rude competitive health and prospects"* (Flynn, 1997b), and numerous studies by both UNICE (1994c; 1995; and 1997a) and the European Round Table of Industrialists[25] (ERT, 1990; 1993a; and 1997c) suggest a relative decline in European business competitiveness vis-à-vis the region's global competitors. Alongside various macro-economic indicators of a relative European competitive deficiency (such as higher unemployment and lower growth), the studies highlight two features reflecting on the loss of European company competitiveness. First, the EU's share of world exports shrank by 7% between 1970 and 1990[26]; and secondly, the EU share of world

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[24] See also UNICE, (1997c, p3), "*Competitiveness is not an end in itself but an essential means of developing employment and living standards in the European Union. In other words, competitiveness is the sine qua non of a sustainable policy for economic and social cohesion.*"

[25] The ERT is comprised of a very elite group of business leaders from Europe's largest and most respected companies. In 1997, some 46 major European companies were represented on the ERT, with a combined turnover of more than 550 billion ECU, and together employing over three million people around the world (ERT, 1997a).

[26] Wise and Gibb (1993, pp.50-55) argue that the decline was even more dramatic, with European companies losing 9% of the world export market between 1973 and 1985 alone. In the same period, the proportion of manufactured goods which were imported from outside the EU 12 rose nearly 5%. Various other indicators also suggest a relative decline in the export competitiveness of EU companies: according to Eltis (1994), between 1980 and 1991 the value of EU manufacturing exports grew by a mere 79%, as compared to 129% for US and 146% for Japanese companies. Even more disconcerting is the extent to

FDI inflows also fell dramatically (by 15%) during the early 1990s and, after 1993, FDI outflows exceeded inflows. The result has been that employers increasingly question, not only the Community's relative priorities and lack of sufficient emphasis on economic competitiveness, but also various features of the EU's expanding regulatory framework. Perhaps more than any other aspect of the EU project, the social dimension (and contentions alluding to its beneficial business consequences) meet with their outright disapproval.

Flexibility as *"a pre-condition for competitiveness and employment creation"* (UNICE, 1997b, p1) is an almost inevitable theme of employer response to initiatives emanating from within the social dimension. In an environment characterised by constant and radical change, UNICE, for example, harbours no doubt that organisational flexibility and adaptability are absolute imperatives for competitive success:

> *"The competitive success of business in the Community in the last decade has been significantly dependent on the flexibility they have been able to show in responding to changing market conditions."* (UNICE, 1990, p1)[27].

In fundamental contrast to the Commission, European employer groups do not believe that such flexibility will in any way be enhanced by further labour regulation. In fact, it is a concern for the adverse effects on flexibility of such regulation which lies at the heart of much employer opposition to the EU social dimension. According to the competitiveness studies cited above, the EU's regulatory environment is already

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which EU companies are losing ground in high-tech products, which accounted for 18% of EU exports as opposed to 37% of US exports (Ibid.).

[27] See also UNICE (1998a, p2), "*It is therefore essential that the companies that are faced with these kinds of [unpredictable] changes have sufficient margin of manoeuvre and the necessary flexibility in order to quickly come to terms with the change.*"

perceived as a burden to such flexibility, and the wider concern is that,

> *"regulation will become a greater constraint for European companies in future because changes in the global business environment will require faster innovation and more flexible operating methods."* (UNICE, 1995, p.ii).

These negative views of the impact of EU labour regulation on flexibility are shared by all participant companies. ABB, for example, despite its deep roots in Europe, the strong influence of northern European systems of industrial relations, and the company's positive engagement of the EU and its institutions, does not express much support for the further development of the EU social dimension. At the general level, the company's vice-president for human resources management in Europe regards the EU social dimension as a burden without corresponding benefits:

> *"The social dimension has a negative image of always producing costs for the employer, and inflexibility ... With each new proposal it is again additional costs and administration which follow, not something that might help, even a little bit, to increase the competitiveness of Europe ... This is typical for the social dimension - always coming as new demands, new regulations, not coming as opportunities ... The EU people involved in the social dimension should maybe look at what they might be doing from the competitiveness point of view, and then they might be able to sell their proposals better."* (6/11/97).

In spite of contentions that the EU social dimension might be of particular advantage to UK companies, stricken as they are by fundamental barriers to flexibility, British employers are among the most vocal in their opposition to EU social initiatives. Not only do British managers reject such flexibility-enhancing contentions, but they insist that the UK should serve as flexibility role model for the rest of Europe. In laying out its priorities for the UK's EU presidency in the first half of 1998, for example, the CBI ironically suggests that

the UK presidency might provide some insight on the matter to its fellow member states:

> *"The UK has a unique opportunity to help Europe face up to the pressing challenges of global competition and rapid technological change ... The UK presidency should aim to build a broad consensus on the need for flexibility".* (CBI, 1997, pp.1-2).

On a similarly confident note, the former head of the CBI's Brussels office recommends that:

> *"We must go on the offensive to market the British approach of self-regulation and of minimal legislation, to promote those desirable elements in our European partners, as well as ourselves."* (Eberlie, 1993, pp. 208-209).

At a superficial glance, one might be led to suspect that German employers support the extension of the EU social dimension; indeed, during the 1980s, there were various indications that they did (Baethge and Wolf, 1995; Jacobi at al., 1992). The most obvious of these was the BDA's signing, in June 1989, of a joint statement with the DGB expressing its support for the EU 'Social Charter'. Many of the organisation's position papers continue to be prefaced with statements to the effect that,

> *"The European internal market must, alongside the economic dimension, also have a social dimension."* (BDA, 1998c, p2).

Such support, however, ends quite abruptly when it comes to the concrete determination of the content of the EU's social dimension, particularly where this entails legislation. In responding to the Amsterdam Treaty's reference (Preamble and Article 136) to the fundamental social rights contained within the 1989 'Social Charter', for example, the BDA appears to have forgotten the eloquent statement of support it had made regarding this same 'Social Charter' some nine years earlier:

"The BDA has serious reservations regarding this resolution. It sees, in particular, the danger that these fundamental social rights will, along their detour through the European Court of Justice, be made binding after all." (BDA, 1998d, p63).

As these misgivings suggest, while German employers are perhaps comfortable with the *principle* of a social dimension (as they were with the *principle* of a 'social charter'), when it comes to the *product* of that social dimension - social and industrial relations regulation - they are equally as opposed as their UK (and European) counterparts. In flagrant contradiction of expectations according to the 'new orthodoxy', reservations over the impact of such legislation on organisational flexibility lie at the base of much employer opposition; according to the BDA:

"The organisational flexibility so essential to the maintenance of competitiveness and the securing of employment can not be allowed to be impeded by European regulation" (BDA, 1998c, p2).

By late 1998 the BDA, like UNICE, was convinced that the framework of social legislation at EU level had reached a sufficiently high level to ensure the functioning of the internal market, and called for a halt to any further EU social policy legislation. In a combined statement with the BDI, laying out priorities for the German presidency of the EU during the first half of 1999, the organisation argues that the EU should,

"accept no new legislative social policy instruments which restrict the flexibility of the labour market or place new burdens on companies and, thereby damage competitiveness and limit employment ... The functioning of the internal market is already guaranteed by the creation of a base of European minimum standards of employment protection ... The legislative framework is comprehensively complete." (BDA, 1998e, p4).

If anything, the BDA sees scope for less, not more regulation at European level. In making clear its position on the Employment Chapter of the Amsterdam Treaty, the organisation draws attention to the need for economic growth and competitiveness as prerequisites for employment, and notes that,

> *"The BDA therefore demands that the necessary structural reforms be undertaken, to reduce the tax and social burdens for companies, and to improve the flexibility of the labour market."* (BDA, 1998a, p8).

In the first instance, Commission efforts to strengthen EU-level industrial relations institutions meet with little favour from employers. The extreme reluctance of employers across Europe to strengthen UNICE's position, or relax their tight control on that organisation's functioning and decision-making, reflects their concern that such an upward gravitation of power would encourage the negotiation of binding agreements with the ETUC (Gorges, 1996). Such concerns are even stronger with regards the possibility of sectoral-level negotiations giving rise to industry-wide collective agreements; the remarkable weakness of the WEM[28] - which represents employers in the largest and most important sector in the entire EU economy, yet (until 1998) did not even have its own offices but shared resources with Gesamtmetall in Cologne (not even Brussels) - testifies to the absolute rejection of sectoral collective bargaining by European engineering employers. In spite of Commission contentions of such industry-level institutions and agreements as the cornerstones of a flexibility-enhancing regulatory framework, the emergence of EU industry-level

[28] The Western European Metal Trades Employers' Organisation (WEM) is the European representative organisation for 14 national metalworking employers' organisations, thereby representing some 50 000 companies employing 10 million workers (WEM, 1995); both Gesamtmetall of Germany and the UK's Engineering Employers' Federation (EEF) are members of WEM.

collective bargaining emerged as the single greatest concern of all participant companies and employers' associations with respect to the EU's social dimension.

None of these companies or associations favoured further legislative development of the social dimension either: UNICE has gone so far as to demand a complete regulatory moratorium (UNICE, 1996b, p2; UNICE, 1997d, p3). Ironically enough, it is the measures aimed at facilitating 'negotiated adjustment' (and therefore, according to the 'new orthodoxy', organisational flexibility) which draw the sharpest criticism from employers[29].

Employer opposition to the EWC Directive is highly illustrative of their broader concerns over other EU social policy initiatives, especially those involving procedural regulation. This particular Directive is arguably the most significant piece of labour legislation to have emerged from the EU social dimension to date, and was, in spite of its alleged contributions to social partnership and 'negotiated adjustment', vehemently opposed by every employers' association and company with whom I spoke. UNICE made numerous representations to EU institutions voicing employer opposition, each of which expressed concerns over the implications of such works councils for organisational flexibility. A 1991 position paper, for example, describes the proposed body as "*rigid*

[29] As the head of the ERT's Industrial Relations and Social Policy Committee explains, "*Some of these European social policy initiatives bear with them the great danger of adding complexity to what is already a very wide area of social regulation, and this is why we take up issues such as this recent proposal on National Information and Consultation, and the employee involvement part of the European Company Statute, and, in the past, the EWC Directive. These initiatives do not necessarily add value; in a sense they threaten to add complexity.*" (18/11/97).

and slow-moving" (UNICE, 1991a, p9), and demands that the Commission take account of the need for,

> *"companies to retain the flexibility and speed of decision-taking essential for survival and success in highly competitive and fast-changing international market conditions. This means avoiding all regulations which unnecessarily obstruct rapid and effective decision-making."* (Ibid., p1).

A policy statement from the same year echoes the theme of the proposed forum as *"over-institutional, over-rigid, and bureaucratic"* (UNICE, 1991b, p1), while a 1993 position paper responding to the latest round of amendments, proposed under the Danish presidency, voices UNICE's vehement opposition on the grounds that,

> *"it [an EWC] will reduce competitiveness by seriously reducing companies' freedom to take vital decisions in good time."* (UNICE, 1993b).

Finally, in a last-ditch attempt to convince the Commission of the dangers of the proposed Directive, UNICE wrote a letter to the acting director-general of DGV in January 1994, outlining employer opposition on the grounds that it would be detrimental,

> *"to the European business community, already overburdened with labour market rigidities and other constraints not suffered by its main competitors in third countries. Competitiveness and employment would both be adversely affected."* (UNICE, 1994b, p4)[30].

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[30] The ERT, for its part, was no less emphatic in its opposition to an institution which it believed would, *"cause increase of both cost and complexity without commensurate added value. As a result the proposals would therefore damage the competitiveness of companies operating in Europe against those in other parts of the world"* (ERT, 1993b, p2). As with UNICE, one of the ERT's major concerns was the adverse impact of a European works council on organisational flexibility and adaptability: *"Not only would this [institution] result in a colossal waste of management time, it would have disastrous consequences by slowing down decision making and seriously jeopardising effectiveness and competitiveness."* (ERT, 1993c, p3).

ABB has a long tradition of information and consultation with its European workforce. Not only are most of its employees informed and consulted according to extensive national regulations, but the company had, several years before the EWC Directive, already established a voluntary trans-national discussion forum involving workforce representatives from its Nordic subsidiaries; furthermore, the company's CEO holds a regular annual meeting with senior representatives of trade unions from around the world at the Zurich head-office. These antecedents notwithstanding, the company was not enthused over legislation for a Europe-wide body:

> *"If you look at this from a competitiveness point of view, the Commission is dreaming if they think an instrument like this will increase our competitiveness ... It is unquestionably valuable and important to properly inform your employees and discuss with them. I mean we're living in a time when you have to give people more insight and ownership, you want your people down to the lowest level to be proud of the company, interested in the company. Whether this needs a rigid European institution, that's a different question."* (Vice-president for HRM in Europe; 7/11/97).

GME, reflecting the views of its European subsidiaries, was no more welcoming of the EWC Directive. According to the company's European director of industrial relations and benefits,

> *"The mode of communication that they propose does not increase communication with the workforce, and they appeared to be singularly ignorant in all the assumptions that they were drawing up about flexibility, and that concerned us; and therefore we got involved to say that this is going to add bureaucracy, it is going to add cost, and not improve communication one iota, not one single bit."* (30/1/98).

Neither of the EU's two other main legislative attempts to facilitate 'negotiated adjustment' at company level - the Commission's proposals for directives on National Information and Consultation, and Employee Participation (as part of a European Company Statute) - have met with much enthusiasm from employers either. Although the debate over National

Information and Consultation is still at a relatively early stage, employer response already parallels the position on the EWC Directive. In a confidential letter to the Commissioner for social affairs, for example, the ERT expresses strong reservations about the implications of the proposed instrument for flexibility and competitiveness:

> *"we are deeply concerned that this new initiative will hinder rather than help European businesses in their pursuit of competitiveness and effective management processes ... Superimposing European norms [on national legislation] could lead to added complexity and an increase in procedural rigidities, without adding value."* (ERT, 1997b, pp.1-2).

The letter concludes with the assertion that the proposed instrument *"would create rigidity and hamper European competitiveness"* (Ibid., p3). As for the participation element of the European Company Statute, UNICE is undeviating in its opposition to the inclusion of any prescribed form of co-determination, on the grounds that:

> *"it is essential that the decision to opt for the SEC does not mean more binding obligations on employers than they have in their present situation."* (UNICE, 1996a, p2).

UNICE also contends that companies will only adopt the proposed legal form, *"if it is a flexible instrument which does not impose additional constraints"* (UNICE, 1997e, p1). This position is confirmed by ABB and GME, both companies indicating that they would most likely not consider European company status if it entailed co-determination obligations[31].

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[31] As ABB's vice-president for HRM in Europe notes, this is viewed as a shame: "*It makes the European Company Statute unattractive, and that's what I don't understand - the Commission are giving away a big opportunity by making it so unattractive that people say, 'oh, okay, then we'll rather stay where we are.'*" (7/11/97).

In short, there is little in the way of support forthcoming from the study's companies and employers' associations for the EU social dimension, or contentions that it will enhance firm-level flexibility and, therefore, competitiveness. This finding is corroborated by the emphatic results of a survey conducted by UNICE in 1995. Involving 2 100 companies - of varying size, across a broad range of industries, and in all EU member states - the survey revealed that 59% of European businesses consider employment regulation as an obstacle to organisational flexibility, while 64% believe that such regulations make it more difficult for companies to maximise operating flexibility (UNICE, 1995). While 97% of the study's manufacturing companies consider the introduction of modern manufacturing techniques (such as 'lean production') to be critical to their competitiveness, 69% suggested that employment regulation was an obstacle to the introduction of such techniques; 76% considered employment regulation as a factor decreasing and not increasing labour flexibility (Ibid.). In all, some 84% of companies in the survey complained that they are already burdened with too much employment legislation, and it is Little wonder that:

> *"UNICE believes that any proposals adding constraints to companies' capacity to introduce efficient work organisation systems should be rejected at both national and European level and recommends that existing legislation be examined in this light."* (UNICE, 1997b, p5).

D. CONCLUSION

The first part of this chapter briefly outlined some of the important recent developments in the EU social dimension. In terms of the principles underlying the social dimension, as well as its expanding content, the discussion highlighted the conspicuous influence of the

German model of industrial relations. Four specific arguments in favour of extending the social dimension were also outlined, focusing on micro-economic contentions that a carefully-designed, well-structured framework of industrial relations regulation would aid organisational flexibility and adaptability. As noted, these contentions bear close resemblance to the 'new orthodox' view - based on extensive evidence from comparative studies between Germany and the UK - that such a framework of industrial relations regulation enhances organisational flexibility.

In contrast to the Commission's own contentions, and the 'new orthodoxy' upon which those contentions are based, however, employers in the UK, Germany, and at EU level are unequivocally critical of both the EU's social and industrial relations regulation, and its promotion as an enhancer of organisational flexibility. Radical theorists would argue that employer opposition, based on the 'political rationality' of maintaining organisational control, is hardly surprising. They would also suggest that there is nothing unexpected in employers' invocation of politically-acceptable economic rhetoric at the 'techno-social' level to disguise ideological intentions at the 'moral-aesthetic' level (Gowler and Legge, 1983). What is problematic for any theorist, however, using the 'new orthodoxy' as a starting point, is employers' choice of 'flexibility' as a basis for their opposition.

This thesis posits that resolution of the paradox lies in a re-examination of the relationship between industrial relations regulation and flexibility at company level. To this end, the next two chapters will explore the issue at nine UK and German companies in the auto and electrical engineering industries. The results suggest that in a

globalising world - with rapid and often unpredictable environmental change, dramatically intensifying competition in all segments of product markets, and in which the scope for integrative labour-capital compromises at the national level is steadily declining - various qualifications have to be made to the 'new orthodox' view of flexibility.

In the German context, the various costs and rigidities associated with external forms of flexibility are now significantly more onerous to German companies, who no longer enjoy uncontested dominance in the high end of their product markets. Furthermore, as innovations in working practices and processes increasingly come to be based on the potentially distributive principles of lean production, workers and their institutions are not nearly so ready to accept "*unencumbered internal mobility*". Finally, the relative flexibility advantage which German companies previously enjoyed over competitors in countries like the UK and USA has been eroded and, in many instances, over-turned. While still broadly in favour of their model of industrial relations (which continues to offer a number of competitive strengths), German managers perceive an urgent need for various reforms, none of which include further juridification. For UK employers, a confluence of economic, political, and behavioural changes has converted their once highly restrictive industrial relations environment into an adaptable and fast-moving context for business, and any former flexibility imperatives to adopt elements of German industrial relations have vanished. In many ways, UK managers now have access to the 'best of both worlds', with relatively high levels of flexibility at significantly lower cost than in Germany. Any 'political rationality' of employer opposition to EU social measures on account of their interference with managerial

prerogative have been greatly reinforced by these changes to the economic context.

CHAPTER FOUR. INDUSTRIAL RELATIONS AND FLEXIBILITY IN AUTOS

A. INTRODUCTION

This chapter presents the evidence of industrial relations and flexibility at participant companies in the auto industry (Opel and Daimler-Benz in Germany; Vauxhall, Jaguar, and LucasVarity[1] in the UK). It is divided into three main sections. The first provides a brief outline of the industry conditions pertaining in autos at the end of the 1990s, highlighting the overcapacity and keen competition characterising the industry. The second section presents the evidence at the two German companies, and is subdivided into three main parts. Firstly, the core features of industrial relations at the two companies are sketched, focusing on the high level of regulation, and the sophisticated network of interconnections which exist between employee representative institutions. Secondly, using the framework developed in chapter two (see pages 62 to 68), flexibility at the two companies is explored under the headings of *numerical flexibility*, *externalisation*, *functional flexibility*, *temporal flexibility*, and *financial flexibility* (encompassing both '*indirect*' and '*direct*' forms). The section concludes with a brief commentary on the state of flexibility at the two companies, its interdependence with industrial relations features, and its divergence from the 'new orthodox' literature.

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[1] The original consideration behind the inclusion of LucasVarity's aerospace division in the study was as a counterpart to Daimler-Benz's extensive aerospace interests. Although, in the end, the study did not encompass Daimler's aerospace operations, brief reference will be made to the results of the study at LucasVarity for two reasons. Firstly, they provide additional insight into the flexibility advances which have been made in the context of UK industrial relations; and secondly, because the changes at the aerospace division are largely derived from similar changes at the company's auto divisions, and therefore reflect (albeit indirectly) on the auto industry as well.

The third and final section reports on industrial relations and flexibility at the three British companies. This section follows the structure for German companies, and is subdivided into three parts. The first describes some of the important characteristics of industrial relations at the three companies, noting their decentralised and voluntary nature, the strong trade union presence at all three companies, and the movement towards a 'sophisticated consultative' (Purcell and Ahlstrand, 1994) style of human resources management. The second part again uses the framework developed in chapter two to explore flexibility at the UK participants under the five headings used for the German companies. The discussion concludes by noting a significant improvement in flexibility at the three companies from the situation described by the 'new orthodoxy', suggesting that this has resulted from the conjuncture of a number of contextual and behavioural features of industrial relations at the companies.

B. INDUSTRY CHARACTERISTICS

According to a Financial Times survey at the end of 1997, the two defining characteristics of the global auto industry during the 1990s have been overcapacity and weak demand[2].

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[2] Financial Times, "*FT auto: Carmakers caught in twin vices.*" 9 September, 1997. The situation is somewhat different in aerospace, where aircraft manufacturers are battling to keep up with demand. Air passenger traffic increased by 6.9% during 1996, and growth of at least 5% is expected until 2016 (Financial Times, "*Survey aerospace: crucial consolidation.*" 12 June, 1997). Power within the industry is, however, concentrated in the two major airframe producers (Boeing and Airbus) and the three primary manufacturers of jet engines (General Electric, Pratt and Whitney, and Rolls Royce). With the exception of regional and private planes, the entire civilian aircraft industry is dominated by these behemoths. The result, as we shall see at LucasVarity's aerospace division, is that the myriad of much smaller companies which supply these giants are under extreme pressure from their all-powerful customers; as a Financial Times

Industry analysts estimate that global overcapacity in the auto industry amounts to some 30%[3]. Despite fairly restrictive import limitations, the industry in western Europe has not been spared and, although the region's manufacturers had the capacity, in 1997, to build over 20.6 million vehicles, actual production amounted to no more than 14.5 million, a mere 70% of capacity[4]. Three supply-side factors contributed to this massive overcapacity. In the first place, following dramatic growth in the market of 27% between 1985 and 1990, domestic manufacturers greatly expanded capacity in the anticipation of continued growth; as we shall see, this did not materialise, but was followed instead by severe contraction. Secondly, this growth also attracted a host of new competitors to the lucrative European market. Japanese producers, already accounting for 56% of extra-EU imports in 1989, opened a number of transplants within EU countries (especially the UK) in order to take advantage of the EU single market. Of particular concern to European manufacturers was the success of these Japanese producers (especially Toyota) in moving into the high-end, quality-conscious segments of domestic and export markets where they directly challenged European producers (CEC, 1997c, chapter 17; Womack et al., 1990). Other competitors from south east Asia were also making in-roads into the EU market: imports from Korea, for example, increased sharply

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analyst notes, this necessitates a high degree of organisational agility on the part of suppliers: "*Flexibility of response to the customers' demands is the key to long-term success in today's commercial airframe and engine markets.*" (Financial Times, "*Survey aerospace: Flexible to customers' demands.*" 12 June, 1997).

[3] In other words, the world's car manufacturers have the capacity to build 23 million more cars than they could sell (Financial Times, "*Chicane of competition: Europe's carmakers are battling for survival in an overcrowded international market.*" 8 September, 1997; The Economist, "*The car industry: barbarians at Bavarians' gates.*" 13 February, 1999).

[4] Financial Times, "*FT auto: Pressure for further rationalisation.*" 11 May, 1998.

from 21 000 units in 1988 to 161 000 in 1995. Finally, revolutionary new production methods, developed by the Japanese and subsequently emulated (to varying degrees of success) by all major global auto companies, brought dramatic improvements in efficiency and productivity, thereby further extending the capacity of incumbents.

Unfortunately for manufacturers, this soaring of capacity was met by a contraction in demand. Following sustained year-on-year growth of 6.6% between 1985 and 1990, apparent consumption subsequently contracted between 1990 and 1994 by an annual average of 2.6% (CEC, 1997c). Even following a partial recovery from 1995, annual average growth rates for the industry in the region only reached 2%, with no indication that this would increase in the near-future. In fact, with some of the world's highest motorisation rates, there is rather limited scope for further growth in the region[5], and any real growth potential is only to be found in developing countries, where apparent consumption grew by 42.5% between 1988 and 1995 (as opposed to a contraction of 5.8% in the EU).

The implications for European producers of these rather bleak industry conditions are twofold. First, cost-cutting has become absolutely essential for survival. Quality and customisation are 'necessary but not sufficient' elements of any strategy for sustainable competitive advantage: no company can expect to compete without them, but they are, in themselves, insufficient as sources of differentiation and customer satisfaction. To succeed in a strong buyer's market, manufacturers have to offer near-perfect quality and unlimited choice at the lowest

[5] In western Germany, for example, average car ownership figures stand at nearly 600 units per 1 000 inhabitants; in over half the EU's member states (including the five largest), the figure is over 400 units per 1 000 inhabitants (CEC, 1997c).

possible prices. As the European Commission concedes, this last feature is not a traditional strength of European manufacturers:

> *"Several studies have shown that Europeans have a relatively high cost to productivity ratio ... Employers in most EU member states have higher social costs and have less flexibility in making adjustments to the labour force in response to changing commercial requirements than their global competitors."* (CEC, 1997c, p17-13).

The Commission's analysis goes on to note the major contribution of 'lean production' techniques to the success of many competitors, and highlights the importance of *"workforce responsibility [and] flexibility"* in achieving the substantial changes associated with lean production. This emphasis on flexibility is in line with the original recommendations of MIT's International Motor Vehicle Programme (Womack et al., 1990), and it is clearly recognised as one of the defining features of competitive success in the highly competitive, cyclical, and global auto industry.

The second implication for auto manufacturers is the need to globalise production. This, again, is considered important for two reasons. First, as we saw earlier, developing countries in south east Asia, Latin America, and eastern Europe are considered the major growth markets of the future. As with many industries, local presence is considered of crucial importance in avoiding tariff and non-tariff barriers, developing relationships with suppliers and distributors, and staying 'close to the customer'. Secondly, with various cost and flexibility disadvantages in their domestic production sites, many European manufacturers are shifting production abroad (especially to neighbouring central and eastern European countries[6]) as part of their cost-cutting

[6] The advantage of central and eastern European countries is their proximity to EU production locations, especially in Germany. This has major logistical advantages in that all-important supplier co-ordination can

strategies. Costs are reduced both directly, through lower labour costs at the new plants, as well as indirectly through the leverage which the threat of investment in these locations provides management over their western European workforces. As Opel's former chairman remarked,

> *"We have expressed, through our decisions, the element that time is pressing. Having a new plant on your doorstep is different from having it in Indonesia."*[7]

Such considerations attracted around USD 8.9 billion in investment from European auto manufacturers between 1992 and 1997; Germany's Opel and Volkswagen were the biggest contributors to this figure.

C. THE GERMAN SITUATION

1. Industrial Relations Background

a) *Extensive regulatory framework*

As discussed in chapter two, industrial relations at company and workplace levels in Germany takes place within an extensive framework of regulation established at the national ('strategic decision-making') and 'functional-industry' levels (see pages 77 to 99). Very concisely, this framework (which is common across all four participant German companies, who fall within the same industry segment and size bracket) can be viewed as comprising three principal components. At the most aggregate level, economy-wide substantive legislation provides a basis for terms and conditions of employment across the country. This is significantly

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be maintained, and parts can be delivered from eastern European locations to plants in Germany on a just-in-time basis (Deutschmann, 1995).

[7] Cited in Financial Times, "*Into the east at full throttle: low costs and fast growth are persuading some leading carmakers to open plants in central and eastern Europe.*" 13 February, 1997.

expanded upon by agreements at industry level, through which employers' associations and trade unions further develop the framework regulating most terms and conditions. Finally, at company and establishment levels, a broad array of procedural legislation (emanating from the 'strategic decision-making' level) governs local relations and interactions between management and workforce representatives, principally through the Works Constitution and Co-determination Acts. It is also important to realise that this framework is not a static structure, but a dynamic network of inter-connected actors, procedures, and outcomes. This is particularly true of employee representative institutions, whose level of reticulation facilitates an extension of their *de facto* influence within firms (and the broader economy) even beyond their *de jure* rights and powers.

b) A dense network of formal institutions

Along with the high level of regulation, the most striking feature of industrial relations at the four German participant companies is the ability of their employee representative institutions to fully utilise, and even extend, their rights according to industrial relations legislation. In large part, this results from the impressive network of relations and interconnections internally between the various institutions within a company, as well as externally to the trade union; powerful leadership figures are the principal co-ordinating agents, through their concurrent involvement on all important institutions within the firm as well as their formal roles in the external union.

At Opel, for example, the chairman of the central works council (who is assisted by a full-time secretariat of five, employed by the company) is

also chairman of the Rüsselsheim works council, the Opel combine works council, and GM's European Employee Council[8], as well as deputy chairman of Opel's supervisory board. The seven direct workforce representatives on Opel's supervisory board are also important figures on the company's central works council as well as on their own local works councils. These leading works councillors also provide strong links to the external union. All 15 members of the central works council belong to IG Metall, as do 43 of the 45 works councillors at the company's biggest plant in Rüsselsheim[9]. The powerful head of Opel's central works council is also a prominent figure in the IG Metall's regional and federal leadership structure, while five other members of the central works council are on IG Metall's regional bargaining committee for Hessen. On top of this, the three IG Metall representatives on Opel's supervisory board (all academics and high-ranking officials within the union) provide the union with direct insight into, and influence over, management activity within the company. In fact, so closely does the union work with works councillors and involve itself in Opel's internal affairs that the company's head of labour relations frequently receives

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[8] GM's full European works council, including some 30 workforce representatives and 20 managers, is known as the European Employee Forum (EEF), while the 30 employee representatives constitute the European Employee Council (EEC). The employee side elects a chairperson (the chairman of Opel's central works council), vice-chairperson (Convenor of the TGWU from Luton), and three other representative to form a five member 'select committee'. The initial agreement also makes provision for two annual meetings between management and the EEC's steering committee, one to discuss manufacturing issues, and one to set the agenda for the full EEF meeting (GME, 1996).

[9] Rüsselsheim is the oldest and largest of Adam Opel AG's three legally dependent subsidiary plants; it is also the site of the German company's headquarters. In 1997 the Rüsselsheim plant employed just over 16 000 workers (with a further 8 200 employed at the International Technical Development Centre), and produced 270 000 vehicles (mostly Omegas and Vectras although the site also manufactures Cadillac Cateras for export to the USA). Bochum - which produced 249 000 vehicles (mostly Astras) in 1997 - is the second largest plant, employing over 14 600 workers. Kaiserslautern, employing 4 780 workers, is GM's biggest manufacturer of powertrains and components in Europe (Opel, 1998a).

phone calls directly from IG Metall National Executive Council members concerning issues which are being negotiated with the company's own works councils; little attempt is made to disguise the enormous influence that the union has on works council decisions.

Much the same situation pertains at Daimler-Benz. Again, the same individual is simultaneously chairman of the local works council at the company's Mannheim plant, as well as chairman of the Daimler-Benz central works council, combine works council[10], and European works council; he is also deputy chairman of the Daimler-Benz supervisory board and, in accordance with the WCA, is provided with substantial resources by the company, including two whole floors of a building to house the 29 central works councillors and their full-time secretariat of nine (employed by the company). The other six workforce representatives on the company's supervisory board are also members of the combine works council and their own divisional central works councils, as well as being members of local works councils. Internally, these works councils are well organised and highly disciplined. The two most important committees within central works councils are the central committee (*Gesamtbetriebsausschuß*) and finance committee (*Wirtschaftsausschuß*). At Daimler, these two important organs are each composed of the same 16 senior members of the works council. Their legal rights are, however, very different: the finance committee has extensive information rights, while the central committee is the central works council's principal negotiating agent. Although meetings of these two

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[10] Of the company's five divisions, two (Personal and Commercial Vehicles) are legally-dependent subsidiaries, and are therefore represented on the Daimler-Benz central works council. The other three - Aerospace (DASA), Services (Debis), and Directly Managed Businesses - are legally independent subsidiaries, and have their own central works councils; they are, however, all represented on the Daimler-Benz combine works council and supervisory board.

bodies with management bring exactly the same groups of people together, the participants wear completely different hats. At finance committee meetings, works councillors assiduously collect information which is (in conjunction with intelligence garnered from the supervisory board and the IG Metall's extensive resources) analysed, interpreted, and appropriated with meticulous efficacy by the same individuals in their negotiating role on the central committee.

Again, despite the legal separation between works council and union representation rights, in practice this has little significance at Daimler-Benz and the IG Metall is highly influential within the company. All 29 members of the central works council and 20 members of the combine works council are also members of the IG Metall, and no major agreement will be signed with company management before it has been intensively discussed with the union leadership, and a common position reached[11]. The union's influence in the company is further enhanced by the presence of three senior union officials - all members of the union's Executive Council, one of them being the deputy chairman - alongside their Daimler-Benz colleagues on the supervisory board. According to the WCA (Section 31), one of these union representatives is also invited by works councillors to attend all meetings of the central works council as an advisor.

One subtle difference between industrial relations arrangements at Daimler-Benz and Opel pertains to their respective combine works councils. At Daimler-Benz this is a relatively well-developed

[11] As at Opel, the most senior figures on the company's central works council are also involved in the leadership of the IG Metall at both regional and federal level.

institution[12]. Although it performs more of an information than negotiation function, and is secondary in importance to the central works councils of which it is composed, framework agreements have been negotiated on issues such as the transfer of personal data between divisions (necessary for the company's share-ownership scheme), and the calculation of time served by employees who have been transferred from one division to another (which is important in calculations for pensions and long-service awards).

By contrast, the combine works council at Opel is somewhat underdeveloped. This body only meets twice per year without management and does not conduct any negotiations. Issues raised at the meetings are carried forward by the chairman to the central works council's meetings with management. To a significant extent, the weakness of Opel's combine works council is a reflection of management's desire to keep the Eisenach subsidiary (the jewel in Opel's crown[13]) beyond the reach of restrictive agreements at the company's three other German sites (Jürgens, 1995, pp.304-305). By incorporating the plant as a legally independent entity, it was effectively excluded from agreements between Opel management and the central works council, and could start with a clean slate; the only centralised institution to which the plant is bound is the much weaker combine works council[14]. While there is nothing

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[12] Members are elected to the combine works council from the central works councils of the various Daimler-Benz operating divisions by a weighted voting system, according to number of employees represented. Of the 20 members of the combine works council, 11 are from the central works council of Daimler-Benz (in effect, the Mercedes-Benz vehicle operations), seven from the central works council of DASA, one from Debis, and one from the Directly Managed Businesses.

[13] For a full description of Eisenach's history, development, and production process (the so-called 'Opel Production System') see Haasen (1996), Enderle (1997), and Jürgens (1995).

[14] The division of tasks and responsibilities between the central and combine works councils is a matter for the works councillors and senior management to decide amongst themselves. Members of the central works

that either the union or Opel's central works council can do about the legal status of the Eisenach plant, they use the threat of extending the reach of the combine works council as an effective bargaining device against management (*"blackmail"* according to management)[15].

The pattern of employee representation at plant level within the two companies is similar. Opel estimates that IG Metall membership runs at between 85% and 90% for its blue-collar workers, and as high as 60% for its white-collar workforce. Opel's Rüsselsheim and Kaiserslautern plants have well developed *'Vetrauenskörper'* ('shop stewards' bodies). At Rüsselsheim, the chairman and deputy chairman of the works council are also important leadership figures in the *'Vetrauenskörper'* while the head of the latter institution is a member of the works council's *'Betriebsausschuß'* (works committee - local equivalent of the central committee). Of the plant's 45 works councillors, 43 belong to the IG Metall. There are roughly 1 000 *'Vertrauensleute'* ('shop stewards') at Rüsselsheim, or one for every 25 workers. According to informal agreement with management, 'shop stewards' hold fortnightly area meetings, and twice a year all 1 000 'shop stewards' will meet together (this is, for example, how the 1998 'site pact' was ratified). The *'Vetrauenskörper'* also publishes its own weekly newsletter with

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council can refer issues to the combine works council for consultations or even negotiations by a simple majority vote; although neither institution has significant *de jure* rights (the central works council is somewhat more legally endowed), the well developed legal position of constituent local works councils provides a solid power base from which works councillors are able to project their *de facto* power and influence to the centralised level. Determined efforts by either a central or combine works council to negotiate could not easily be resisted by management.

[15] According to works councillors, the progression of their legal rights has been far outstripped by changes in the organisation brought about by the various forces of globalisation. As such, the company's works councils are continually seeking to *"re-enact and interpret"* their legal rights to extend the scope of their *"unwritten rights"*.

information and news from the union and the works council, and scrutinises the company's own weekly newsletter before it is made available to workers[16]. The readiness of Opel workers to come out for the union was demonstrated during the watershed 1984 strike for the 35 hour working week when Opel was the only auto company from which both blue- and white-collar workers were called on to strike (Turner, 1991); the conflict at Opel lasted five weeks.

IG Metall membership within Daimler-Benz is estimated at 90% for blue-collar, and 40% for white collar, workers. The '*Vetrauenskörper*' at the giant Untertürkheim and Sindelfingen plants[17] are well developed, with extensive influence over the local works councils. At Untertürkheim, for example, nine of the eleven members of the works council's works committee are members of the '*Vetrauenskörper*', including the chairman and deputy chairman. Thus, although a somewhat lower proportion of works councillors at both plants belongs to the IG Metall than at Rüsselsheim (36 out of 49 at Untertürkheim, and 41 out of 51 at Sindelfingen), all key positions are held by union leaders. Like Opel, Daimler-Benz (particularly its Sindelfingen and Untertürkheim plants) is a key target for the IG Metall during conflicts with Gesamtmetall.

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[16] This is an indication of the extent to which works councils within the company are able to monopolise communication channels with the workforce. As opposed to the situation which we shall encounter at UK companies, little occurs in the way of direct management communication with the workforce at German participants. Even communication mechanisms such as staff questionnaires are subject to co-determination with the works council (WCA, Section 94 (1)).

[17] As noted in chapter one, Sindelfingen employed, in 1997, just under 37 000 employees in the manufacture of 416 000 C-, E-, and S-class vehicles. The Untertürkheim plant, in turn, manufactures all powertrains (engines, transmissions, and axils) for Mercedes-Benz personal vehicles, including those produced in the USA and Brazil. In 1997, the plant employed roughly 34 000 workers, divided almost evenly between blue- (18 000) and white-collar (16 000) employees.

Finally, as Opel increasingly comes to terms with German labour institutions and Daimler becomes more global, many of the former differences between the two companies in terms of ownership and structure, are diminishing.

Labour relations at American-owned (and, largely, American-managed) Opel have not always been particularly constructive[18]. Management recognises that much of the former hostility was the result of their reluctance to accept, and work with, the company's various institutions of employee representation. Already by the end of the 1980s, however, Turner (1991) notes that management's strategy was changing; as the head of Opel's labour relations explains:

> *"In the past, manufacturing and finance often tried to do things their own way: this led to some catastrophes with the works council and unions ... Until they saw that it's not our [personnel's] weakness to be slow - it's not just the company's game, we have a partner at the other end of the table, and that sometimes needs quite some time ... There is now the feeling that we have to find solutions, and we have to go together."* (23/2/98).

As we shall see, however, management at GME and GM-IO[19] have been unrelenting in their pressure on Opel, setting up fierce competition between various European plants for both investment and production scheduling. Furthermore, GME's matrix structure and Opel's leading role in GM's globalisation drive[20] are increasingly necessitating a more

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[18] In fact, the company's head of labour relations describes how, as a student of law, he first became acquainted with Opel through a multitude of case studies detailing the company's legal battles with its various works councils. For a more detailed description of earlier periods of hostility between management and works councils see, for example, Streeck (1984a, pp. 118-135), and Turner (1991, pp. 125-137).

[19] GM-International Operations: the controlling body for all GM's auto interests outside of north America,

[20] Opel, through its Rüsselsheim-based International Technical Development Centre (ITDC) has, over the past few years, spearheaded GM's drive into Latin America, south east Asia, and central and eastern Europe, as it was judged that these markets were better suited to European-style cars (Financial Times, "*GM feels strain of globalisation drive.*" 27 June, 1997). Even in Brazil, where the GM badge is used for historical reasons, the cars are Opel by design (Financial Times, "*GM hopes to turn corner with new Astra.*" 29 November, 1997).

international orientation from Opel management, right down to plant level. This, as we shall see even more vividly at ABB Germany, often results in conflict with works councillors whose perspective is necessarily much narrower; according to Opel's head of labour relations:

> *"Combining this functional and matrix organisation with the German labour law, especially the Works Constitution Act, sometimes is really hard ... The works council has the right - and the duty - just to pursue what is good for Rüsselsheim, and maybe in earlier times that was the simple task of a plant director too. In earlier times he could also say 'My duty is, okay, of course, to be competitive and earn money', but in the end he could also say, 'I must execute things that are good for Rüsselsheim because I'm the head of Rüsselsheim.' But today his measurements and considerations are closer to an international business."* (24/2/98).

Daimler-Benz, on the other hand, remains more of an exporting German company, although efforts are underway to increase the company's presence abroad. As noted in chapter one, plants have recently been either built or upgraded in Spain, Poland, Argentina, Brazil, the USA, and France, but 70% of the company's workforce remains in Germany, and management enjoys much less scope for whipsawing than at Opel. As was also noted in chapter one (page 50), the Untertürkheim and Sindelfingen plants continue to be of crucial importance, and represent a source of vulnerability for management.

Nevertheless, the company has, since it became the first German company to list on the New York Stock Exchange in 1993 (and thereby subject itself to the USA's Generally Accepted Accounting Principles)[21], increasingly been looking beyond Germany for growth and management

[21] The immediate result was disastrous for the company: for the first half of 1993, Daimler-Benz reported a profit under Germany's accounting regulations of USD 91 million, while recording a loss of USD 525 million according to US accounting principles. By 1997, however, the company had greatly expanded its share-holder base, such that some 37% of the company's shares were held by foreign (i.e. non-German) investors, 10% within the USA alone.

ideas. Jürgen Schrempp, the company's controversial CEO since 1995, has taken several important steps towards his goal of increasing Daimler's share-holder value. He was the first head of a major German company to establish a target figure for return on capital employed (ROCE): 12% for the company as a whole as well as all its business units. Under Schrempp's leadership, Daimler-Benz had, by 1997, sold or disposed of 12 unprofitable businesses, including most of its AEG engineering activities and all interests in the manufacture of regional aircraft; this included the sale of Dornier and, most controversially of all, the decision in January 1996 to cease financial aid to Fokker and allow the company to go into receivership (Banks, 1996). Schrempp also restructured Daimler, controversially re-incorporating Mercedes-Benz after it had been made legally independent to operate as a separate entity in 1989. His greatest *coup*, however, was the merger (effectively a take-over by Daimler) with Chrysler in May 1998[22]. Despite assurances that this would have no negative impact on industrial relations at the company's German operations, various internal and external labour representatives were concerned at the inevitable implications of the company's ever-strengthening ties to Anglo-American capitalism[23].

2. Flexibility

With various legal and institutional industrial relations constraints on external forms of flexibility (*numerical* and *'indirect' financial*

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[22] For the role played by Schrempp in this watershed agreement, see Financial Times, "*Chrysler/Daimler merger: four months of fortune that favoured the brave.*" 14 May, 1998.

[23] The leader of IG Metall's Baden-Württemburg regional organisation, for example, judged that management's assurances were little more than *"a tranquilliser for the employees."* (See Eironline, "*Industrial relations aspects of the Daimler-Chrysler merger.*" May, 1998).

flexibility, as well as *externalisation*), German companies have traditionally focused on developing high levels of internal flexibility (principally through *functional* and *temporal flexibility*). The resultant *"unencumbered internal mobility"* (Katz and Sabel, 1985) has always been considered to greatly outweigh any shortfalls in external flexibility (which were, in any case, viewed as a blessing in disguise in that they forced German companies to compete up-market on *"diversified qualified production"*). However, the analysis of auto participants which follows (based on the framework developed in chapter two, pages 62 to 68) points to a more ambiguous set of circumstances than portrayed in traditional 'new orthodox' accounts of German firm-level flexibility (see pages 118 to 126), and concludes with various qualifications to this 'new orthodox' perspective.

a) Numerical Flexibility

German companies seeking to introduce changes to the size of their workforce face an array of regulatory measures. As well as legislation (such as the Employment Protection Act) directly addressing changes to manpower levels, the WCA provides works councils with co-determination rights over various aspects of manpower planning and management, including individual and temporary staff movements (Sections 99 and 100), and dismissals (Sections 102-104). This has important implications for German carmakers as one of the principle characteristics of auto manufacturing is its decreasing requirement for labour. Opel management estimates that, because of advancing automation and improved production techniques (resulting in improved productivity), and an emphasis on ease and economy of manufacture in vehicle design, each new car model requires 20% fewer workers to produce the same number of vehicles.

Much of the burden of employment reduction at Opel has fallen on its Rüsselsheim plant, where the number of employees has fallen from 43 000 in 1979 to 24 400 in 1997 (including the ITDC). Following the conclusion of the first 'site pact' in 1993, the plant's payroll was cut by almost 7 000 in the period 1993-7; the second 'site pact' of 1998 foresees a further 4 000 job losses by 2001 (Opel, 1998b). In line with works councils' extensive co-determination rights in this area, management has been able to secure these agreements only with the provision that all reductions will be made by 'socially acceptable' means such as early retirement (*Vorruhestand*) and partial retirement (*Altersteilzeit*); furthermore, they have been negotiated as part of much broader packages which have included employment and investment guarantees. Intense pressure from the industry as well as other GME sites has made workforce reductions unavoidable, but legal backing has placed the company's works councils in a strong position to limit them as far as possible, and ensure that these concessions are fully leveraged. The result is that the rate and scale of rationalisation has been less dramatic at Opel AG than at Vauxhall: by 1997, Opel's workforce was some four-and-a-half times larger than Vauxhall's, although the company's turnover is only a little over two-and-a-half times the size of Vauxhall's[24].

Although, between 1995 and 1997, the workforce at Daimler's German operations was decreased by around 7% (17 000 workers), all losses

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[24] The Rüsselsheim plant, for example, excluding staff at the ITDC, employed just over 16 000 workers in 1997, four times the Luton plant's workforce, although it manufactured less the twice the number of vehicles (275 000 as opposed to 160 000). To some extent, this is accounted for by the fact that Rüsselsheim has a stamping plant (although this is highly automated), and produces a second model (the Omega), but Opel as well as GME managers confirm that rationalisation plans have been attenuated by the numerous obstacles and costs associated with workforce reductions.

within the vehicle divisions were, as at Opel, achieved through 'socially acceptable' packages. Until Federal law was changed in 1996, the principal instruments for this rationalisation, following agreement between management and the central works council, was early retirement. When the option was made less attractive by the legal changes introduced in 1996[25], management and works councillors negotiated a new agreement on 'partial retirement' (*Altersteilzeit*). Aware of the pressure on management to reach agreement on an acceptable rationalisation package, the central works council sought to extract as many concessions as possible. Negotiations lasted almost two years, and were not concluded until January 1998; the final agreement was significantly more generous than the legal provisions for partial retirement, or even the regional industry agreement which had, in September 1997, already improved on the legal requirements[26]. Workers at Daimler-Benz opting for partial retirement will, for example, receive 85% of their previous net full-time monthly income, as opposed to the 70% stipulated by law, and the 82% agreed to at industry level. They will also receive 85% of the yearly bonuses instead of the 50% provided for in the sectoral agreement. Upon leaving the company, at the end of their period of partial retirement, Daimler-Benz employees will receive a severance payment of up to eight-and-a-half months' pay to compensate them for losses in pension entitlement, significantly more than the three months pay agreed at industry level. While these provisions were obviously more

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[25] Federal law, until July 1996 allowed older workers who had been unemployed for 12 months to go onto a full state pension at the age of 60. In practice, many employees became voluntarily unemployed at 59 and took unemployment benefit (topped up with additional payments from their former companies) until 60 at which point they retired. Unsurprisingly, this became regarded as abuse of the system, and the government changed the law. See Schulten (1997).

[26] For details of the legislation on partial retirement, and the subsequent industry agreement for Baden-Württemburg, see Zagelmeyer (1997c), Schulten (1997), and EIRR (1997f).

generous than the company would have liked to have conceded, a series of short, unofficial strikes at various of Daimler's sites (notably the all-important Sindelfingen and Untertürkheim plants) during the sectoral negotiations in 1997 had left management in no doubt about the resolve of the IG Metall and the company's own central works council to extract the most favourable terms possible before agreeing to any new measures.

Even restructuring initiatives at Daimler have turned out to be costly affairs because of the protection of workers' employment rights in the event of organisational changes (WCA, Sections 111-112). Following the re-incorporation of Mercedes-Benz into Daimler-Benz in January 1997, for example, several hundred administrative posts became redundant as tasks which had been duplicated under the former structure were consolidated. According to the WCA, management must seek to reach agreement with the works council on the measures to be taken for workers made redundant through such restructuring. If agreement can not be reached, a complicated arbitration mechanism is invoked, requiring intervention by a conciliation committee and, possibly, the *Land* labour office; few employers even consider this slow and convoluted decision-making procedure and all efforts are made to come to agreement with the works council. To some extent Daimler's problem was resolved by early retirement (a costly enough solution in itself), but many workers would not accept voluntary redundancy packages. To justify dismissal of these workers, Daimler would have to prove that continued employment could not be found for them at another location, which would be extremely difficult to do in a company the size of Daimler-Benz; instead, make-shift jobs had to be created for these employees at other Daimler operations in Stuttgart until proper openings became available for them.

The same problem confronted the company again in early 1998, when the central distribution function was transferred from Stuttgart to Berlin. Again, the WCA stipulates that workers volunteering to move to Berlin had to be compensated for the disruption to their lives, while those refusing to move - some 400 workers - had to be 'found' jobs in the hope that *bona fide* posts would become available to them sometime in the future. This is a problem which, as we shall see at ABB Germany's Käfertal plant, is quite widely encountered at German companies, and is a source of much frustration to management.

At the site level too, Daimler-Benz management has encountered some minor frustrations with respect to the use of atypical workers. At the time of my visit to Untertürkheim, for example, management was trying to introduce 500 fixed-term positions to accommodate the fluctuations in demand with which the site was increasingly having to contend. The works council was, however, firm in its opposition to this move. A number of short, half-shift strikes had recently been organised by the shop stewards body to demonstrate workforce resolve against the introduction of these posts.

Even at the most senior levels in the company, various limitations exist on the ability to recruit and dismiss managers. Following poor financial results at Opel, and a much publicised rift between the company's chairman and MD (David Herman) and the head of GM-IO (Louis Hughes), speculation was rife throughout the latter half of 1997 that Herman was going to be replaced. As noted in chapter two, however, appointments and dismissals of members of the management board require the support of the supervisory board. Herman was popular with Opel's labour institutions,

and all ten worker representatives on the company's supervisory board publicly declared their support for him:

> *"We are going to fight for Dave Herman. He fights for Opel and for Germany as a workplace and for German engineering. He deserves our help."*[27]

Although, in the end, the supervisory board's labour representatives do not have true parity in such decisions[28], it would have been extremely damaging to already fragile relations if GM's representatives were to force the issue to a second round of voting. The labour representatives on Opel's board used the dispute to strengthen their hand in their struggle with GM over restructuring and intrusions on Opel's autonomy, asserting in a press statement that their support for Herman's replacement was:

> *"dependent on the on-going structural discussions with General Motors. Before personnel matters can be decided on, the issues concerning Adam Opel's self-sufficiency and competence have to be mutually resolved."*[29]

The controversy which developed around the whole issue eventually led the company to take the unusual step of announcing, in March 1998, that personnel issues would not be discussed at the forthcoming supervisory board meeting. It was not until June 1998 that a compromise was finally reached, and GM was able to announce that Herman would be taking over the company's operations in the former Soviet Union and would be

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[27] Deputy chairman of Opel's central works council quoted in Financial Times, "*Works council backs Opel chief.*" 28 January, 1998; see also Financial Times, "*Herman receives vote of confidence at Opel.*" 14 June, 1997.

[28] If the first round of voting is tied, a second round of voting is called after attempts at conciliation of the opposing sides. During this second round, the chairman of the supervisory board - always a representative of share-holders - casts the deciding vote.

[29] Quoted in Financial Times, "*GM moves to stem union dissent at Adam Opel.*" 21 May, 1998.

replaced by Gary Cowger[30]; what had long been perceived as an inevitable outcome finally came to pass, but not without Opel's supervisory board holding up the world's largest industrial concern for several months, and extracting a number of concessions in return for their support.

b) Externalisation

Externalisation has been a relatively unimportant issue at Daimler's auto operations, where a high degree of vertical integration is maintained[31]. However, it is, as evidenced at Opel, an aspect of company management in which, despite enjoying no specific legal rights, workforce institutions are able to exert significant influence and pressure through the extension of their legal authority in other areas.

Since the early 1990s, in line with a broader GME outsourcing strategy, Opel management has moved away from their former pattern of highly integrated operations, and increasingly opted to outsource non-core parts and peripheral activities. Many of the headcount reductions which followed the first 'site pact' at Rüsselsheim in 1993 were the result of such outsourcing initiatives, starting with the plant's library and kindergarten, and progressing towards transmissions and even production parts. To stem this source of job losses, Opel's central works council launched a co-ordinated campaign, via local and central works councils and the company's supervisory board, to place a moratorium on

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[30] Financial Times, "*Opel chairman makes the move to Moscow.*" 19 June, 1998.

[31] On top of performing all aspects of production (from stamping to assembly and final testing), for example, the giant Sindelfingen plant maintains its own fire brigade (employing around 100 people), its own medical centre (with 11 doctors and 20 nurses), its own tool and die shop (with 1 000 workers producing 40% of the site's dies), and its own power station providing 100% of its heat and 80% of its electricity requirements.

outsourcing. Through judicious application of pressure via their array of legal rights in other areas, workforce representatives were able to bring management to the bargaining table in 1995 and, after 18 months of negotiation, to extract an agreement that no further outsourcing would occur without the works council being party to full feasibility studies of all alternatives. Plans to outsource a further 3 600 jobs, which had been identified as non-core, were put on ice. While workforce representatives are aware of the fierce pressure on management to cut costs, it is their responsibility to the workers who elected them to make use of all means at their disposal to minimise any impact on the workforce's position; as Opel's head of labour relations explains:

> *"The works council says, 'We understand what problems you have, but as a works council we can not accept that jobs go away from the company, from this region, from Germany.' It's a problem and we have to work really hard to find solutions."* (23/2/98).

By 1998, the network of employee institutions was on the offensive, pressurising management (both informally and through the 1998 'site pact') to bring back much of the work that had previously been outsourced so as to provide employment for some of the 4 000 workers who were to be made redundant as part of the 1998 'site pact' (Opel, 1998b). With mounting pressure from competitor companies as well as other GME sites to cut production costs and reduce headcount, this new works council initiative was a source of some distress to management.

c) Functional Flexibility

Functional flexibility is traditionally considered one of the core strengths of the German industrial relations system. Paradoxically enough, changes to work organisation and work processes are, according

to various Sections in the WCA, subject to extensive co-determination rights for works councils. As discussed in chapter two, it is this apparent paradox, high levels of regulation corresponding to a high degree of flexibility, which is central to the 'new orthodox' view of industrial relations regulation as a facilitator of internal organisational flexibility. However, as management initiatives towards *functional flexibility* move away from the 'humanisation of work' and focus increasingly on 'lean production' and teamworking ('groupworking' in Germany[32]), there are signs that German workers and their representatives are no longer so accepting of changes to working practices.

As noted in the brief discussion on the auto industry, the findings of MIT's International Motor Vehicle Programme (Womack et al., 1990), and the accompanying theory of 'lean production', made a profound and far-reaching impact on manufacturers across the globe. The discovery of a significant Japanese competitive advantage over all their global rivals sent a shock-wave through carmakers in North America and western Europe, and initiated a scramble to redesign shop floor organisation and workflows according to the principles of lean production. General Motors (who confirmed the results of the IMVP through internal bench-marks with

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[32] Terminology is important here: the IG Metall has gone to great lengths in its strategy on teamworking to distance German concepts of teamwork from American and Japanese concepts with their implications of rationalisation and work intensification. Union ideas on teamwork predate management notions, and are founded in the 'humanisation of work' campaign of the 1970s (Murakami, 1995; Jürgens, 1995; Kuhlmann and Schumann, 1997); this is why, when lean production and teamworking became popular with German management in the early 1990s, German unions already had concrete policies and strategies for pursuing their own vision of teamwork, and were so successful at influencing its implementation in German companies. Central to IG Metall's policy is the softer language of 'groups' represented by a 'spokesperson' ('*Sprecher*') rather than 'Olympic teams' with 'leaders' and Herculean work loads. For a more detailed account, see Turner (1991, pp.111-116); Müller-Jentsch (1995, pp.158-161).

their Japanese joint venture partners) were no less affected, and they responded with their own 'Quality Network Production System' as a particular model of lean production for the company's European operations. QNPS is a dynamic framework concept outlining the company's ideal vision of auto production, and represents the crystallisation of GM's learning experiences during the 1980s and 1990s, particularly of the lessons learned from the Toyota and Suzuki joint-ventures at NUMMI and CAMI respectively. QNPS highlights some 17 aspects of the production process which are considered to be of particular importance, and sets out guidelines and measures for the implementation of quality network production. The focus of QNPS is the individual plant, although the 'networking' of plants, the co-ordination of logistics, and integration of production are obviously important components.

Implementation of QNPS across GME's subsidiaries has not been even, and Opel's Rüsselsheim plant does not lead the pack. Many of the changes at Rüsselsheim since 1993 have been based on the guidelines contained within QNPS, but progress in many areas has been slow. A steering committee has had to be established for each of the 17 principles of QNPS, consisting of managers and works councillors, and every detail has had to be fully negotiated, sometimes more than once:

> *"Sometimes they [works councillors] find out that what they agreed with us may not be agreeable on the floor, and then there might be the situation where we have to come up with a new agreement and get a new compromise."* (Rüsselsheim manufacturing director, 24/2/98).

The plant's manufacturing director estimates that the principle of 'standardised operations' has only reached an implementation level of roughly 40%, largely because of resistance from the works council. Many of the elements of 'standardised operations' are diametrically opposed

to the earlier 'humanisation of work' project which had been a major campaign for the IG Metall during the 1970s and 1980s, and many German works councils (in support of the union) were reluctant to return to traditional assembly line production in the 1990s[33]. The Rüsselsheim works council fought long and hard to prevent the reduction of cycle times (which had reached as long as 12 minutes in many sections of the plant). Management's primary reasons for the reduction relate to 'learning costs': it takes significantly longer to train any worker to perform all the procedures within a 12 minute cycle time, while less capable workers simply never will master them all; even skilled workers, on returning from holiday or illness, are likely to require some time to re-acquaint themselves with procedures. Standing in for absent workers is also complicated by the difficulty of the tasks which need to be performed. According to management, lack of standardisation not only slows down the line, but is a barrier to product quality; at a plant like Rüsselsheim, where 42 different nationalities are represented within a workforce of 25 000 workers, and where many individual workers are illiterate or do not speak German[34], simplicity is absolutely crucial. Be that as it may, the works council has significant influence over the organisation of work (both formally and through their ability to extend their legal rights), and management has made only limited progress towards GM's standard[35].

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[33] For a discussion on the re-emergence of assembly line production in the German auto industry, and the controversy that surrounds it, see Jürgens (1997).

[34] During the German auto boom of the 1970s, Opel imported thousands of 'guest workers' (mostly from Turkey) such was the demand for labour; the Rüsselsheim works council still requires a full-time Turkish translator to facilitate communication with the huge Turkish contingent at the site (Opel, 1997b).

[35] In stark contrast to this situation, standardisation is well advanced at Eisenach where it is regarded as an essential component of the plant's Opel Production System; cycle times started at 147 seconds and have since fallen to 102 seconds (Haasen, 1996). See also Enderle, 1997, p137: *"Work standardisation is among*

Likewise, 'total productive maintenance' has only been implemented to any extent in the body shop at Rüsselsheim. The main obstacle to a more widespread implementation has been the unwillingness of skilled indirect workers to do direct line work, especially in final assembly. Like many German auto companies, Opel - even its Rüsselsheim plant - enjoys a surfeit of qualified workers compared with the skilled work that is available for them (tool- and die-makers are particularly abundant). As much of QNPS is based on the 'human element', this is potentially of great advantage, and management is increasingly trying to raise the skill levels on the line by peppering groups with its surplus skilled workers. Unfortunately, many of these skilled employees want nothing to do with the unskilled elements of line work and, again, the works council is in a strong position to defend their interests.

Another crucial feature of QNPS is the 'continuous improvement process' (CIP) whereby workers directly participate in the design of processes, layouts, materials handling and supply, and any other aspects of production with the aim of continually improving performance[36]. The creativity of Opel's highly trained workforce is beyond question: since 1988 the company has not failed to win first place in an annual award

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the most important elements of the Opel Production System. To ensure high levels of stability and consistency in the production process, the objective is always to carry out the same sequence of operations in the same way. This is a key prerequisite for a constant high level of quality." This section then goes on to describe the direct (and unrestricted) involvement of workers and their team-leaders in the constant reduction of cycle times, the establishment of Standard Operating Sheets, and the Continuous Improvement Process. Vauxhall's Luton plant, as we shall see, adheres much more closely to these aspects of the Opel Production System than do most Opel plants.

[36] Again, this is considered one of the most important contributors to Eisenach's success: despite employing less than five percent of Opel's total workforce, in 1993 the plant accounted for a third of all employee CIP suggestions (Enderle, 1997). Furthermore, there are not the barriers to implementation which exist at Rüsselsheim.

given by the German Institute for Business Administration (*Deutsches Institut für Betriebswirtschaft*) for the highest proportion of improvement suggestions from employees (Opel, 1997a). In 1996, for example, over 72 000 ideas for improvements were submitted. Management is, however, frustrated that the level of implementation does not match the impressive creativity of the workforce - many good suggestions wither on the branch and die because the works council insists on its rights, according to Sections 90-91 of the WCA, that any new processes or procedures be subject to rigorous 'measured time methods' before being implemented[37]. Informal experimentation on the line is ruled out, and the full creative potential of the highly trained workforce is not realised:

> *"And this is a big thing with the CIP workshops as well. They [the works council] always insist, if a CIP workshop is taking place and this workshop comes up with new methods, then these methods have to be proven by official measurement ... At Eisenach they don't have 'measured time methods'!"* (Rüsselsheim manufacturing director, 24/2/98).

One aspect of *functional flexibility* which is rather advanced is the multi-skilling of group members on the production line. Eight basic skill levels are recognised according to the number of operations which have been mastered, and pay scales are adjusted according to the skill level attained[38]. 'Groupworking' itself is well established at the site,

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[37] To some extent, the works council's rigidity on this issue relates to concerns about direct participation undermining their control of work organisation and methods via their co-determination rights (Section 87 of the WCA provides them with specific co-determination rights over suggestion schemes). More importantly, however, works councillors are aware of the potential for work intensification if the workforce does not retain a position of strength from which management can be made to negotiate production improvements.

[38] Even this aspect of *functional flexibility* was, however, strongly opposed by Opel's central works council, who were able to block the introduction of a pay-for-knowledge system in the original agreement on groupworking. Works council resistance was based on a reluctance to accept a system which would introduce inequalities between group members, and thereby violate trade union norms of wage solidarity;

and the ability of workers to rotate within and between groups is regarded as important by both management and works council (who consider it partial compensation for the shortening of cycle times). But its introduction has been a slow and arduous process, and the final outcome differs from teamworking according to lean production in various important aspects.

Opel management finally concluded a groupwork agreement with the company's central works council (as part of the QNPS programme), in April 1991, after nearly two and a half years of discussions and pilot agreements[39]. At the time, management estimated that it would take two or three years to implement groupwork; by 1993 it became clear that this was hopelessly optimistic, and a revised estimate was made of a further five years for implementation.

By the time of my visit in early 1998, groupwork had been almost 100% implemented at the Rüsselsheim plant. The plant's manufacturing director describes two distinct phases in the development of the groupwork concept at the plant. During the first phase, from 1990 to roughly 1994, the influence of the works council (and, by implication, the IG Metall) is quite clear: groups were large (average size 12 people), group-speakers were voted in by group members for terms of six months, they continued to be tied into the line, and were considered to be *"primus inter pares"*. Since 1994, however, as groupworking has become established and the potential for rejection has diminished, management

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furthermore, the works council was opposed to such 'informal' training, preferring instead that any new training programme lead to official qualification through Germany's apprenticeship system (Shire, 1994). It was not until the second half of the 1990s that management was finally able to overcome these obstacle.

[39] For a description and analysis of the early years of groupwork at Opel, see Murakami (1995) and EIRR (1996).

has gradually been bringing groups more in line with the 'lean production' concept of teamworking. The average size of groups has been reduced to seven workers; group-speakers are still elected, but they now serve two year terms; a major breakthrough for management has been the screening of potential group-speakers for basic language, arithmetic, literary and presentation skills before they can be put up for election, and the requirement that they be capable of performing all tasks within their group; supervisors can now also nominate candidates (a clause which the works council initially strongly resisted); although group-speakers still do productive work, they are no longer tied into the line and have more time for coaching and other indirect activities. With the whole process being overseen by a steering committee of managers and works councillors, however, much of the progress has been slower than management would have liked, and a number of 'lean' features remain out of the question.

The role and responsibilities of group-speakers are particularly contentious points. As with the CIP, the most controversial issue is the authority of groups and group-speakers to experiment with, and change, work flow processes:

> *"This is always a big dispute with the works council. What they really want to avoid is that the team leaders - and this is a very big issue - that the leaders themselves change the standard times just by experimenting or putting the best guy into the job and he sets the pace. What the works council always is insisting on is that the tariff and legal processes are being kept. So, we have tariff agreements which say that standard times can be changed only by experts who have the education and make formal measurements ... They insist that every time anybody has a method change or a new idea, that this is being followed up by 'measured time methods' ... they do not want to give up their co-determination, they insist on using the given tariff tools and authority."* (Rüsselsheim manufacturing director, 24/2/98).

Senior figures on the works council are adamant that this will not change:

> *"In Rüsselsheim it is strictly forbidden [for group-speakers to make work process changes], it is not allowed at all! We have 'measured time methods' and I don't see any chance at all to have a group-speaker taking the time of his colleagues."* (25/2/98)[40]

This obstinacy is not a jealous guarding of the works council's powers against potential competition from group-speakers: the WCA provides works councils with extensive legal rights which could not conceivably be matched or undermined by group-speakers. As with the intransigence over the CIP, this resistance is grounded in a clear understanding of the implications for work intensification of loosening the reins on work process improvements, and the works council makes use of all the substantial legal and institutional rights which they have, to protect the interests of the workforce. As with many other features, Eisenach differs quite dramatically in this respect; management was careful to make it clear from the outset that standardisation and continuous improvement were the responsibility of the 'team leader' (note the different terminology):

> *"Each team is headed by a team leader ... He is responsible for representing the interests of the group in other areas, as well as ensuring that the standardised operations are followed and reviewed constantly in order to identify further improvements."* (Enderle, 1997, pp. 135-136).[41]

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[40] This position is in line with the initial groupwork agreement which states that, *"groups can neither test nor examine group-members, nor are job evaluation and efficiency measures responsibilities of the group"* (Opel, 1991, p4 - quoted in Murakami, 1995). This initial framework agreement, and the local works council's insistence on its provisions, is itself a source of frustration for the plant's manufacturing director: *"We have always these Adam Opel agreements which have to be changed to change the plant agreement, and that is really hampering the total situation."* (24/2/98).

[41] Again, as we shall see, this description fairly accurately reflects the situation at Vauxhall's Luton plant as well.

As the manufacturing director at Rüsselsheim laments:

"There is no 'measured time methods' at Eisenach!" (24/2/98)[42]

The extent to which group-speakers are calculated into manpower buffers is another contentious issue which management has not even attempted to bring onto the steering committee's agenda. As the manufacturing director (who is also head of the steering committee for groupworking) notes, at truly 'lean' plants, team leaders are part of the calculated manpower buffer, so that when team members are absent it is team leaders who must step in to replace them. This has two effects. Firstly, it reinforces one of the core principles of the lean production philosophy: by removing any buffers or excess capacity, inefficiencies become apparent all the sooner, creative tension is heightened, and all aspects of workflow and work processes continually subjected to reappraisal and improvement. Secondly, it makes the impact of absenteeism immediately tangible for the whole team, and workers think twice before staying away from work. Management at Rüsselsheim is only too aware that this strategy would be totally unacceptable to the works council and, instead, the plant maintains a manpower buffer of over 5%.

Management is somewhat divided on the merit of group-speakers being elected by groups as opposed to appointed by management[43]; their

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[42] Management's continued reference to Eisenach as a bench-mark is not unfounded, as various sources suggest that the plant substantially outperforms any other within Opel (or GME for that matter). According to Opel's calculations, Bochum produces 43 cars per worker annually, Eisenach over 60; Enderle (1997, p142) estimates that Eisenach employees require only 70% of the average production time of those at other Opel plants, while Jürgens (1995) contends that the Eisenach workforce takes less than 20 hours to build a Corsa, as opposed to 25 at Opel's other plants.

[43] Murakami's (1995) research suggests that, despite initial suspicions, management later warmed to the principle of election. While I found personnel managers to be largely supportive of elections, production

assessment is, however, almost irrelevant, as the works council would never entertain the notion of group-speakers being appointed. Even at Eisenach, management had to concede to the election of team-leaders[44]. Management at Rüsselsheim would, however, like to see the term of group-speakers extended from two to four years, because roughly 50 training days are spent preparing group-speakers for their role, and management believes that this is too substantial an investment for the returns to be limited to two years. The works council is, however, reluctant as the term has already been extended from the original six months, and four year terms would be in complete contradiction of the principle of rotating team leadership (which is one of the central tenets of groupwork according to the 'humanisation of work' concept). In all, the form taken by groupwork at the Rüsselsheim plant reflects a compromise position between management's preference for 'lean production' principles, and the works council's adherence to groupwork according to the 'humanisation of work'. Such compromise has been an even more prominent feature at Daimler-Benz.

Perhaps more than for any other German company, the results of MIT's afore-mentioned IMVP study provided a shocking revelation for Daimler-Benz. In one of the most critical sections of the subsequent book (Womack et al., 1990, p90), the authors describe the situation at a German plant which, it was later disclosed, was Mercedes-Benz's Sindelfingen plant:

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managers were less enthusiastic, and the plant's manufacturing director suggested that his side of the steering committee for group-work would rather see appointment.

[44] The principle of elections for team-leaders (or *group-speakers*, depending on the plant) is indeed a concession by management. GM official policy is that team-leaders are not to be elected, hence the compromise at Opel's plants where, although they continue to be elected, management has at least secured agreement that group-speakers are to be screened first.

> *"At the end of the assembly line was an enormous rework and rectification area, where armies of technicians in white laboratory jackets laboured to refine the finished vehicles up to the company's favourite quality standard. We found that a third of the total effort involved in assembly occurred in this area. In other words, the German plant was spending more effort on fixing the problems it had just created than the Japanese plant required to make a nearly perfect car the first time."*

In light of these findings (which were made known to participant companies well before the publication of the book), and an independent study conducted by Daimler-Benz (which largely verified the results of the IMVP study), it is not surprising that management perceived *"a considerable need to reform the way in which work was organised."* (Springer, 1997, p274). The central works council was approached in 1989 and, following visits to Nissan's plant at Sunderland, and Toyota's Burnaston subsidiary, formal discussions were initiated on the introduction of various aspects of the 'lean production' model of manufacturing[45]; one of the core components of the changes discussed was the issue of teamworking. Through their strong links with the union, Daimler's central works councillors were well informed of the union position on teamworking, and replied to management's approaches with their own series of demands, based on the IG Metall's version of groupworking.

Following one of the IG Metall's 'key points' (*Eckpunkte*) on groupwork, the first stage in the introduction of groupworking at Daimler-Benz involved a work-sociological assessment of several pilot studies, initiated in 1990. Under the guidance of the Sociological Research Institute at Göttingen university, the scheme was introduced into certain specific production areas at selected plants. During the

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[45] According to Mercedes-Benz's head of work organisation and work politics, one of management's chief objectives was to *"bring the brutality of the market into the company."* (03/02/98).

subsequent three years of the study, researchers closely monitored the effects of the changes, not only on economic factors such as productivity, but various social aspects such as the impact on relations with fellow workers, and the acceptance of groupworking by the workers themselves (Springer, 1993, 1995, and 1996).

In spite of these extensive efforts by management to gain the central works council's acceptance of groupworking, however, it was not until March 1995, more than five years after initial discussions, that the company was able to secure three agreements over different aspects of groupworking[46]. To an even greater extent than at Opel, the final agreements were very much compromises between management's initial objectives of teamworking according to 'lean production', and union (and, therefore, works council) aspirations for the 'humanisation of work', with many of the 'lean' features of teamworking explicitly ruled out. On average, for example, groups consist of twelve members (although a number of groups were encountered at both Sindelfingen and Untertürkheim which exceeded the officially agreed size), and have two 'group-speakers', both elected by the group members (Daimler-Benz, 1995b). Group members themselves decide the term for which 'speakers' will serve, although this may not be less than six months. 'Speakers' are also to remain bound into the work process, and their sole functions are to moderate group discussions and represent the group externally. Any informal advances in productivity, reductions in operating times, or decreases in manpower through experimentation and unofficial analysis are also *"out of the question"* (Daimler-Benz, 1995a, p3). The agreement

[46] Management's ability to finally overcome works council recalcitrance and secure an agreement was, according to the head of work organisation and work politics, greatly facilitated by economic downturn in Germany, and a series of disastrous financial results for Daimler-Benz.

insists on a number of formal analytical tools (such as Measured Time Methods) for the determination of performance standards; works councils have to be informed about the methods and objectives of any analyses which are to be carried out on work systems prior to the inception of such studies. Performance standards can only be changed on account of technical or organisational changes, or because of mistakes; the standards can not, without specific cause, be questioned or scrutinised within a period of less than two years of their establishment. Strong social protections are also built into the agreement: workers made redundant by improvements to work processes are guaranteed a claim to an equivalent job elsewhere or, failing that, to an equivalent salary in another job (Daimler-Benz, 1995c).

In spite of these favourable terms for groupworking, there was still a degree of workforce resistance to the concept and, by the time of my visit in early 1998 (nine years after initial discussions on the topic), the head of work organisation and work politics at Mercedes-Benz estimated that groupworking was only established to a level of roughly 60% across the company's sites. While management recognises that groupworking is not appropriate for all operations, this was still some way off the company's target of 80% implementation. Among the factors cited as obstacles to the introduction of teamworking at plants was works council resistance; this was (as anticipated in the results of the pilot study) particularly pronounced in labour-intensive areas of production. So, for example, at the giant Sindelfingen plant, management estimated that the level of implementation of groupworking across the plant was roughly 40%. Although well advanced in automated areas such as the press shop and welding, groupworking had made little progress in final assembly, where it was largely restricted to stationary assembly

operations (such as the installation of electrical brackets). Similarly, at the Untertürkheim plant, nearly 100% of workers in engine production were working in groups, while the percentage was significantly lower in assembly.

On the whole, Mercedes-Benz management is, however, relatively satisfied with the results achieved under groupworking. Although a number of simultaneous rationalisation strategies make it difficult to isolate the impact of groupworking, the company has achieved its objective of increasing productivity by 30% over roughly a decade. The problem for management was that competitors had not been standing still and, according to the company's own benchmarks, Daimler-Benz had failed to close the productivity gap. As the head of work organisation and work politics notes:

> *"We have improved productivity, we have got a better commitment of the workers to rationalisation but, from the economic point of view, it's not enough. And for that reason we have now a very difficult discussion [with the central works council] with regards the assembly shops."* (03/02/98).

In planning the next round of changes, it was no longer necessary to look to competitors - instead the company could turn to its new MBUSI subsidiary in Tuscaloosa, Alabama. Following the successes achieved by the MBUSI plant, a team of managers from Daimler-Benz head-quarters (led by the head of work organisation and work politics) undertook a research visit to Tuscaloosa in October 1997. Designed specifically according to the principles of 'lean production' (Daimler-Benz recruited a plant manager with six years' experience at Toyota's NUMMI transplant), work processes and teamworking differ quite significantly from arrangements in Germany. Teams consist of five members with one appointed leader. Team leaders are not bound to the line but assist team members with

problems, organise team rotations, carry out support functions, and fill in for absenteeism (which runs at a paltry 0.5%). All tasks on the line are standardised and planned strictly according to cycle times; team leaders and team members are expected to continually experiment with methods to reduce cycle times and improve standard operating procedures. Unsurprisingly, the ensuing report envisaged various obstacles to the transfer of MBUSI methods to German production locations (Daimler-Benz, 1997b); the head of work organisation and work politics also describes limited support from the central works council for such changes:

> *"We have today also the discussions here in Germany whether we can adopt this system, and bring it here, because it's more productive and so on, and that's the discussion we're having now. But, of course, our workers are not very interested in this model."* (03/02/98).

Such lack of interest is indeed problematic because, as noted throughout, the works council enjoys significant influence with respect to work organisation, both formally through legal co-determination rights, and informally through their ability to extend those rights.

d) Temporal Flexibility

Working time is another highly regulated aspect of working conditions in Germany. Such regulation occurs through substantive legislation (the Working Time Act), through industry-level agreement (the famous 1984 agreement in metal-working for a 35 hour work week), and through procedural works council rights (Section 87 of the WCA provides for co-determination with respect to temporary increases or reductions in working time). As with *functional flexibility*, however, this is traditionally viewed as a facilitator of, not an obstacle to, *temporal flexibility* through 'negotiated adjustment'. If anything, with a growing

number of foreign production locations, German management is increasingly able to use the threat of alternative sites for investment and production scheduling to wrest even greater levels of working time flexibility from German unions and works councils. However, in light of intensified competitive conditions and a dramatic improvement in levels of *temporal flexibility* in other countries (including, as we shall see, the UK), the 'costs' of these creative arrangements (including time taken to negotiate and the levels of compromise to gain acceptance) are increasingly criticised by German managers.

Management at Opel have used whipsawing to great effect in advancing *temporal flexibility* at the company's plants. In 1988, under the threat of disinvestment, the works council at Kaiserslautern broke ranks with the IG Metall and agreed to a round-the-clock working time model to increase capacity utilisation (Turner, 1991). With this agreement in hand, management was next able to secure a similar deal for a 139.5 hours per week machine running time at Bochum's stamping plant; the agreement was again a prerequisite for new investment, as was a corresponding agreement (which followed shortly after) for the press shop at Rüsselsheim. Similarly, in response to the imminent introduction of the 35 hour working week[47], management used the threat of disinvestment to reach an agreement on 'flexitime' working at Rüsselsheim in September 1995 (EIRR, 1995). According to the provisions of the agreement, employees will work within a 'working time corridor' of between 30 and 38.75 hours per week, averaging out to 35 hours over 12 months; pay remains unaffected. Each individual employee has a 'time

[47] Although the battle for the introduction of the 35 hour working week had been won by IG Metall in 1984, there was to be a phased introduction from 37 hours in 1990 to 36 hours in 1993 and, finally, 35 hours became the normal length of a working week on October 1, 1995.

bank': workers with positive balances at year's end are entitled to time off, those with negative balances will be expected to work in neighbouring production areas to make up the time. In addition, the working week can be reduced from five days to four, with a two month notice period[48].

In spite of these flexible arrangements, there are certain working time rigidities which management is unable to overcome, even with investment threats. A pertinent example is works council co-determination rights with respect to overtime working. This particular right of co-determination is also one of the works council's most extensively utilised statutory instruments for extending its powers into areas which are not legally subject to co-determination (Müller-Jentsch, 1995) and, according to management, overtime frequently has to be 'bought' with concessions in other areas[49]. Management at the Rüsselsheim plant estimates that production of between 1 000 and 2 000 cars per year is lost because of the time taken to negotiate overtime and the works council's frequent recalcitrance; at the time of my visit they had been trying for six months to negotiate the right to automatically introduce overtime working, without having to bargain with the works council,

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[48] Although driven by, and largely to the benefit of, management (with cost savings through the avoidance of short-shift and overtime premia), works councillors describe certain benefits for the workforce as well. Workers are assured a fixed income irrespective of whether they work 30 or 38 hours per week, and greater *temporal flexibility* also removes some of the requirement for *numerical flexibility*, reducing the need for atypical forms of employment and 'hiring-and-firing' of workers.

[49] In theory, overtime can only be blocked on certain specific grounds; in practice, however, the conditions allowing for overtime to be blocked are imprecise and subject to interpretation such that the works council is always able to point to at least one factor empowering them to exercise their right. Management's only recourse then is to take the matter to the labour court and subject it to the interpretation of an outsider. This is costly and time consuming and, as the head of labour relations notes: *"Even if you win, they [the works council] will always get you back later."* (24/2/98).

under certain specified conditions (such as stock shortages), but to no avail. Unsurprisingly, there was little interest from works councillors in relinquishing one of their most powerful leverage devices over management.

As at Opel (and other German participants), workforce concessions on greater *temporal flexibility* at Daimler-Benz have tended to be incremental, and coincide with investment decisions by the company. At Untertürkheim, for example, management used the threat (in 1993) of investing USD 387 million abroad in a new engine plant for V6 and V8 motors if the location works council would not agree to a number of concessions on working time flexibility. Following comparative location surveys in a number of potential foreign sites, management informed the works council that Untertürkheim was at a 35% cost disadvantage which would only be overcome by increased flexibility in a number of areas, particularly with respect to machine operating times. Because of the importance of the negotiations, the local works council sought advice from both the central works council and the IG Metall, and all discussions were conducted in the presence of the chair and deputy of the central works council, as well as senior officials from the union.

Management's initial expectations were considered by both the works council and the union to be too demanding, and the eventual agreement (concluded some nine months after management first approached the works council) represents a compromise in the classical German tradition of 'negotiated adjustment'. Operating time at the new factory would equal 120 hours per week (24 hours per day, five days per week), and shifts could vary in length between seven and nine hours, according to fluctuations in demand. Changes to shift times, as long as they remained

within these boundaries, could be implemented by management with short notice to the works council. The reference period over which average working hours were to equal the industry-agreed working week was extended from six months to one year[50]. Another small deviation from the sectoral agreement was also agreed, with respect to the proportion of workers working up to 40 hours per week. According to the watershed 1984 agreement on the 35 hour week, the IG Metall made a concession to employers in agreeing that up to 18% of a plant's workforce could work for as long as 40 hours per week. The Untertürkheim plant was already working to this threshold; agreement was reached, however, again requiring the lengthy negotiation of a special supplementary clause to the sectoral agreement, that the new factory would be regarded as a separate entity to which a new 18% threshold would apply. Finally, a compromise was reached on the issue of rest periods for line workers. According to a 1973 sectoral agreement in the Nordwürttemberg-Nordbaden region, workers doing repetitive, machine-paced work are entitled to a series of 'recuperative' breaks (*Erholzeit*) from the line, amounting to five minutes per hour. According to management, these breaks, which are taken in addition to statutory break entitlements, were responsible for an 8% labour cost disadvantage. Neither the works council nor the union were, however, prepared to dispense with them. According to the compromise which was reached, the breaks would continue to apply, but any interruptions to production (machine down-time) would be offset against the break time[51]. All breaks (including statutory breaks) would be staggered so that machines could continue to run.

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[50] This aspect of the agreement, because it went beyond the conditions of the existent sectoral agreement, required the negotiation, with IG Metall, of a special opening clause (*Öffnungsklausel*) from the sectoral agreement. This opening clause would apply only to the new factory.

[51] Again, this required the negotiation of another special opening clause.

In the end, after months of negotiation, the concessions made by the works council and trade union were not quite enough to overcome the plant's cost disadvantages, even once transportation costs from other European locations had been taken into consideration. Management decided, however, to build the new factory at Untertürkheim as a symbol of the company's commitment to its workforce there; according to the works manager,

> *"All things considered, it seemed more advantageous to demonstrate to the workforce that we are committed to new forms of working and that we want to positively motivate our employees to experience a process of change with us"* (Cited in EIRR, 1994, p14).

Again in April 1996, management threatened that, without further improvements in *temporal flexibility*, 2 000 jobs were in danger of being transferred abroad. A 'site pact' was therefore negotiated which, in return for certain concessions, guaranteed all jobs at the plant until the end of 2000. Under the agreement, the possibility of moving from two-shift to three-shift working (according to production needs) was extended to new parts of the plant, and the reference period for averaging working time was extended to two years. The works council, however, would not concede either on lowering the starting rates for new recruits, or the introduction of regular Saturday working. 'Recuperation time' (*Erholzeit*) was again a bone of contention. Management again called for the complete scrapping of this costly perk, but once more the works council refused outright to do away with it. By the time of my visit, in early 1998, this issue had still not been resolved, and continued to be a source of friction between management and works council.

e) Financial Flexibility

The many obstacles which stand in the way of *'indirect' financial flexibility* in Germany provide for some of the most intense concerns which managers have regarding the country's industrial relations system. This is particularly the case with respect to the various sources of non-wage labour costs. By 1997, the ratio of non-wage labour costs to direct compensation in the metalworking industry had reached a record high of 80.7%, up from 55.6% in 1972 (Zagelmeyer, 1997b). Comprising both statutory (set by law) and non-statutory (regulated by sectoral agreement) elements, German employers complain bitterly about their inability to reduce these high levels of additional payment, either through changes to government policy or industry agreements[52]; along with the short working week in Germany, this was the aspect of the German business environment most heavily criticised by participant German managers. The obstacle which this presents to *'indirect' financial flexibility* is further compounded by the rigid and detailed pay scales established by branch-level collective agreements, whose applicability across a broad and diverse industry segment is seen as a further external barrier to the ability of companies to adjust labour costs in line with their own financial position. While German managers participating in the study (in both autos and electrical engineering) expressed their general support for the system of industry-wide collective bargaining, particularly for its *Friedenspflicht* (peace obligation), they are keen to see a greater degree of decentralisation of negotiations to company and plant level.

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[52] See, for example, Financial Times, "*Bosch warns on high German labour costs.*" 16 May, 1997.

Events at Daimler-Benz in the second half of the 1990s have also served to illustrate the limitations on efforts to increase *'indirect' financial flexibility*, even when these are sponsored by the state. The company's workforce has, on numerous occasions in the past, shown itself more than willing to engage in industrial action in support of the IG Metall's strategy of 'pinpoint strikes' (*Schwerpunktstreiks*) against the local employers' association. This was again demonstrated in the autumn of 1996 when, following the government's change to the law on the continued payment of wages and salaries (*Entgeltfortzahlungsgesetz*), Daimler-Benz attempted to introduce changes to the level of sick-pay for absent workers. According to the new Act, which was aimed at a reduction of the country's high levels of non-wage labour costs, companies could reduce the level of entitlement to continued pay from 100% to 80% of previous regular gross income[53]. When Daimler-Benz (along with other companies in Nordwürttemberg-Nordbaden) attempted to introduce these changes in October 1996, however, the company was hit by a wave of protest action at various of its sites. Fully aware of the company's vulnerability, the IG Metall focused its strategy on the crucial Sindelfingen and Untertürkheim plants where a series of strikes were organised. As usual, the well developed shop stewards' body (*Vertrauenskörper*) was instrumental in organising the workforce and co-ordinating the strike action. After less than a week of these disruptions, in which time Daimler-Benz suffered heavy losses, the company and the local employers' association (the VMI[54]) decided to back down. A sectoral agreement was then negotiated with the regional IG Metall on the reinstatement of sick-pay at 100% of previous gross earnings.

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[53] See Zagelmeyer (1997a) for further details of the legal changes.

[54] *Verband der Metallindustrie Baden-Württemburg.*

The growing frustration of German employers with respect to their relative lack of *'indirect' financial flexibility*, and the increasing burden which this represents is well documented (Vogler-Ludwig, 1997)[55]. What is less well recognised is that, on top of these external influences on labour costs, many companies also have to negotiate changes to firm-specific elements of wages, with various attendant difficulties in achieving such *'direct' financial flexibility* as well.

Any additional company payments, although not specifically subject to co-determination, in practice require extensive negotiations with works councils. At Opel, where German plants are in real and immediate competition with other GME plants for investment and production scheduling, some fairly substantial changes to company-specific pay arrangements have been agreed; as the evidence from Daimler-Benz suggests, however, without such extensive leverage, management is often less able to extract flexibility from a powerful works council. Furthermore, although it is traditionally held that one of the great advantages of industry-level bargaining is the sparing of management time and resources from potentially confrontational negotiations over wages (Streeck, 1984b; Müller-Jentsch and Sperling, 1995; Schnabel, 1995), extensive bargaining over such issues does in fact take place between management and works councils, in addition to negotiations at industry level[56].

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[55] In a survey carried out by the German Association of Chambers of Commerce (DIHT) in 1996, for example, 62% of companies who had either moved operations abroad or were planning to do so cited high and rigid labour costs as the principal consideration in their decision (EIRR, 1997d).

[56] Such bargaining is not accompanied by the right to strike, and works council must exert pressure on management through other aspects of their co-determination rights. Although, as such, these 'over-tariff' wages are officially unilateral pay rises granted by management (who are, in theory, therefore also able to

Management at Opel AG, for example, have had to negotiate two 'site pacts' with the central works council in an effort to reduce the company's generous '*übertarifliche Leistungen*' (payments above contract wages). In other words, to secure a reduction in the wage drift between collectively agreed wages at regional industry level and actual wages paid by the company, management has had to engage in what was effectively collective bargaining with the works council, and make various guarantees over investment and employment at German plants in return for a reduction in bonus payments (which, formally, should be at their discretion to adjust unilaterally); nor have these negotiated adjustments (which take the form of slower wage growth) been particularly radical. This, again, is a compelling demonstration of the extent to which works councils at the study's German participants are able to extend their co-determination rights into areas over which they legally have no jurisdiction.

By the early 1990s, generous bonuses and additional payments had led to a wage drift at Opel of some 20%. The first 'site pact', agreed in November 1993, determined that, for collectively agreed wage increases above 2%, Opel employees would only receive two thirds of that increase[57] (i.e., for a 3% collectively agreed increase, the wages of Opel workers would only increase by 2%). In return, the works council secured a guarantee that there would be no relocation of jobs from Germany to other of GM's European plants. This four year agreement terminated at

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unilaterally withdraw them), the reality is that any changes to these payments are subject to bargaining in the real sense of the word.

[57] Theoretically, the company is legally bound to provide the full terms and conditions of the branch agreement, so what the 'site pact' agreed was that the reduction in wage drift would occur via a reduction in the additional payments which Opel makes.

the end of 1997, having reduced the 'over-tariff' component of Opel wages by a rather modest 4%; bargaining over a new contract began already in March 1997.

Negotiations over the new 'site pact' took a little more than ten months, and became embroiled in a conflict between management and the central works council over a planned bench-marking exercise. During autumn 1997, the central works council took management to the labour court over the so-called *Template Study*, which management had undertaken without the proper involvement of works councillors. As we shall see, the court decided in favour of the works council and management had to abandon implementation of the study's findings; in the meantime, works councillors withdrew from negotiations over the 'site pact'. In the end, however, 'negotiated adjustment' prevailed and in January 1998 an 'integrative' solution was reached[58].

According to the 1998 'site pact' (which is valid until 2002) the melt-down of over-tariff wages - via a reduction in additional company payments - will continue, with Opel workers receiving 1.25% less than the collectively agreed wage increases. So, instead of the 1998 collectively agreed increase for metalworking of 2.5%, Opel workers' wages would only increase by 1.25%. In addition, the payment of the full Christmas bonus will be dependent on average annual absenteeism levels remaining at 6% or below. The existing models of working time flexibility at plants are also to be *"further improved"*. The concessions made to the central works council to secure this deal revolve mostly

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[58] For details on the 1998 'site pact', see Schulten (1998); Opel (1998b; and 1998c); Wall Street Journal Europe, "*Opel moves toward deal to avoid German layoffs.*" 9-10 January, 1998; Financial Times, "*Opel agrees job cuts package: German deal could affect Vauxhall.*" 20 January, 1998; and Guardian, "*Opel job-cut deal.*" 21 January, 1998.

around investment in German plants. Rüsselsheim will receive USD 415 million to modernise the plant and to build a new paint shop; production capacity of 275 000 vehicles per year will be safeguarded, as will at least 8 200 jobs at the ITDC (which is also guaranteed development of the next generation of Omega and Vectra models). Bochum will continue to be the only west European production site for the Zafira compact van, as well as continuing production of the Astra; current provisions for additional night-shifts are extended until 2000, and 150 new employees will be taken on over the next three years. Kaiserslautern will receive USD 250 million for a new engine plant[59]. In addition all 4 000 job-losses will be organised through early and partial retirement schemes (*'Vorruhestand'* and *'Altersteilzeit'* under which employees will receive 80% and 85% of their former net income respectively). Opel's pension plan will also be restructured so that all workers (salaried and hourly-paid) will be treated the same, and the company will increase its recruitment figure to 350 apprentices per year.

By and large, both management and works council were pleased with the final agreement. As Schulten (1998) points out, however, the IG Metall was less enthused. In the first place, the union is concerned that the

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[59] Kaiserslautern is probably the biggest beneficiary of the new deal. In a sense, employees at Bochum are subsidising the investment at Kaiserslautern (and, to a lesser extent at Rüsselsheim) because the guarantees they received are virtually meaningless: once large investments have been made in plants (as was recently the case at Bochum), their safety is more-or-less guaranteed for the rest of that model's life-cycle. The plants that were under threat were Rüsselsheim and Kaiserslautern. The former is a big enough plant that the concessions made by the workforce were probably sufficient to justify the investment guarantee. This is, however, not true of Kaiserslautern where the workforce of 4 700 could not generate sufficient savings by itself to attract the USD 250 million investment for a new aluminium motor which was originally bound for GM's engine plant in Hungary (where costs are significantly lower than at Kaiserslautern). According to Opel management, however, the savings which could be made across the three Opel plants together were well beyond the Hungarian plant's ability to match.

growing phenomenon of works councils trading off job security for social concessions and "wage renunciation" ('*Lohnverzicht*') will have long term consequences for branch-level collective agreements. Although this facilitates more flexibility for companies, it means less control for the union, and there are signs that the IG Metall will in future seek to limit this particular avenue for flexibility. Secondly, it displays a nationalistic bias, playing off national subsidiaries against one another: in this round Antwerp was the loser[60], next time it could be the German plants. The IG Metall will therefore apply pressure for any future pacts to be negotiated through European works councils, which will have the added advantage to German workforces of removing the immediate threat of competition from nearby European plants. As we shall see, Opel's works council is already making use of GM's EEC to promote trans-European labour solidarity, much to the chagrin of GME management for whom this new tactic by the IG Metall could prove most unsettling.

The present lack of such solidarity is greatly in management's favour, as evidenced by an agreement at the Rüsselsheim plant in 1997 trading cost reductions for increased Vectra production. Luton was originally intended to be the sole production site for the Vectra Caravan, but production difficulties relating to the site's newly automated body shop brought GME management to the conclusion that a second production site would be required to meet demand. When asked what they could offer in return for limited production of the Vectra Caravan, the Rüsselsheim works council - faced with a downturn in Omega production - agreed to

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[60] In October 1997 GM announced plans to remove a shift from its Antwerp plant, and shed some 1 900 workplaces, reducing Vectra production and concentrating instead on the fast-selling Astra. (See Financial Times, "*Opel to cut 1 900 jobs from Belgium operation.*" 17 October, 1997; and Financial Times, "*Opel plans to cut 1 900 jobs: decision to reduce Antwerp plant blamed on cut-throat European competition.*" 17 October, 1997).

sacrifice the site's 'Success Premium' (a bonus payment based on the company's profitability) for 1997, thereby saving the plant USD 28 million. This was enough to win the production of around 55 000 vehicles away from Luton, much to the anger of the Luton workforce[61].

Such leverage is largely unavailable to Daimler-Benz management who have, as a result, enjoyed significantly less *'direct' financial flexibility*. Daimler is unique among participant German companies in offering a unitary wage for all its workers across Germany. For many years management has been trying to move away from what has, according to a senior compensations expert, *"become a trap for the company"*, and regionalise the company's wage system[62]. In effect, current wages for all workers are negotiated on the basis of the generous sectoral agreement for Nordwürttemberg-Nordbaden which is, in spite of the IG Metall's strategy of co-ordination for regional bargaining, usually somewhat higher than for other regions. These arrangements are costly to Daimler, and management would like to move to a system where wages are determined on a regional basis, in line with regional sectoral agreements. The central works council, however, explicitly opposes any hints at the regionalisation of wage determination, which would weaken solidarity and

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[61] In reality, as we shall see, the loss of this production is largely the fault of Vauxhall management whose bungled efforts at automating the body shop left GME management with little choice but to move production elsewhere if strong demand for the Vectra Caravan was to be met. Nevertheless, union representatives at Luton express bitterness at what they perceive as divisive behaviour by their German counterparts.

[62] The principle of a unitary wage across the company was gradually conceded between 1977 and 1984 at a time when, according to a compensations expert at Daimler-Benz headquarters, the company was battling to keep up with orders (waiting times for Mercedes-Benz cars were often in excess of two years), and the most important consideration for management was to prevent disruptions to production. Like branch-level agreements, different systems exist for wage- and salary-earners, with various grades within each category, but these do not differ regionally within the company.

decrease the earnings of a significant proportion of the workforce, and insists on retaining the principle of *"same job, same wage"* across all German operations.

One aspect of Daimler's 'over-tariff' payments which has been addressed is the company's generous (and socially-based) system of Christmas bonuses; again, the conservative pace and cautious outcome of these negotiations provides insight into the extensive influence which works councils acquire with respect to issues which do not formally fall within their legal jurisdiction. According to sectoral agreement, all employees receive an annual Christmas bonus equivalent to at least 55% of average monthly income, as a one-off payment at the end of November. As with all special payments, companies can devise their own schemes with entitlements exceeding those prescribed in the sectoral agreement; like many large companies, Daimler-Benz operates its own system for Christmas bonuses. According to the company's traditional scheme, workers receive a number of payments, based largely on social criteria, which comfortably exceed the prescribed 55% of monthly income. Two fixed payments, 'Christmas money' (*Weihnachtsgeld*) and a 'special payment' (*Sondevergutung*), alone constitute in excess of 55%, and workers then receive a number of additional payments, based on factors such as length of service, marital status, and number of children. In total, these payments amount to an average of two months' wages for blue-collar workers, and 1.3 months' salary for staff. Following dramatic changes in the company in 1995 (precipitated by the biggest corporate losses in German history), with the arrival of Schrempp as CEO and the new focus on 'share-holder value', management sought to scrap this old, expensive system of bonus payments based on social criteria, and replace it with a system of variable payment based on the company's operating profit for

the year. Although the changes envisaged were hardly revolutionary, it required three years of intensive negotiations to reach agreement.

By 1997, management was finally able to persuade the central works council of the need for a new scheme establishing a closer link between the bonus employees would receive, and the amount the company could afford to pay. The new arrangements would continue to guarantee the 55% of monthly income stipulated in the sectoral agreement, and this would be supplemented by a variable payment, equal for all employees, based on Daimler-Benz's operating profit. Christmas bonuses would therefore fluctuate in line with the company's performance and could, for some workers, fall below the levels attained under the previous system. To overcome works council resistance, however, a transition period was agreed during which all employees were guaranteed that this would not happen. In line with its insistence on a unitary wage across all German operations, the central works council would not even contemplate measures to relate the Christmas bonus even more directly to employees, through the introduction of a component based on business unit (or even divisional) performance.

3. Commentary

As noted at the outset, industrial relations at Opel and Daimler-Benz operate according to three major forms of regulation: substantive legislation (such as the Employment Protection and Working Time Acts), branch-level collective agreements (covering issues such as wages, working time, and non-statutory, non-wage labour costs), and procedural legislation governing management-labour interactions at company level (principally via the Works Constitution and Co-determination Acts).

Furthermore, the legal rights afforded workers and their representatives are merely the starting point of their *de facto* power and influence at national, industry, and company levels. This study has focused almost exclusively on the latter, but it has been noted that workforce strength at company levels greatly enhances union influence at higher levels of the economy, and the strength of interconnections between company-level institutions and the external union greatly fortifies the whole network of employee representative institutions.

Two incidents at Opel provide further insight into the adeptness of the company's institutions at fully utilising and leveraging their legal rights and powers (including new ones recently acquired from the EU social dimension), as well as the dangers for management in trying to circumvent such negotiation over change.

GM's *Template Study* was a bench-marking exercise which was to take place across its European operations, involving a comparison of each site with an ideal model plant. A low-key approach was taken to the study, in an effort to avoid confrontation with labour institutions. Shortly before the study was to be conducted in the German plants, management casually broached the issue with works councillors who were, of course, taken completely by surprise, and immediately demanded fuller information. Upon discovering that a whole study had been planned without their involvement (and in breech of their legal rights), they immediately withdrew from negotiations over the second 'site pact', and took the company to the labour court for failing to recognise their information and consultation rights over a number of features of the proposed study. The court decided in favour of the works council, and the study had to be postponed until the works council had been fully informed and

consulted. In the end, management could only get the works council's co-operation on the issue after an agreement was signed that, although the study was to be conducted, none of its findings would be used as the basis for any future changes at German plants. Of even greater consequence were the repercussions for GME.

In his capacity as head of GM's EEC, the chairman of Opel's central works council demanded an extraordinary meeting of the EEF[63], as the study had Europe-wide implications. It then transpired that the study had, in fact, already been conducted in at least two other European countries (Spain and the UK) without management informing employee representatives at the relevant plants that this was to happen. Workforce representatives found no difficulty in coming together in solidarity to condemn the company's behaviour, and any hope of co-operation in implementing the findings of the study was shattered. Furthermore, local representatives (certainly at Vauxhall) felt betrayed by their national management. In one badly planned move, senior GM management had provided European labour representatives, who have traditionally been in fierce competition with one another, with an issue which immediately united them, and damaged relations between national management and workforce representatives in the company's two biggest national subsidiaries. It is interesting to note, however, that in former times this incident would have been limited to Germany: GM's EEC provided the well organised works council at Opel with a platform for exploiting management's bad judgement, extending the reach of their

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[63] The European Employee's Council (EEC) consists solely of workforce representatives, while the European Employee's Forum (EEF) includes senior GME managers (see footnote 8). In the end management agreed to a meeting of the smaller 'manufacturing steering committee'.

impressive information network, and mobilising support from across Europe.

The attempt to introduce an *"Aware-Line"* in GM's European operations, through which workers could report theft, bribery and fraud, represents another tale of woe for management. Based on a similar concept in America, *Aware-Line* followed the disclosure of a number of irregularities in the awarding of contracts at GME operations[64], and was designed as an internal telephone line through which employees could anonymously report any such irregularities. Although management did not intend anything sinister with the *Aware-Line*, they made the fatal mistake of not involving Opel's central works council in its conception and design, and thereby provided the works council with another opportunity to deepen and extend their struggle with GM. On being informed of the *Aware-Line*, the central works council judged it to be insensitive towards Germany's historical experiences of National Socialism and, more recently, the German Democratic Republic. Again, they raised the issue on GME's EEC, where it became a rallying point around which employee representatives united. The solidarity was further enhanced when it transpired that Spanish and Portuguese representatives, with similar historical experiences of undemocratic government, held similar concerns[65]. As with the *Template Study*, management's fatal mistake was an attempt to undertake a course of action without the consent of the company's powerful works council, and that body skilfully

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[64] See, Financial Times, "*Opel to probe contract bribery claims.*" 2 March, 1997.

[65] Managers at GME, Opel and Vauxhall (and even Vauxhall's senior workforce representative) with whom I spoke were extremely sceptical as to whether the Portuguese and Spanish had independently harboured such anxieties beforehand, or whether it was through German prompting that unpleasant associations with historical periods of autocracy had occurred to them.

made full use of all channels available to make them pay for the oversight.

Most negotiations at both Opel and Daimler-Benz have, however, not been characterised by such conflict and tension. The majority of changes at the two companies have followed the classical route of 'negotiated adjustment', with consensus the objective of both parties, and compromise the essential feature of all outcomes. In many ways, this has served both companies well: at Opel, for example, the 1993 'site pact' reduced wage drift by 4%, and the 1998 pact envisages a further reduction of 5%. Daimler-Benz estimates that productivity has increased by some 30% since the start of the 1990s due to process improvements and workforce reductions negotiated with the company's works councils; at Opel, management estimates that the productivity advances have been in the region of 40%.

But managers at both companies have some serious reservations about the relatively slow pace of change, and the extent to which 'first order' strategies (Purcell and Ahlstrand, 1994) on issues such as globalisation, outsourcing, lean production, and cost reduction are compromised at both functional and operational levels as they are converted into policy and implemented. As noted in the discussion on 'strategy' in chapter two (page 64 to 65), linear models of strategy are inadequate in analysing flexibility initiatives because of the messy reality of formulating and implementing such strategies. A feature to emerge from the study, however, is the greater divergence between 'intended' and 'enacted' strategies (Mintzberg, 1978) in German companies than is the case at their British counterparts, almost

inevitably because German managers must make more significant compromises to accommodate workforce concerns.

While the flexibility available to management via 'negotiated adjustment' is arguably greater than it has ever been, it is considered by most managers to be insufficient at a time when, to survive in an over-crowded industry, companies are increasingly expected to be capable of low-cost change that is radical both in scope and rate. As such, the costs of 'negotiated adjustment', in terms of the time taken to negotiate and the concessions which management must make in order to secure support for change from representative institutions, are increasingly dear. It has also been highlighted that this study has, for the most part, only had insight into the transparent costs of compromise: measures which management has explicitly sought to introduce, which have been contested by workforce representatives, and for which a compromise solution has then been negotiated. Other, less obvious, costs relate to 'non decision-making' (Bacharach and Baratz, 1970; Lukes, 1974): issues which never even make it onto the agenda because they are so obviously destined to fail. At Opel, for example, various 'lean' features of teamworking were simply not even contemplated by management because of their obvious unacceptability to works councillors. The extent of 'non decision-making' on supervisory boards is largely obscured by the level of secrecy which surrounds the functioning of this institution, but is likely to be even more pervasive than at works council level: the critical importance of maintaining healthy relations with worker representatives greatly limits the scope of issues which management can raise (even more so than with works councils), and any initiatives which might prove offensive are

studiously avoided[66]. In this respect, compromise is a feature even of 'first order' strategies.

Again, all these costs are probably no more substantial than at any time in the past (and quite likely less so), but the changed nature of the industry has greatly increased their significance to management. Reliance solely on the once highly-successful strategy of 'diversified quality production' (Sorge and Streeck, 1988; Streeck, 1989 and 1996) is no longer a viable option. Many other competitors have followed German firms into the high-end, quality-conscious markets, and have introduced competition on other factors (particularly cost) into this once lucrative segment of the auto industry. Even for Daimler-Benz, the ultimate high-end, diversified quality producer, competition from a growing number of rivals is making cost an increasingly important competitive factor, and highlighting the pre-eminence of flexibility and adaptability in responding to cost pressures of a grossly over-supplied market. As the discussion on flexibility in the two firms shows, it is not as well developed as many commentators might previously have suggested; nor is the highly regulated and institutionalised industrial relations environment particularly enabling of such flexibility.

Three modifications are proposed to the 'new orthodox' view of German companies enjoying a significant flexibility advantage as a result of their regulated industrial relations framework. In the first place, as described above, the 'costs' associated with this regulation are increasingly seen as a competitive burden; this relates particularly to

[66] The extremely long period of time taken for GM to remove Herman as head of Opel attests to the degree of caution which even this hard-driving American company is forced to exercise with respect to its supervisory board.

external forms of flexibility (as well as *temporal* and *'direct' financial flexibility*). Secondly, the findings suggest that, even with regards *functional flexibility*, the type of *"unencumbered internal mobility"* (Katz and Sabel, 1985) described by the 'new orthodox' literature is far less available to companies in an era when new work organisation and processes are based less on the 'humanisation of work' and more on 'lean production'. The discussion on *functional flexibility* at both companies highlighted some of the difficulties associated with this increasingly important aspect of competition in the ruthlessly competitive global auto industry. Finally, as the next section will show, even British auto firms are, on most flexibility measures, at least equal to (and frequently ahead of) their German competitors. As such, German companies are, in many ways, 'paying more' (in terms of restricted external flexibility) for relatively 'less' (in terms of internal flexibility). This has not escaped the notice of German managers, who are becoming ever more vocal in describing their concerns.

Managers at both Opel and Daimler-Benz are largely supportive of Germany's model of industrial relations; as we shall see, this is equally true of managers at ABB Germany and Siemens AG. In line with their colleagues at the other two companies, however, they perceive a clear and urgent need to reform various elements of the system. There is no clear consensus (even among employers) on the exact form of the required amendments, but managers with whom I spoke are unanimous in one demand: that German industrial relations needs less and not more regulation, especially not when it is imposed from outside the system, with little sensitivity for the problems which they already encounter within that system.

D. THE UK SITUATION

1. Industrial Relations Background

The most striking difference between British and German industrial relations is, as discussed in chapter two, the relative absence of external regulation (either in the form of legislation or 'functional-industry' level collective agreements) in the UK context. Perhaps the two most characteristic features of industrial relations at Vauxhall and Jaguar (and, even more so, at LucasVarity) are their relatively decentralised and voluntary (or informal) nature.

a) Decentralisation

Although, as we shall see, industrial relations at both Vauxhall and Jaguar are significantly more centralised than arrangements at UK-based electrical engineering participants, they lack the overarching industry-wide framework within which German companies operate. Neither company is party to any collective agreements between employers' associations and trade unions, and most negotiating is done at company level, with some even decentralised to individual plants.

At Vauxhall, most important negotiation takes place at company level, on the joint negotiating committee (JNC) for hourly paid workers, and the national negotiating committee (NNC) for salaried staff. The JNC is a high-level body chaired by Vauxhall's personnel director and comprised of various senior managers from headquarters, as well as the Luton and Ellesmere Port plants[67]. From the union side, the three convenors (TGWU,

[67] The Luton plant is the oldest (and, until recently, the largest), employing, in 1997, around 4 000 workers (3 500 hourly paid), and producing roughly 160 000 Vectras (out of a GME total of 450 000). Ellesmere

AEEU-mechanical, AEEU-electrical) and their deputies from both plants attend, as well as two convenors from the aftersales operations. An external element is introduced into the negotiations through the presence of six full-time regional trade unions officials on the JNC, one each from the three main unions at Luton and Ellesmere Port. The NNC is structured along similar lines.

Vauxhall's JNC meets three monthly (NNC six monthly) for information, consultation, and, when necessary, negotiations. Major wage negotiations occur much less frequently though: since 1995, deals have been struck on a three-yearly basis. These company-wide bodies are the only ones mandated to make changes to employees' terms and conditions, and all issues of significance at plant level must be referred to the JNC before local negotiations can commence[68].

Although only Vauxhall's JNC and NNC have the mandate to negotiate major agreements, plant-level actors are the focus of information, consultation, and lesser negotiations. The JPC at the Luton plant was revitalised by the 1992 *Working Together To Win* agreement, as it was generally recognised at the time that the former committee had degenerated into a forum of minor importance. Management felt that their new strategy of engaging the unions, and concentrating particularly on local plant relations, required a more comprehensive framework for discussions, with the JPC as foundation. With a view to reducing trade

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Port is the site of the company's second plant, and is responsible for the production of the Astra, as well as being the sole production site in Europe for GM's ECOTEC V6 engines. In 1997 Ellesmere Port employed 4 200 workers, and produced around 120 000 Astras (GME total: 500 000).

[68] This was a provision insisted on by the unions during discussions on the establishment of the joint plant committees (JPCs) in an effort to prevent management from seeking to undercut the importance of national level bargaining by making increased use of local negotiating forums (Carr, 1994).

union hostilities at the site, management also insisted on two important changes to the institution: firstly, MSF representatives would join the JPC and sit alongside their colleagues from the TGWU and AEEU and, secondly, the union side of the JPC would be led by a single chairperson, and would speak as a single union voice[69]. Meetings are chaired by the plant's manufacturing director, and attended by most senior managers at the site. The union side is comprised of the four most high-ranking stewards of both the TGWU and AEEU-mechanical, as well as the convenor for both the AEEU-electrical and the MSF. The group meets monthly in a formal, minuted meeting at which both sides are free to raise any important plant issues. In addition to monthly JPC meetings, the personnel manager and employee services manager also hold regular Friday meetings with the site's four convenors in what are described as structured informal discussions. So-called *Clause 16* meetings[70] are a regular monthly opportunity for unit managers to hold discussions with their shift managers and shop stewards. They provide for an informal, two-way flow of information, with unit managers providing business information and feedback from JPC meetings, and shop stewards raising any issues or problems within their sections. Finally, there are also two sets of health and safety committee meetings which occur on a monthly basis between management and union representatives.

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[69] Although, as Carr (1994) notes, these were rather controversial changes at the time (holding up negotiations over *Working Together To Win* for several months), by 1998 the JPC was a smoothly operating forum for discussions and (when mandated by the JNC) negotiations at the plant, and highly valued by both sides.

[70] The name derives from the 1974 Vauxhall wage agreement in which clause 16 stipulated *"monthly meetings of shop management and stewards on a divisional basis, to review progress and ensure that procedures/agreements are operating in a way which contributes towards effective operations."* Few people at the plant are aware of the origin of *Clause 16* meetings, but the name endures.

The arrangements for information, consultation, and negotiation at Jaguar parallel those at Vauxhall. In the first instance, all negotiating for hourly paid workers over issues which touch on both main production plants and the technical centre[71] are dealt with by the Joint Negotiating Committee (JNC). Meetings are chaired by the employee relations director and attended by various senior managers from company and plant levels. The union side is composed of 15 leading shop stewards (eight from the TGWU, four from the AEEU, and 3 from MSF), as well as a regional official from each of these three unions. For important negotiations, a national official from the TGWU (the union's assistant general-secretary) and AEEU is also present. The JNC meets formally for information and consultation on a quarterly basis, although more regular meetings take place when important issues are under discussion (for example, the decision of where to build the new X400 model, with Ford's Halewood plant eventually being chosen). Since 1990, wage negotiations have taken place on a bi-annual basis[72].

As noted in chapter one, Jaguar's two production sites, at Brown's Lane and Castle Bromwich are geographically so close, and operationally so integrated, that they are virtually run as a single plant (see page 51). This also pertains to their channels of communication. The Jaguar equivalent of Luton's JPC is the monthly Joint Production Meeting (JPM),

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[71] Jaguar cars are designed and developed at the company's technical centre in Whitley (employing roughly 1 000 engineers and 300 hourly-paid workers), and built at Castle Bromwich and Brown's Lane. The latter is the assembly site for both the XJ6 and XK8, and employs 2 000 hourly-paid workers and 200 staff. Castle Bromwich (employing 2 200 blue-collar and 300 white-collar workers) does all body and paint work for these two models, as well as body, paint, and assembly for the new S-Type. Between them, these two plants produced roughly 44 000 vehicles in 1997.

[72] Exactly the same mechanisms and procedures are followed by the Staff Joint Negotiating Committee (SJNC), which is composed of representatives from the MSF and ACTSS unions who bargain on behalf of the company's white-collar workers.

which brings together the management team for the two plants and the three convenors from each site (one each from the TGWU, AEEU, and MSF) in a formal, minuted meeting. No formal plant-level communication bodies exist at Castle Bromwich, but weekly meetings are conducted for the site's two main divisions: S-type, and 'current operations' (XJ6 and XK8); these are also attended by the personnel manager, plant director, and three convenors. On a monthly basis, the manufacturing director (who has responsibility for both production plants) holds an informal 'open forum' with the three convenors at both production sites. Facilitated by the company's relatively small size, the chairman also directly addresses the entire workforce (in groups of 30) every six months.

In contrast to arrangements at the two UK auto participants, industrial relations at LucasVarity are extremely decentralised. Even before the merger with Varity, Lucas had moved away from centralised collective bargaining in the mid-1980s; following the merger, management of the new company ceased to co-ordinate pay bargaining across sites, and annual review dates were changed such that they would no longer coincide. Furthermore, the 'Lucas business forum', which provided a company-wide institution for information and consultation between senior management and shop stewards, was terminated. In spite of union calls for similar bodies to be established at divisional level[73], the new company's unambiguous drive towards decentralisation of industrial relations precluded even such a degree of aggregation and, instead, more extensive

[73] LucasVarity has seven main operating divisions, six of which are automotive suppliers (the two most important being light and heavy vehicle braking). The seventh division (accounting for 11% of sales and 15% of personnel) is involved in the aerospace industry, principally in engine and flight control systems, actuators, and power generation systems.

arrangements for information, consultation, and negotiation were developed at site level[74].

At LucasVarity's Wolverhampton aerospace site[75], the demise of the 'Lucas business forum' was accompanied by a strengthening of the plant's own 'joint forum' (which had, until then, lain dormant). The Forum meets formally on a monthly basis, drawing together all senior management and union figures at the site, and negotiates wages annually. A health and safety committee, composed of management and union representatives, provides another formal opportunity for indirect communication.

b) 'Informality'

In line with its decentralisation to company and plant levels, industrial relations at these three UK companies is also significantly less modulated by external regulation. Two features stand out: the well-entrenched presence of trade unions at all three companies, and management's recent efforts at human resources management based on a 'Sophisticated Consultative' style of management (Purcell and Ahlstrand, 1994)[76].

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[74] The only interaction between the company and the unions at higher level is in the form of informal discussions between divisional personnel directors and national union officials.

[75] With a workforce, in 1997, of 950 full-time employees (plus around 100 fixed term workers), and revenues of USD 164 million.

[76] According to this typology, management is described as 'Sophisticated Consultative' when they: recognise unions, attempting to develop constructive relations with them and incorporate them into the organisational fabric; provide unions with extensive information on a broad range of decisions and plans, yet retain final decision-making authority; and emphasise techniques designed to enhance individual employee commitment to the firm. While useful in characterising management's approach to industrial relations in the UK, the typology is not particularly relevant in the German context as none of these features of management are subject to choice (being prescribed by law) and, secondly, management is legally required to share final decision-making authority on various issues.

Trade unions are well-established at Vauxhall. Union density for the shop-floor runs at roughly 98% (TGWU and AEEU), while for staff the figure is around 50% (MSF)[77]. The biggest and most hostile union at both sites is the TGWU. At Luton, the union has some 2 100 members, roughly 60% of hourly paid workers, representing a *"broad church"* of mostly unskilled and semi-skilled production workers. The two sections (mechanical and electrical) of the AEEU continue to operate largely independently, with the latter representing mostly skilled electrical workers, and the former a mixture of skilled mechanical and unskilled production workers. The two biggest hourly-paid unions (TGWU and AEEU-mechanical) at Luton both have a convenor, deputy convenor and secretary on full-time release, and roughly 60 shop stewards each. Five of the TGWU (and two of the AEEU-mechanical) shop stewards are also on full-time release as health and safety officers. The much smaller AEEU-electrical and MSF unions each have only one convenor on part-time release.

A fair degree of networking and co-ordination also takes place between Vauxhall's unions. According to the *Working Together To Win* agreement, a monthly shop stewards meeting of up to 90 minutes is held at plant level[78]. A quarterly combine committee is also held, at company expense, bringing together the hourly paid unions at both sites as well as the aftersales division, thus providing unionists with insight into Vauxhall developments beyond their own immediate environment, and facilitating co-ordination of the union side of the joint negotiating committee

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[77] The picture is similar at both main plants, although the unions at Ellesmere Port are described as more divided and acquiescent.

[78] The meeting is usually held at the end of the first shift so that the in-coming shift attend the meeting in working time, and the outgoing shift are paid overtime to stay and attend.

(JNC). Luton's TGWU convenor is not only the most influential union figure within the company - a shop steward for 27 years, 11 of them as convenor, he was recently also elected vice-chairman of GME's EWC - but he is also the main link to the external union structure. Both he and his deputy are TGWU branch secretaries, and he is the branch's delegate to the TGWU's auto trade group and national auto committee.

Four unions at Jaguar represent virtually 100% of the shopfloor: the TGWU, the AEEU, MSF[79], and the GMB (although the latter, with around 100 members, is relatively insignificant). A little over 50% of staff are represented by either the MSF (engineers and supervisors) or ACTSS (clerical and administrative staff). Of the roughly 2 200 hourly paid workers at Castle Bromwich, virtually all of them belong to one of the three major unions. The TGWU is, with 1 100 members, the most powerful union at the site, while the MSF and AEEU have roughly 500 members each. Of the plant's 38 shop stewards, 16 belong to the TGWU, and six each to MSF and AEEU; all three unions have a convenor on full-time release from duty, while the TGWU also has a deputy convenor on part-time release. The three unions hold shop stewards' committee meetings on a monthly basis; at Brown's Lane this is a joint body, while, for historical reasons, the unions at Castle Bromwich continue to meet independently. Through their regular formal contact on the JPM and JNC, as well as frequent informal contacts, the unions at the two production sites maintain close links. The TGWU convenor at Castle Bromwich, as a branch secretary and regional committee member, is the main connection to the

[79] Although MSF is primarily a white-collar trade union, it amalgamated with the National Union of Sheet-Metal Workers (which was founded in the Castle Bromwich plant, and had a strong membership at that plant) in 1994. As such, it represents both blue-collar and white-collar unions within Jaguar.

external union; he is also the leading union figure at the site (and in the company)[80].

LucasVarity recognises four trade unions in the UK: the AEEU, TGWU, MSF, and APEX (GMB), representing just under 100% on blue-collar, and 40% of white-collar workers. At the Wolverhampton site, the entire shopfloor belongs to the AEEU, and more than 80% of technical and clerical staff are members of either the MSF or APEX (GMB). The most important union at the site is the AEEU (with 15 shop stewards), and its full-time convenor the most influential union figure. Assisted by two senior shop stewards and four negotiators on part-time release from duty, he is the main link to the external union, being a member of the AEEU's national aerospace industrial committee, as well as various of the union's pension committees. Furthermore, he is in regular contact with his colleagues at the company's six other UK aerospace plants, and every six months all senior AEEU stewards within LucasVarity hold a formal meeting at which they present written reports on developments at their respective sites.

As far as 'Sophisticated Consultative' human resources management are concerned, the first point to make is that all five of the UK participant companies have personnel (or HR) directors who sit on the board, and participate in all strategic plans and discussions; at all the plants which I visited, personnel is likewise represented on the most senior management organ. Two other recurrent themes are attempts to move towards constructive relations with trade unions, and measures

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[80] He has been at Jaguar for over 20 years, having worked first at the (recently closed) Radford engine plant, before transferring to Castle Bromwich. He was a shop steward at Radford for seven years before serving as convenor for a further eight; he was elected convenor at Castle Bromwich shortly after his arrival there.

aimed at developing individual human resources so as to facilitate greater commitment and direct task participation.

Since the end of the 1980s, Vauxhall management has pragmatically pursued a sustained campaign aimed at overcoming the traditional hostility with the company's strongly entrenched unions. To this end, a watershed agreement was reached in late 1992 at the Luton site, based on a similar agreement dating from early 1990 at Ellesmere Port[81]. Entitled *Working Together To Win*, this framework agreement introduced a number of changes to working practices (such as the introduction of teamworking) and disciplinary procedures, as well as providing formal confirmation for the objective of introducing *"the whole Quality Network Production System."* (Vauxhall, 1992, p7). The agreement also commits both sides to constructive engagement with management pledging itself to:

> *"The development and fostering of constructive relationships with Trade Union Representatives within the principles of mutual trust and co-operation thus avoiding damaging confrontation"* (Ibid., p7) ... *"The Company believes that the prosperity of the Company and its employees can best be secured by the co-operation and assistance of the Unions and this will only be achieved if relationships between the Company and the Trade Unions are on a fully representative and authoritative basis."* (p24)[82].

Efforts at developing human resources at the Luton plant centre on a well developed Employee Development and Assistance Programme (EDAP) known as *Guidelines*, set up in November 1993[83]. Making use of the

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[81] For a more detailed description of the negotiations surrounding *Working Together To Win*, see Carr (1994).

[82] That this does not, however, imply formal co-determination is indicated by another passage from the agreement in which management asserts their final decision-making authority, and maintain the right to communicate directly with the workforce: "*The unions recognise the responsibility of management to plan, organise, and manage the operations within the agreements held with the Trade Unions, and communicate with its employees.*" (Ibid., p11).

[83] For more details, see IRS Employment Review (1997).

company's own open learning centre, *Guidelines* provides career counselling and directs employees to training courses at the open learning centre which are co-ordinated with shift times and undertaken during employee's own time. A wide range of courses is offered, which can be tailored to individual needs, and learning can lead to the award of formal qualifications such as NVQs or GCSEs. By 1997, nearly two-thirds of the site's workers had made use of *Guidelines*, and employees from all levels in the company were spending 60 000 hours per year in the open learning centre. The company also has special arrangements with Luton University which runs a Vauxhall-specific BSc degree in business systems management, a BA honours degree in business studies, and an MBA course[84].

The situation at Jaguar is similar to Vauxhall. Until 1992, relations at the company are described by both management and unions as 'strife-ridden'. The first three years after the acquisition by Ford, 1989 to 1991, were extremely tough years for Jaguar, which suffered heavy losses and was forced to shed a significant portion of the workforce; this period was also marked by a high level of industrial action (68 dispute incidents in 1990, for example, with 32 300 productive hours lost). A landmark agreement, entitled *Securing our Future* was signed in 1992, paving the way for numerous operational and organisational changes, and laying the foundation for more constructive relations between the company, its workforce, and their representatives. Since 1992, no major change programme within Jaguar has been undertaken without the

[84] Two of the managers with whom I held discussions had completed degrees through this system; one of them had arrived at Vauxhall as a shop-floor operative without even a school-leaving certificate, but had worked his way through numerous qualifications at the open learning centre, and had recently completed an MBA.

involvement of workers and their representatives in all stages, from planning through implementation. Shopfloor operatives were involved in the design of all three cars in the company's current model range (XJ6, XK8, S-Type), as well as the tooling and layout of the production area for the XK8 sports car; at the time of my visit, around 30 operatives were in the USA tracking customer feedback on the new S-Type. Trade unions have been informed and consulted over initiatives such as outsourcing programmes and team working at the two production plants, and implementation has been overseen by committees comprised of senior managers and shop stewards.

Although not as well developed as Vauxhall's *Guidelines* scheme, Jaguar operates its own *Education and Development Programme*, whereby the company pays for any relevant after-hours study undertaken by employees. In addition, every worker has an individually-customised 'training matrix' describing their training development and needs. It is drawn up by the worker in conjunction with their supervisor and area manager, and involves both on-the-job and formal off-the-job training (of which employees receive an average of five days per year). As part of the annual quality assessment process, managers are reviewed every year via internal and external audits on the progress and implementation of training matrices in their areas.

At LucasVarity's Wolverhampton site, the rejuvenated 'joint forum' has been the main instrument through which management has sought to engage the unions, while extensive training preceding major change initiatives and a well-developed series of direct communication channels with the

workforce[85] have provided the basis for improving individual commitment. As we shall see, this direct communication structure has been a particularly important facilitating factor in the changes to work organisation which have recently been introduced at the site.

2. Flexibility

As noted in chapter two, in spite of the virtual absence of external restrictions on firm-level flexibility in the UK, the unregulated industrial relations environment in which British firms operate is not traditionally viewed as particularly conducive to such flexibility. In fact, according to the substantial body of research associated with the 'new orthodoxy', it is considered to be the principal obstacle to most forms of organisational and operational flexibility (see pages 118 to 126). In practice, *numerical flexibility* and overtime working have always been regarded as the only sources of adjustment readily available to British companies; workforce insecurity, powerful sectional interests, and conflictual industrial relations have proven considerable obstacles to all other forms of firm-level flexibility. However, evidence from Vauxhall, Jaguar, and LucasVarity, again presented according to the framework for flexibility developed in chapter two (pages 62 to 68), suggests that, in the UK and global environments at the end of the 1990s, British companies operate to far higher levels of

[85] The basis of this direct communication is the strictly enforced daily structure of module meetings at the site, followed immediately by a module managers' meeting with the manufacturing and general managers. The manufacturing and general managers also hold weekly meetings with module managers and team leaders, and a series of monthly meetings with managers, module managers, and team leaders. A core brief is also sent to all managers on a monthly basis, which must be verbally discussed with all employees. On a quarterly basis the general manager addresses all employees in a plant meeting, and answers questions afterwards.

(particularly internal) flexibility than documented in previous research. As with the evidence from German companies, the results point to a more nuanced version of the 'new orthodox' view of British flexibility.

a) Numerical Flexibility

As at Opel, employment at Vauxhall has decreased dramatically since the early 1970s. Luton's TGWU convenor describes how he has seen employment at the company fall from 29 000 when he started in 1967, to under 10 000 in 1998; even over a ten year period (1988-98) which saw the company's turnover more than double, Vauxhall shed almost 1 500 jobs. Since the *Working Together To Win* agreement, however, all redundancies have been voluntary:

> *"The Company commits that there will be no redundancies arising from this new agreement, or from operating the principles of continuous improvement, except those of a voluntary nature".* (Vauxhall, 1992, p90).

This commitment by the company has greatly enhanced the acceptability of productivity and work organisation programmes such as teamworking, continuous improvement, and the *First Time Quality* programme in final assembly. These have, in turn, facilitated some rather dramatic cuts in staffing levels on the line. During 1997, some 200 workers were *"kaizened out"* of production (in the words of the local unit manager), with a further 300 planned for 1998: in two years, manpower levels in final assembly were cut by 30%. These reductions have been further assisted by the company's practice of sharing the savings made through manpower reductions with the teams affected.

Although, by abandoning management-imposed redundancies, the costs of *numerical flexibility* are now greater at the Luton plant, this is viewed by management as a small price to pay for the advances which have been made in *functional flexibility*. What is more, the guarantee only extends to job losses as a result of efficiency gains, not unforeseen industry disasters, and forced lay-offs remain an option in times of crisis. Management has also been careful to retain unilateral rights over the design of voluntary redundancy packages, which are offered to workers directly with no negotiations over what the workforce will receive in return for accepting the measures. Perhaps most importantly from management's perspective, however, the increased acceptability of both *functional* and *numerical flexibility* have opened the way to various aspects of lean production. At the time of my visit, to adjust for the recent manpower reductions in final assembly, the production line had been slowed by 6%. This was, however, less than the 10% reduction in headcount, and cycle times had effectively been decreased. During the course of my morning on the shopfloor, there were numerous line stoppages as operators were having difficulties keeping up. As a unit manager explained, this has greatly increased the relevance and importance of features (such as *First Time Quality*, standard operating sheets, and the continuous improvement process) aimed at maximising operating efficiency; where workers had previously been relatively disinterested in what were often viewed as gimmicks, the value of these programmes was now much more obvious.

In 1994, to facilitate some of the more constructive change programmes initiated in the wake of the 1992 *Securing our Future* agreement, Jaguar made a commitment that there would be,

"no compulsory redundancies as a result of efficiency improvements, provided co-operation continues in respect of achievement of efficiencies." (Cited in IRS Employment Review, 1996, pS6).

This marked the end of a period of intense insecurity, after the company had shed roughly half its workforce between 1990 and 1992 (over 5 300 employees), roughly a third of these by compulsory redundancy. These dramatic cuts were made in an effort to stem the massive (and largely unexpected) losses which Jaguar incurred in its first three years under Ford ownership[86], and which were endangering crucial investment from the parent company. Managers and trade unionists at Jaguar describe an intensely pressurised environment during this period, as Ford made it clear that further investment (upon which the company's future was wholly dependent) would not be forthcoming without dramatic measures to cut immediate losses and establish a foundation for future profitability. To a significant extent, the radical course of action taken had the desired effects and between 1992 and 1998 Jaguar enjoyed a dramatic revival. The impact on managers, workers and unionists of this turbulent and traumatic phase in the company's recent history is profound, and a concern to avoid, at virtually any cost, a repeat of events during the early 1990s is an obvious background to many of the recent change initiatives at the company.

Since the 1994 agreement, few jobs have been lost at Jaguar, and these have all been through voluntary redundancy. As at Vauxhall, this relative job security has had a significantly positive effect on other change initiatives at the two production sites, particularly the three

[86] Britain's luxury car market was severely hit by the recession at the end of the 1980s and, by the company's own admission, Jaguar suffered particularly heavy losses because of the poor quality of its vehicles.

generations of teamworking which have succeeded each other since 1992. Jaguar has, however, remained cautious with respect to employment growth, even following a dramatic strengthening in demand for its cars and the addition of a third model in 1998 (the first time in over 30 years that the company was manufacturing three models). At Castle Bromwich, for example, all additional workers recruited for production of the new S-Type were, following agreement with the unions, initially taken on as temporary workers[87]. These workers were offered 13-week contracts, which could be renewed four times before the company was obliged to either take them on full-time or lay them off. Following stronger than expected early demand for the S-Type, over 700 workers were recruited through this mechanism, being first taken on as temporary, and then full-time, employees. By early 1999, some 356 workers were still on temporary contracts at the plant, with a further 60 being recruited as demand continued to surge. According to senior management, Jaguar's rather bullish approach to growth has been greatly facilitated by this degree of flexibility during the early, vulnerable stages of a new model.

b) Externalisation

More than any other participant company, and in complete contrast to the situation at Daimler-Benz, Jaguar has systematically outsourced a growing proportion of what are considered to be non-core operations. Again, as with reductions in workforce numbers, this has been driven by pressure from Ford to simultaneously cut costs, improve quality, and

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[87] To attract new Jaguar models to Jaguar (instead of Ford) plants, an agreement on temporary employees from the mid-1990s states that, following a new model launch, up to 10% of the company's workforce may be constituted by temporary workers, who can be taken on for as long as 52 weeks.

focus on core competencies. All initiatives have been overseen by 'sourcing committees', including leading shop stewards from all the company's main sites; since 1994, any ensuing redundancies have taken place on a voluntary basis, with the company finding jobs for any workers wishing to stay on at Jaguar. It is no coincidence that the two most significant outsourcing initiatives, involving the closure of the company's engine factory in Radford (in 1997) and its seat production at Brown's Lane (in 1995), have taken place since management made this commitment.

The closure of the Radford plant was a particularly difficult decision for the company but, with an extensive Ford engine facility already well established at Bridgend in Wales, the business logic of consolidating the two operations was overwhelming. There was little discussion over the decision to move engine production to Bridgend, but the JNC was fully informed of the decision (and the reasons behind the decision) in 1991, so that plans could be made to minimise the impact on the workforce. Starting in 1995, in line with the phased relocation of engine production, workers wishing to stay with Jaguar were gradually moved, either to the nearby Castle Bromwich or Brown's Lane production and assembly plants, or to the technical centre in Whitley; they were replaced by temporary workers to oversee the winding down of the Radford plant's activities. By the time Radford was finally closed in 1997, over 500 of its employees had been moved into new positions within Jaguar, and only 120 took voluntary redundancy packages. The efforts made by the 'sourcing committee' to find places for affected workers are described by the TGWU convenor at Castle Bromwich (himself a transfer from Radford) as one of the principal facilitators of what was a very bitter pill for the workforce.

Another innovation in late 1998, on the back of the new S-Type, was the outsourcing of certain logistical functions at the Castle Bromwich plant[88]. This was not revolutionary either in the scope of functions affected (which are clearly non-core), or the number of employees involved (roughly 110 staff); the novel feature of this initiative is that the company to which the work is outsourced actually operates at the plant, renting space from Jaguar. This was obviously not to the delight of the company's unions but, by late 1998, over 700 new permanent posts had already been created at Castle Bromwich and, again, the intense financial and business pressure on the company left the unions with little room for manoeuvre; as no redundancies would have to be made, they agreed to the proposals.

As at Opel, outsourcing has been a rather sensitive subject at Vauxhall, although it has, for the most part, proceeded somewhat faster at the British subsidiary. In fact, Vauxhall management complains that, since exposure to the relatively slow pace of such changes at Opel plants through GME's EWC, their own unions are increasingly reluctant to make concessions which their German counterparts resist. So, for example, discussions at the time of my visit to the Luton plant on the outsourcing of fuel-tank and seat production were complicated by trade union discoveries that, not only were works councillors at Rüsselsheim opposing these initiatives, but that other activities (such as plant security), which had been outsourced at Luton three years earlier, were still 'in-house' operations at the German plant.

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[88] The company to which the work has been outsourced is responsible for all supplies, from their source of production to their entry onto the line. As many of the parts (including all undercarriages) are sourced from the USA, this is a rather complex task which falls well outside Jaguar's core competencies.

Any difficulties with outsourcing at the Luton plant are further compounded by management's inability to deliver on its promises made during the 1995 outsourcing of seat cover manufacture. At the time, the Luton plant was the last GME plant still manufacturing its own seat covers. In effect, 300 workers were being paid auto-industry rates for textile-industry work, and the company was in a position to more than halve the cost of seat covers if the work was outsourced. GME also insisted that new investment earmarked for the plant was dependent on this being done. To this end, Luton management made a deal with the unions that, if the outsourcing were permitted to go ahead smoothly, work would be found on the production line for any workers at the seat trim unit who wanted to stay with the company, with voluntary packages for those choosing to leave. In addition, the company informally undertook to hire new workers, as an increase in production scheduling was anticipated following substantial investment and automation of the body shop[89]; it was envisaged that this would raise the plant's production capacity from 45 vehicles per hour to 60, and necessitate increased manpower.

Unfortunately, these plans were thwarted by two factors. In the first instance, the market demand which had been anticipated did not materialise and, secondly, the automation project produced disastrous results, with production capacity actually falling to 42 vehicles per hour[90]. It wasn't until 1998 that the plant was able to re-establish the pre-automation capacity of 45 per hour, and in the meantime 55 000

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[89] Altogether, USD 262 million was invested in the plant's technology, bringing about a 12-fold increase in the robot population.

[90] In fact, so badly had the automation been bungled that, even to reach this figure, the plant had to take on temporary workers, and supervisors and managers sometimes had to do line work.

Vectra caravans were 'lost' to Rüsselsheim. Unsurprisingly, the unions were highly disenchanted by the whole affair - not only had management not delivered their part of the deal, but their inadequacy had cost the plant valuable production which would have taken capacity utilisation from 78% to nearly 100%, and moved the plant to 'major player' status with over 200 000 vehicles per year. While a number of reasons are cited for the failure of the plant's automation strategy[91], unions lay the blame squarely at the feet of management, and the whole incident has placed some degree of strain on relations at the site.

c) *Functional Flexibility*

According to the 'new orthodox' view of UK industrial relations, no aspect of flexibility highlights the short-comings of British voluntarism quite as dramatically as its inherent obstacles to *functional flexibility*. As noted in chapter two, the very structure and conduct of British industrial relations - from decentralised, fragmented, and competing craft unions to adversarial relations and workforce insecurity - is considered anathema to the concept of *functional flexibility*. As the evidence from all UK participants suggests, however, UK companies have made more progress in this aspect of flexibility than any other and, in many respects, now outperform their German counterparts in what has traditionally been considered a unique strength of German 'negotiated adjustment'.

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[91] Question marks hang over the correctness of the original specifications which came from the ITDC in Rüsselsheim; installers came from all over Europe with little apparent co-ordination; both installation and ramp-up appear to have been rushed; the plant's maintenance staff were inadequately prepared; and finally, it is suspected that too many banks and inventories were taken out between sequences, in an effort to be too 'lean' (following advice from Japanese competitors).

Complete functional flexibility was formalised as a general principle of employment at Vauxhall in the 1992 *Working Together To Win* agreement (Vauxhall, 1992):

> *"The parties commit themselves in particular to ... The establishment and continuation of the maximum flexibility and mobility of employees supported by the provision of the requisite training"* (p10) ... *"To ensure the maximum use of facilities and the optimisation of abilities there will be complete flexibility and mobility of employees within their capabilities, subject only to good safe working practices and within the terms of agreement."* (P17).

The principle has been reinforced by the introduction of teamworking, which requires that employees acquire job knowledge to fulfil all jobs within their team, linking personal development and wage progression to such flexibility. Teams are also responsible for performing duties previously performed by other disciplines such as self-inspection, record keeping, repair, minor maintenance, and keeping their work areas clean and tidy. Drawing up standard operating sheets and continually striving to improve work processes are responsibilities directly delegated to teams and their leaders. As already noted, both of these important components of QNPS are well advanced at the Luton plant, with few obstacles to their progress.

Teamworking was the Luton plant management's chief priority within the *Working Together To Win* agreement of 1992; while the agreement covered a variety of policies, practices, and procedures, the main objective for management was the establishment of teams and teamwork, and they were prepared to make concessions in other areas to achieve their goal (Carr, 1994)[92]. Bargaining began in the autumn of 1990 (following the conclusion

[92] So, for example, management withdrew their initial claims for compulsory pendulum arbitration and a reduction in the number of union representatives, and agreed to a role for the JPC which left it subordinate

of a similar deal at Ellesmere Port in the spring), but determined opposition from the unions at the site, especially the TGWU (Fisher, 1995), delayed final agreement until the autumn of 1992. Although smaller issues stalled the negotiations for some time - as noted, the issues of MSF representatives being included in the JPC, and a single union chairperson held up the talks for several months - teamworking was the most contentious item on the agenda, and unions could not even be swayed to acceptance by the accompanying 5% pay increase which was on offer. Carr (1994) notes three initial points of union resistance, virtually echoing the concerns of works councillors at Opel. Firstly, teamwork was seen as a mechanism for increasing productivity through peer group pressure, which would inevitably lead to job losses and a deterioration of working conditions. Secondly, it was feared that control over production processes would be lost, thereby undermining the tradition of all change at the site requiring a *quid pro quo*. Finally, team leaders represented a potential threat to the role and status of shop stewards, whom they outnumbered: unions were concerned that many problems would be resolved without reference to shop stewards, and that management was attempting to reduce union influence and increase employee commitment to management goals.

In contrast to the entrenched (and legally buttressed) resistance of Opel's works council on various issues pertaining to teamworking, however, unions at Vauxhall recognised that they would not be able to prevent the introduction of teamworking as management envisaged it, and sought instead to extract concessions in other areas. The eventual outcome saw both sides achieving their most important objectives (Carr,

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to the JNC. These concessions were made in a bid to pressurise the unions to concede the principle of teamworking.

1994), and the nature of teams envisaged in *Working Together To Win* closely resembles the 'lean production' model of teamworking. Teams and their individual team members have responsibility, among other things, for ensuring the quality of their output, maintaining a clean and tidy work area, continually striving for improvement in operations, cost, quality and productivity, acquiring job knowledge to perform all functions within their team, and performing self-inspection, repair, and minor maintenance. Leaders are management appointed according to a number of selection criteria, and receive an additional 9% pay; their responsibilities are also much more in keeping with principles of 'lean production' than is the case at Opel, and include accommodating employee absence[93], and *"encouraging"* (Vauxhall, 1992, p21) individuals to meet their responsibilities in quality, cost, productivity, scrap reduction, and performance to schedule (working to their cycle times). A significant amount of measurement and record-keeping is undertaken by teams and their leaders, and they are encouraged, in fact expected, to establish standard operating sheets, and experiment with operating procedures and work organisation as part of the continuous improvement process.

By early 1998, teams were well established at the plant. Nearly 100% of hourly paid workers were working in teams, and the team leader position was well accepted; team size had been reduced from an average of 8.5 to 6.5 and was well on target for meeting management's objective of five. The last outstanding element of teamworking was the question of regular team meetings. The principle problem was one of time - the plant could not afford the loss of production, or to pay overtime for the meetings

[93] Although a certain level of excess manpower capacity is maintained, it is below the average level of absenteeism, with team leaders expected to make up the shortfall.

to be held outside of regular working hours. The result was that only irregular meetings were taking place during conveyor down-time, to management's mind a major shortcoming which inhibited the emergence of the culture change so essential to the philosophy of teamwork. Shortly after my visit, as part of the 1998 wage round securing investment for production of the next generation Vectra, an agreement was struck whereby regular team meetings would take place during 'contingency time' (rest breaks from the line). Management hoped that this final step would facilitate realisation of the full potential of the model of teamworking which had already been established at the plant.

Another important initiative at the Luton plant which has required major changes to work organisation and processes is the *First Time Quality* programme in final assembly. *First Time Quality* also provides insight into the interrelations and facilitating effects between the various productivity initiatives and forms of flexibility at the plant. As already noted, one of the first facilitating steps was the removal of obviously excess labour from the line. A 'kaizen team' of roughly 30 workers (including, in the words of the unit manager, *"two of the most prickly shop stewards"*) was established to oversee implementation of *First Time Quality*, and assist in the redesign of work flows and work processes, to improve efficiency and performance. Any redundancies which were to ensue would be on an entirely voluntary basis, with the savings being shared with affected teams. The 'kaizen team' also acted as a back-fill group so that production teams could be taken off the line to attend a training course which everyone in manufacturing was expected to

undergo, from the plant director down to direct operatives[94]. Not only did the ensuing manpower reduction result in a heightened emphasis on standardised operations and continuous improvement (both of which are the direct responsibilities of teams and their leaders), but it also facilitated the relaying of the track, with a 30% saving in line space.

As the programme's name suggests, production quality is the primary focus of *First Time Quality*. To this end, management turned on the 'Andon' system in 1997, for the first time since it had been installed three years earlier. If an operative encounters difficulties performing a procedure, they pull the 'Andon' cord, thereby attracting the attention of their team leader who immediately comes to their assistance; if the leader is unable to solve the problem within the cycle time, the line is stopped and, if necessary, the supervisor, or even shift or unit manager, is alerted. Production volume is, if necessary, to be sacrificed at the expense of quality. Quality gates have also been established at various points along the line to monitor defaults; if the number becomes too high, the line is stopped and the source of the problem sought. This has, in turn, been greatly facilitated by strict adherence to standardised operating sheets: problems can now easily be traced to a faulty procedure, and the responsible operator.

First Time Quality did not require extensive negotiations with the unions because most of its principles were already contained within *Working Together To Win*, but convenors as well as local shop stewards

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[94] The plant's manufacturing director, for example, along with his management and union colleagues on the JPC, was one of the first participants in the eight hour training programme which accompanied *First Time Quality*.

were involved from the initial phases of implementation. The union side of the JPC accompanied management on a visit to the Antwerp plant where *First Time Quality* was already well established, and had the opportunity to discuss the initiative with managers, unionists, and workers at the plant. Throughout the course of the programme at Luton, convenors were kept updated and informed both by management and their own shop stewards (who were, themselves, closely involved in implementation on the shop floor). The JPC group also went through the accompanying training package together as a team. Although the formal role of the unions in *First Time Quality* was limited, management remained open to their input throughout the process. As the manager in charge of the initiative explains:

> *"We simply worked off the basis that 'We don't need approval to go ahead with this; trust us, it's going to be okay, but if you have a problem, please come to us, and we'll stop and talk.'"* (05/03/98).

As it turned out, the general acceptance of the programme, and the early involvement of key union figures, resulted in few complaints or problems from the unions, and the whole initiative has proved highly successful. Within one year, conveyor up-time had increased from 92% to 95%, some 200 operations had been removed from the line, overtime hours were reduced by 400 000 hours, quality indicators were up by 40%, and total operating costs had been reduced by 5%.

Like Vauxhall, Jaguar secured agreement over the removal of all job demarcations in 1992; since this watershed agreement (which, like *Working Together To Win*, consolidated the concept of teams and team leaders), all workers operate to the principle of 'complete flexibility

within competence'[95]. This agreement was, in turn, essential to the subsequent development of teamworking at the company's two production sites.

As noted earlier, teamworking has progressed through three stages at Jaguar. The first phase, starting in early 1992, introduced workers to the concept of working in 'variability reduction teams', and was the basis of Jaguar's drive to improve product quality, itself based on Ford's global 'Q1' programme. 'Q1' was initially designed as a tool for evaluating and improving supplier performance on various key quality measures, and was later adapted for internal application within Ford's own plants. The cornerstone of 'Q1' is the shopfloor-led development of processes and systems by which to monitor, analyse, and continuously improve product quality.

One of the principal advantages to Jaguar of 'Q1' was its focus on quality, which was seen as an issue which the whole company could get behind and support, following two years of negative and painful changes. The programme was initiated as three pilot projects at Brown's Lane, in the assembly areas for sports and saloon models, as well as the trim section. The concept of 'variability reduction teams' brought with it three primary innovations. In the first place, shopfloor operatives would be working together in groups of four or five, led by an appointed

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[95] The process of removing job demarcations actually began in the 1990 agreement on terms and conditions, with the removal of all hourly and trade based demarcations, and acceptance of the principle of full labour mobility. Certain skill overlaps were also recognised across crafts, and a multi-skilled craft apprenticeship scheme was introduced. The 1992 agreement further extended these advances, providing for crossover of duties between staff and hourly paid workers, as well as staff access to and use of 'tools of the trade'; multi-skilling was enhanced through the training of selected craftsmen (via an NVQ-based programme) to full competency across two or more core trade groups.

team leader (who would receive 4% additional pay), and performing a range of measurements and tasks. Secondly, they would have access to virtually unlimited information on all internal and external quality measures, as well as engineering and manufacturing data, none of which had previously been available on the shopfloor. Finally, they were introduced to independent process analysis, and equipped with the necessary statistical analytical tools. Furthermore, 'Q1' also had various implications for operatives not working in 'variability reduction teams', most notably individual responsibility for the quality of all parts worked on, including the record keeping which this entailed. Agreement on all the basic elements of 'Q1' were contained within earlier company-level agreements, and no further negotiations were required[96]; two senior stewards were, however, included on the supervisory body (composed of senior managers from manufacturing, personnel, purchasing and logistics, finance, and manufacturing engineering) set up to oversee the introduction of 'Q1' teams (as well as both subsequent versions of teamworking at the plant). For the most part, however, the initiative was driven at shopfloor level by shopfloor operatives and their local managers and shop stewards; besides providing the basic tools and training, management kept a deliberately low profile. Apart from some concerns about the position of team leader (similar to those expressed by Vauxhall's unions), the unions at both sites were largely indifferent towards the programme. Having been through many change initiatives in the past, they had little doubt that this would be another passing fad which left little imprint on

[96] Process improvement through teamworking, with operators carrying out data collection and statistical process analysis, was agreed to in 1990, as was the principle of team leaders with responsibility for (amongst other things) work allocation, manning, operator training, and problem diagnosis. These innovations were again reinforced in 1992.

traditional processes and methods. Following the success of the three initial pilot schemes, however, the project was spread more widely across both plants and, within eight months, each could boast more than 20 'variability reduction teams'. When the beneficial consequences, in terms of enhanced participation and more interesting work, for shopfloor operatives became apparent, and once it was clear that management was intent on following the programme through, the unions became actively supportive of the 'Q1' initiative. By the end of 1993, there were 61 teams at Castle Bromwich and, in April 1994, both sites were certified as 'Q1'. Having achieved this standard, they both went on to be awarded ISO 9000, ISO 14001, and QS 9000 certification as well. They are also audited annually and, since 1994, have not failed to be re-certified according to 'Q1' standards.

According to both management and trade unionists, one of the most significant outcomes of the teamworking introduced under 'Q1' was the discovery of a previously untapped resource in the form of knowledge on the shopfloor. So successful were some of the 'Q1' teams, that shopfloor operatives have subsequently been involved in the design of all three of the company's current models. As early as the advance quality planning phase of design (some three years before model-launch), key operatives have been removed from the line and taken to the technical centre in Whitley, where they work together with engineers in the design of vehicle parts as well as production processes. When Castle Bromwich was being re-tooled for the XK8, key operators were again removed from the line, and included in all deliberations over equipment specifications and layout; a group of 30 workers and supervisors even went to Japan for six weeks, and were involved in discussions with the supplier, Kawasaki.

At the time of my visit, another group of 30 operatives were in the USA, analysing customer feedback on the S-Type.

Once a significant portion of the shopfloor was familiar with teamworking, process analysis, and far-reaching access to information, the introduction of 'Ford total productive maintenance (FTPM) teams' was relatively simple. The primary difference between 'Q1' and FTPM teams is the focus of their analysis: whereas the former concentrated on aspects and indicators of product quality, the latter focuses attention on the plant's machinery, and various measures of overall equipment effectiveness (such as availability, performance efficiency, and quality rate)[97]. Following the success and popularity of 'Q1' teams, the company's trade unions were largely welcoming of this extension of the teamworking concept, and it was introduced at both plants without incident. Such was the success of FTPM at the two sites that they moved at record pace through Ford's five phases of FTPM and, in December 1997, became the first Ford plants in the world to successfully complete the final stage. Among other criteria, this entails 100% training of all shopfloor operatives in total productive maintenance, and 100% shopfloor participation, either in FTPM teams, or in individual initiatives to improve equipment effectiveness.

The most recent iteration of the teamworking concept, based closely on the principles of lean production, has also been the most contentious. At the Castle Bromwich plant, for example, although the concepts of teamworking, team leaders, and independent product and equipment

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[97] Once again, all innovations associated with FTPM had already been formally negotiated in 1990 and 1992. Following the 1990 agreement, for example, all operators are required to carry out minor maintenance themselves. Since 1992, craft workers have been deployed in operating areas and on the line, where they operate and maintain machinery, and train operatives to undertake more substantial maintenance.

analysis are all well accepted by workers and their representatives, two main union concerns exist with respect to lean production. In the first place, the average age of the full-time workforce at the plant is 49, and union leaders are concerned that shopfloor operatives may not be up to the physical demands of ever-intensifying work. Secondly, much like works councillors at both German companies, they are sceptical about teams performing self-measurement and process analysis; the principal concern here is that team members will '*kaizen*' each other out of jobs, and those left will be faced with a continually growing work load. What is more, numerous logistical difficulties confront this latest change initiative. In the space of 12 months, the size of the workforce has doubled, bringing together workers from the plant, from other Jaguar sites, and from outside the motor industry altogether; the scope of activities has also been significantly expanded, from a relatively simple focus on body assembly and paint, to incorporate elements such as the manufacture of body parts as well as final trim and vehicle assembly. Finally, the workforce is old and long-serving (average tenure 15 years), and is not characterised by a particularly strong change culture.

In spite of these various difficulties and anxieties, production processes and work organisation for the new S-Type were specifically designed according to lean production and, when the new model came on line in 1998, all operatives in the new section of the plant were working in lean production teams[98]. Teams (consisting, on average, of

[98] Although the S-Type was a new production project for the plant (and for Jaguar), many of the operatives in the new section came either from other parts of the plant, Brown's Lane, or the recently-closed Radford plant. As such, neither the plant nor its workforce could be described as 'greenfield', but the introduction of a new line facilitated a completely new system of working.

seven operatives and a leader) hold formal weekly meetings and, together with their leaders, are responsible for reassigning jobs; analysing and continually improving processes and functions; reducing time spent on non-value adding procedures and, thereby, reducing cycle times; drawing up, and continually revising, standard operating sheets; increasing operating efficiency, and removing excess capacity from the line; and keeping work areas clean and tidy.

The introduction of lean production teamworking has not required negotiation, as all of its basic principles are already contained within earlier agreements[99], but management has, outside of S-Type production, been relatively cautious about overcoming workforce and union concerns before pressing ahead with their new initiative. As with its two predecessors, the programme is overseen by a group consisting of senior plant managers as well as leading shop stewards who were, at the time of my study, engaged in planning a time-schedule for the extension of lean production to other parts of the plant. With re-tooling of a section of the plant for the new X-350 (replacement for the current XK8) due to begin in late 1999, there is a strong sense that this will again provide the context for sweeping changes to work organisation and processes. Although, as noted, the unions are somewhat apprehensive about lean production, there are no signs that they will try to block its introduction, and management is convinced that they will be able to address whatever concerns they have.

The radical nature of changes to work organisation at LucasVarity's Wolverhampton site provide further insight into the extent to which UK

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[99] All the advances with respect to teamworking, process improvement, and multi-skilling have already been mentioned; furthermore, the right to measure and re-measure was agreed in 1990.

companies have recently been able to overcome many of the traditional obstacles to *functional flexibility*. By 1996, bad management and rigid working practices had contributed to a massive backlog of work, and poor performance to schedule. In the middle of the year, Airbus, the plant's single largest customer, made it clear that it would look elsewhere for suppliers if a radical improvement in performance were not forthcoming: lead times were to be cut dramatically, with parts delivered not by month (as had become the norm), but within a specified range of five days; costs were also to be cut by 30%.

The dramatic changes in September 1996 associated with the merger provided the context for the radical overhaul required at the site. Across the division, some 80% of managers were replaced, often by colleagues from other parts of the business. The new senior management team which took over at Wolverhampton came from the company's light-vehicle braking division, where they had acquired years of experience supplying manufacturers such as Toyota, Nissan, and Honda (whose UK operations are amongst the most productive auto plants in Europe, and who expect their suppliers to deliver perfect parts at specified hours of specific days). The challenges facing the Wolverhampton site were reckoned to be similar to challenges which the auto divisions had faced five years previously, and it was decided that many of the lessons learned from the Japanese auto manufacturers would be applicable to the situation at Wolverhampton[100]. The new management team therefore entered the site with clear ideas of what they wanted done, and a tight time

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[100] The success of the light vehicle braking division at accommodating, and learning from, the pressures of supplying these Japanese manufacturers was demonstrated in May 1998 when the division won GM's highly coveted 'Company of the year' title, the highest award the car giant makes to any of its 30 000 suppliers. GM's vice-president for world-wide purchasing praised the division for its *"outstanding, consistent quality and responsiveness to our needs"*. (Cited in FT.com, "*LucasVarity wins GM award.*" 4 May, 1998).

schedule. Numerous agreements had been reached at the site since the late 1980s which would facilitate the changes required, but little progress had been made in implementing any of the changes, often due to foot-dragging by the powerful unions at the site.

It was not long before management and the unions crossed swords. The specific topic of the dispute was inconsistencies in holiday entitlements, but according to all senior managers with whom I spoke, the real issue was much broader: management was determined to drive through changes according to its own plans, and wanted to demonstrate to the unions that there was no scope for the restrictive practices and opposition to change which had previously characterised the site. Matters came to a head in August 1997, when the workforce went on strike for three days, and imposed a series of overtime bans. Following intervention by regional and national officers of all three unions (who had been kept updated and informed of developments at the site by the divisional HR director), the issue was resolved. Over the next five months, a series of radical changes were introduced without so much as a failure to agree between management and the unions.

During this time, workflows were redesigned and the entire workforce provided training in preparation for the introduction of a modular system based on teams. The plant's operations were divided into eight modules, each headed by a module manager, composed of a number of teams of more or less 12 cross-functional workers (each team being led by a management-selected team leader); the teams were to be assisted by a module support group of white collar workers responsible for aspects such as purchasing, logistics, engineering, maintenance, and even HR and finance. A number of aspects of this new work organisation were

revolutionary. Perhaps most dramatic was the reconfiguration of the unions at the site. Traditionally structured along craft lines, the new management team was, in light of the changes to workflows, able to persuade the AEEU to reorganise its shop steward constituencies to correspond with the site's new modular arrangement. No longer would shop stewards represent categories and grades of workers, they would represent all shopfloor operatives within a module; similar organisational changes were made by MSF and APEX. This effectively removed all shopfloor demarcations within modules: teams were composed of a range of skilled workers, from machinists through assemblers and testers, with each individual expected to flex back and forth as necessary within the team. Prior to the change, various structural obstacles existed to *functional flexibility*. Fitters, for example, could not fetch their own tools and supplies in the store-rooms, and engineers would not train direct workers to programme CNC machines; turners and reamers, although easily capable of doing each others work, were not permitted in any way to overlap in their tasks, while assemblers were not allowed to do even the most basic of manufacturing tasks such as deburring and etching. These, along with other traditional functional demarcations were all broken down. Workers also moved freely between teams and even modules according to resource requirements identified through the daily team and module manager meetings. Furthermore, the long-standing animosity between white- and blue-collar unions had to be put aside as teams and their support groups (which had, reluctantly, been moved onto the shopfloor, in immediate proximity of the teams they served) had to work closely together to reach their daily, weekly and monthly targets. The site's overabundance of indirect workers was also corrected by moving 100 indirect workers into direct positions in teams, and making teams, with assistance from their support groups, responsible

for all their own indirect work. Layers of management were removed, and a direct line established between module managers and the manufacturing manager, who in turn reports to the general manager.

When shopfloor issues have arisen during the change process, management has met with the local shop steward, the convenor, chairman, and secretary of the AEEU, and any problems have been resolved. Two major facilitators of the whole process have been the establishment of a rigorous, and direct, daily communication schedule[101], and the systematic up-skilling of operatives over the previous decade, such that, by 1997, virtually all shopfloor workers were skilled to the two highest grades at the site.

Within five months of the ending of the dispute over holiday entitlements and the onset of the programme, the first 'team building' phase was almost complete, with modules established and operating smoothly, and the management structure in place to support them. A training package was already being designed for the next stage of the project which directly involved shopfloor workers, team leaders, and module managers in a continuous improvement process. As at Luton and Castle Bromwich, the extent and pace of changes to work processes at the site are almost unimaginable from the perspective of the 'new orthodoxy', and some way beyond any such measures at German participants.

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[101] The system of team meetings first thing in the morning, followed immediately by a meeting between the general manager, manufacturing manager, and module managers facilitates a daily two-way flow of information, with any difficulties or suggestions for improvement from the shopfloor being brought to the immediate attention of the plant's most senior management, and all management plans being transmitted through module managers directly to teams.

d) Temporal Flexibility

Along with numerical flexibility, overtime working is traditionally viewed as one of the few avenues of flexibility open to British companies. More sophisticated arrangements (requiring workforce co-operation) such as shift patterns and annualised hours arrangements have, however, been considered beyond the reach of conflictual British industrial relations. Since the mid-1980s, two features have characterised temporal flexibility in the UK context. First, large-scale surveys as well as case studies point towards an overall increase in the variability of weekly working hours (Cassey et al., 1997):

> *"This form of 'flexibility' is not new, but its incidence among employees has nearly doubled over the past decade [1984-94]."* (Ibid., p.x).

This is considered to have occurred principally through an increase in overtime working. The second, more recent, development, as encountered in British companies in this study, has been a general move away from *temporal flexibility* through crude overtime towards shift-working and annualised hours.

At Jaguar, for example, a series of cumulative advances in *temporal flexibility* have been negotiated in successive wage agreements since the early 1990s. One element of this has been agreement on the need for regular overtime to support operational needs and maximise efficiencies (negotiated in 1992). Perhaps more significant have been agreements on shift-working such that, by 1998, the company's two production sites had access to five different shift patterns, including two- and three-shift working, and double-day shifts. While overtime is used to accommodate minor fluctuations in work load and production, shift-working is used

for more extensive variations. At the time of my visit to the Castle Bromwich site, the whole of the S-Type section, as well as the paint shop, were working according to a two-shift pattern (with maintenance for the S-type on three shifts), while the rest of the plant was on simple day shift. Shift start and finish times can also be 'flexed' by one-and-a-half hours (with 24 hours notice), as can all break times (with 15 minutes notice). In 1998, agreement was reached on a form of annualised hours, with a 52 week reference period for calculating average working time and hours of night-shifts.

Owing to the productivity-enhancing changes to work organisation and processes discussed earlier, overtime levels at Vauxhall's Luton plant were reduced to a mere 3% in 1997. Midway through the year, it became apparent to management at the plant that, with GME introducing a new model Corsa in the near future, there might be the opportunity to attract production scheduling of the Corsa on a variable basis. The logic was that this would be beneficial to both GME and the plant. For GME it would provide additional Corsa capacity to meet demand for the new model (which was expected to be high). As Zaragoza and Eisenach (the two principle production locations for the Corsa) were running close to full capacity, it was thought that a flexible Luton plant, providing for varying production of the Corsa according to demand, might be an attractive prospect for GME. For the plant, the benefits would be great. A second model would increase security, lift production above the 200 000 vehicles per year threshold, allow for greater capacity utilisation (thereby decreasing costs of production), and even offer the prospect of increasing employment. With these factors in mind, management called an extraordinary meeting of the JPC, and suggested that a far-reaching flexibility agreement be negotiated which would make the plant

irresistibly attractive to GME[102]. Following discussions with the JNC, negotiations were soon under way between Luton management and the JPC.

Both management and the unions describe the conduct of negotiations over the *Flexibility Agreement* (Vauxhall, 1997) as being highly professional and extremely well executed, unparalleled in the experience of any of the parties involved. Within two months an impressive deal was negotiated which, in effect, provided for flexed production of between 100 000 and 250 000 vehicles per year. The agreement included a working time corridor of between 32 and 42 hours per week, allowing for 18 continuous months of 'high time' (42 hours per week) or 'low time' (32 hours per week) without any premium payments. In addition, a three-shift schedule was added to the array of working time models available for production workers, as was a three-shift weekend schedule for maintenance work.

Unfortunately, the outcome of the exercise could hardly have been more disappointing for managers and unionists at Vauxhall. Shortly after the conclusion of the *Flexibility Agreement* in September 1997, GME made a downward revision to its forecasts on demand for the new Corsa, announcing that current capacity would be sufficient: the *Flexibility Agreement* had been in vain. An obvious question is why GME management, who were fully aware of negotiations at the Luton plant, waited until the conclusion of an agreement before making these findings available. Three theories exist at Vauxhall. The optimistic interpretation is that the data upon which the decision was based was not available until after

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[102] The *Working Together To Win* agreement already provided for three regular shift patterns - day shift, double day shift, and day/night shift - as well as a three shift maintenance pattern, but management had even more impressive measures in mind.

the completion of negotiations. A second view is that this was an example of bad co-ordination at GME level between sales, manufacturing and personnel, with nobody in a position to place the pieces of the jigsaw together. The sinister view is that GME deliberately allowed the negotiations to continue, despite knowledge of the eventual outcome, to apply pressure to the works council at Adam Opel AG who, it will be remembered, were in the process of negotiating the 'site pact' for investment at German plants. According to this interpretation, the UK company's impressive flexibility was used as a lever to extract concessions from the German workforce[103]. Although senior Vauxhall management do not subscribe to this theory, it is widely held among unionists (and even some managers) at the Luton plant. Whatever the case may be, this incident marked the second major disappointment for the unions within three years, and further tested their relations with management. In former times, it would have been more than enough, on its own, to plunge the site into industrial action.

e) Financial Flexibility

'Indirect' financial flexibility is a virtual non-issue at UK participant companies. None of the auto or electrical engineering companies is party to any external agreement on wages or non-wage labour costs, nor are the levels of statutory non-wage labour costs regarded to be particularly onerous for British companies. However, various difficulties are typically associated with decentralised collective bargaining in the UK - notably fragmentation of bargaining units, inter-union competition, and industrial action - and *'direct' financial*

[103] This is, of course, ironic in light of the 'new orthodox' view of a German flexibility advantage.

flexibility is not traditionally regarded as a strength of British industrial relations; Maitland (1983), in fact, describes collective bargaining in the UK context as *"a war of all against all"*. The evidence at participant companies, however, suggests that far-reaching changes in the structure and conduct of collective bargaining at company and plant levels in the UK have significantly attenuated many of the former complications, and that these decentralised arrangements are now indeed a source of substantial flexibility.

My visit to Vauxhall, in March 1998, coincided with JNC negotiations to replace the soon-to-expire three year wage agreement of 1995. It was a time of great anxiety at the company, and especially its Luton plant[104]: the current model Vectra was due for replacement, and speculation was rife that GM was considering closing Luton, or scaling it down significantly. Two feasibility studies were drawing to a conclusion, investigating the viability of producing Vectras at two versus three plants. With Antwerp and Rüsselsheim (the other two production locations for the Vectra) having already concluded agreements ensuring continued production of the next model, there were grave concerns that, if GME were to favour the two-plant scenario, the writing would be on the wall for Luton. The plant's principle shortcomings were cost-related. With only 78% capacity utilisation, overhead costs were adding significantly to production costs per vehicle[105]; material and freight costs were higher than for continental Europe, and the dramatic strengthening of the pound over the previous 12 months had significantly added to overall

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[104] The situation was not nearly so precarious at Ellesmere Port, where just under USD 500 million had recently been invested for production of the new model Astra, and the plant was safe for the duration of that model's lifespan.

[105] Furthermore, the plant is extremely old, and the buildings outdated; Luton is, for example, the last auto plant in Europe at which assembly takes place on two different levels.

costs and detracted from export competitiveness. Furthermore, according to one senior GM executive,

> *"Britain's stance over the Euro is also creating uncertainty, and that is something manufacturers don't like. We want to plan ahead."*[106]

Negotiations were further complicated by union bitterness at management's various failures to fulfil its obligations over the past three years. The failed *Flexibility Agreement* (described by the TGWU convenor as *"a heart-rending affair"*), the loss of 55 000 Vectras to Rüsselsheim, and events surrounding the outsourcing of seat covers had all contributed to a strained atmosphere at the plant, leaving the unions disenchanted and angry. At best, negotiations were expected to be protracted and difficult.

Yet, within less than four weeks, a far-reaching agreement to cut costs and increase flexibility at Vauxhall had been reached. The agreement was described as *"unprecedented"*, not only for the speed of its negotiation, but as the first such deal in Europe to link pay rises to an exchange rate: wages would rise 3.5% in 1998 (below the industry average of 4.5%), 3% in 1999, and in line with inflation in 2000 unless the Pound fell below DM 2.70, in which case workers would receive an extra 0.5% rise[107]. New employees taken on by the company would start at 80% of full wages, moving to the full rate over five years, and would be entitled to

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[106] Daily Mail, "*Bosses blame strong pound as axe hovers over Vauxhall.*" 8 January, 1998. Vauxhall confirmed its commitment to EMU when the company's CEO was one of 114 signatories of a press release at the end of 1998 calling for Britain's early accession to the single currency. (Financial Times, "*Business leaders give big boost to pro-Euro lobby.*" 23 November, 1998).

[107] For more details on the agreement, see Eironline, "*Vauxhall links new pay deal to exchange rate.*" May, 1998; Birmingham Post, "*Pay deal lifts gloom for workers at .*" 24 April, 1998; and Financial Times, "*Vauxhall workers vote in favour of deal on pay and productivity.*" 24 April, 1998.

five fewer vacation days per year; they would also only receive 'productivity pay' generated above current levels of output[108]. The growth rate of all other productivity schemes was also to be moderated by 50%. Agreement was reached on production during the spring Bank Holiday or summer shutdown if it became necessary, and for up to one hour per day of "catch-up" overtime. The *Flexibility Agreement*, previously negotiated at Luton, was reconfirmed for that plant, and extended to Ellesmere Port and, as already mentioned, agreement was reached on team meetings taking place during contingency time.

In all, a comprehensive package of cost reductions and flexibilities - sufficient to negate the Luton plant's 30% cost disadvantage vis-à-vis continental GME plants - was negotiated in record time, and in the face of numerous complications. Luton was the main beneficiary of the agreement, securing production of the next model Vectra, and therefore ensuring its survival for at least the next five years. Ellesmere Port was, however, also to profit: shortly after the conclusion of the agreement, in July 1998, GME announced that capacity at the plant would be increased by 40 000 to 160 000 vehicles per year, requiring the recruitment of 1 000 new workers[109].

By contrast to the dramatic events surrounding the 1998 pay round at Vauxhall, the most noteworthy feature of wage negotiations at Jaguar over the last nine years has been their low-key and unremarkable

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[108] 'Productivity pay' is a bonus paid to employees on a plant basis, according to the number of cars produced per week: if the plant meets its weekly target, hourly-paids receive a certain percentage of their wage extra. For new recruits, the current production volume (i.e. 45 vehicles per hour at Luton) would serve as the base level, and any bonus payment would only be generated at higher volumes.

[109] Financial Times, "*Vauxhall to create 1 000 jobs on Merseyside.*" 3 July, 1998; Guardian, "*Turnaround at Vauxhall brings 1 000 new jobs.*" 3 July, 1998.

progression. Since 1984, when Jaguar left British Leyland, all collective bargaining has taken place at company level, with all shopfloor unions sitting at a single table. As of 1990, pay negotiations at the company are conducted on a two-yearly basis; the whole JNC goes off-site for four days of intensive negotiations, within which time a pay deal is done for the following two years[110]. The agreement reached is then subjected to a workforce ballot which, since 1990, has also passed without incident. With no notable industrial action in almost a decade, minimal time and resource commitment to wage bargaining, and uniform terms and conditions for all operatives of equivalent grade, management has few complaints about the structure and conduct of collective bargaining.

3. Commentary

The foregoing discussion presents little evidence of the institutionalised rigidity which 'new orthodox' analyses have traditionally associated with the UK's relatively unregulated model of industrial relations. In fact, on virtually all measures of flexibility, the three UK companies appear to be at least equal to (and frequently in advance of) their German counterparts. As noted earlier, this reversal of relative flexibility advantage is not the result of a deterioration of industrial relations or flexibility at German companies, but a

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[110] Prior to the 1990 wage negotiations, discussions would start in November and drag on, often until May of the following year. This ritual would be repeated annually. Industrial action was also a common feature, not only of wage negotiations, but of general operating conditions. Until 1990, tens of thousands of hours were lost annually to disputes; in 1990 alone, 68 disputes were recorded accounting for over 32 300 productive hours. Following the dramatic changes wrought by Ford, however, there have been a mere six minor incidents across the entire company since 1991 (one since 1994) together accounting for 1 500 dispute hours (21 since 1994).

dramatic improvement in the capacity of UK companies to initiate and implement change.

A detailed analysis of the factors underlying the rather dramatic turnaround of industrial relations and flexibility at UK participants lies beyond the scope of this thesis, but two themes run through the British case studies. In the first place, management at all UK participant companies have been moving away from an over-reliance on unilateral managerial imposition of change and external forms of flexibility, and have made significant moves towards involving workers and their representatives in the design and implementation of change programmes. In a number of ways, recent flexibility at the three UK companies resembles the 'negotiated adjustment' of Opel and Daimler-Benz. In characterising the introduction of teamworking at Vauxhall, for example, Carr (1994), using a framework developed by Storey (1992a), locates the Luton plant in the "*bargaining for change*" category, with a heavy emphasis on negotiation as opposed to imposition. To a large extent, this reflects the process through which most change at the company has taken place; in the wake of the 1998 wage agreement, an official of the AEEU was quoted as saying that

> *"Vauxhall has shown a commitment to working with unions, and is delivering results."*[111]

The crucial features of this 'Sophisticated Consultative' management, however, are its voluntary nature, and the relative weakness of management's bargaining partner. The second, and possibly most important, theme at UK participants relates to the limited ability of trade unions in the current climate to oppose or significantly alter

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[111] Quoted in Guardian, "*Turnaround at Vauxhall brings 1 000 new jobs.*" 3 July, 1998.

management-led initiatives. In spite of the strength, in terms of membership numbers, of local unions at all the study's British companies, various features of these trade unions and their environment detract from their bargaining power. Firstly, workers and their representatives are weakened by a harsh economic environment, resulting from intense, global competition and severe overcapacity in the auto industry, declining demand for labour in the manufacture of autos, and pressure from foreign production locations. These adverse economic conditions are further compounded by the cumulative effects of two decades of hostile government policy towards trade unions (Howell, 1995), and the unions' highly decentralised structure (Turner, 1991) and generally inadequate strategic response to a changed context (Undy et al., 1996). Furthermore, as Turner (1991, p12) has convincingly argued, the relative absence in Britain of legislative underpinning for trade unions and worker participation in management decision-making has greatly increased their vulnerability in an economic, political and social environment largely inimical to labour; in this respect, British unions have suffered significant loss of influence, particularly when compared with their German counterparts:

> *"In particular, two variables account for relative union success or decline and the stability of industrial relations systems in the contemporary period: first, the extent to which unions, as a broad national pattern, are integrated into processes of managerial decision-making, especially concerning work reorganisation; and second, the existence of laws or corporatist bargaining arrangements that regulate firm-level union participation from outside the firm."* (Ibid., p12).

The absence of such external regulation has therefore had two consequences for firm-level flexibility. Firstly, with virtually no external straight-jacket within which firms must operate, there are no immediate and direct constraints on such flexibility. Unlike their

German counterparts, UK auto companies do not face the same level of legal constraints on *numerical* or *temporal flexibility*, nor must they abide by distant, industry-level agreements with significant implications for their *temporal* and *'indirect' financial flexibility*. Secondly, with minimal legal buttresses to insulate either management or the unions from the economic and political conditions in which the firm must operate, all actors at the three companies have been exposed to the same harsh environmental conditions. As noted, it is the unions who have suffered most from this exposure and, since much union power was formerly based on control of workers, work processes, and work organisation, their loss of influence has been accompanied by a tearing down of various restrictions and demarcations. At the same time, however, the intense competitive pressure on management has forced them (to varying degrees) to forsake the easy but inefficient route of unilaterally imposed change, and seek more effective approaches to flexibility; this has almost inevitably required an increase in employment security as well as direct and indirect workforce participation in functional and task-level decision-making. The most striking example of the impact of these changes in union and management behaviour has been the dramatic improvement in *functional flexibility* at all three companies.

Lacking legal buttressing, the companies' institutions of labour relations have themselves not been immune to processes of change. We have already seen how, at LucasVarity, the three unions at the site have dramatically altered their internal structure and organisation, and how they have even been forced to overcome traditional hostilities and bargain together at the same table. Changes have occurred at Vauxhall too. The JNC used to meet on a monthly basis - the shift to three

monthly meetings was made at management initiative to free up senior management time and shift the focus of discussions to plant level. The duration of wage agreements has also progressively increased, from one to two years, and now three. Again, this has been mostly to the benefit of management. The scope of negotiations has also changed in favour of management: redundancy schemes, for example - numbers to be made redundant, details of the voluntary packages offered - do not fall within the remit of the JNC. Other less controversial issues have, however, been brought onto the negotiating agenda. As the company's personnel director notes, management has welcomed enhanced union input and influence into a wide range of new fields, while largely being able to prevent an extension of union power into areas where management did not want to share responsibility.

In a sense, UK managers have enjoyed the best of both worlds: a form of voluntary 'negotiated adjustment' (weighted in their favour) as the most efficient source of change and flexibility under most conditions, and outright managerial prerogative when unpleasant change is urgently required. Not only are these arrangements suited to British managers' ideological preferences (see pages 146 to 149), but all three companies have prospered economically from the changes. Vauxhall's output and turnover, for example, have grown quite significantly in the decade since 1987, and there is a wide-spread recognition that the company has made impressive strides towards becoming a world-class manufacturer[112]. Vehicle production has grown by a third, from 208 019 to 277 442, and

[112] One of the works councillors at Adam Opel AG, for example, expressed his surprise after a recent visit to the Luton plant. His last visit had been in the mid-1980s, at which point he likened the plant to *"a market in New Delhi"*; during his 1997 visit he could hardly believe that this was the same plant, which he now described as *"a world-class production site"*. (24/2/98).

turnover has nearly trebled from USD 2.7 billion to USD 7 billion in the years 1987-97; over the same period staff numbers have fallen 13% from 11 492 to 10 022. Improving product quality has facilitated a dramatic increase in exports as a percentage of vehicle production, from 5% to 58%. In realising these improvements, Vauxhall plants have had to overcome a number of disadvantages. Luton, for example, as well as being significantly smaller than Rüsselsheim, is the last auto plant in Europe in which assembly takes place at two different levels; the plant's buildings also date back to the first half of the century. Nevertheless, according to management and workforce representatives at both plants, the various improvements at Luton have eroded a formerly significant productivity gap with respect to Rüsselsheim and, by 1998, there was no longer any meaningful difference in labour productivity between them. The extent of Vauxhall's improvement is indicated by GM's recent level of investment in the company. For the most recent model changes, Opel's three main plants have, together, received investment (or promises of investment) totalling some USD 1.27 billion - USD 414 million for the Vectra at Rüsselsheim, USD 608 million for the Astra at Bochum, and USD 249 million for a new engine plant at Kaiserslautern; all told, this represents just over USD 28 000 per employee (or just under 8% of annual turnover). Vauxhall's two plants have, in turn, received roughly USD 820 million: USD 492 million for the Astra at Ellesmere Port, and USD 328 million for the Vectra at Luton. This amounts to USD 82 000 per employee (or roughly 12% of annual turnover), significantly higher, in relative terms, than the amount at Opel. Whatever the additional pressures to have accompanied this investment, it is clear that GM values the pace and scale of changes which have taken place at Vauxhall, and the UK company has benefited greatly from its flexibility.

In the decade since being acquired by Ford, Jaguar has undergone a minor resurrection. From a moribund two-model niche manufacturer, producing 20 593 vehicles per year in 1992, Jaguar had improved to a point where, in 1998, the company achieved record sales of 50 029 units (the highest in its 75 year history), nearly 80% of which were exported. Since 1998, the company has, for the first time in over 30 years, been producing a third model[113]; in 2001, when the X-400 is to come on line, an unprecedented fourth model will be added. With this fourth model, sales are projected to top 200 000 vehicles per year, a ten-fold increase in the space of a decade[114].

These dramatic improvements in the company's fortunes have been facilitated by equally dramatic improvements in product quality and operating efficiency. During 1997, for example, Jaguar's cars received numerous quality awards, including second place in the JD Power Customer Satisfaction Index (an influential American quality survey)[115]; five years earlier, Jaguar was not even ranked in the top 50. The average time to build a car in 1999 was roughly 25% what it was in 1992, with production hours per vehicle tumbling from 341 to 84.8. Variable costs per vehicle in 1999 (USD 1 550) were a third of what they had been in 1992 (USD 4 491); the bulk of the savings were made in labour and overhead performance, where costs as a proportion of turnover were slashed from 23.5% in 1992 to 7.6% in 1999.

LucasVarity too has benefited enormously from a series of radical changes, as evidenced at the Wolverhampton site. In December 1997, the

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[113] One of the results is that, for the 1999 year, production is expected to soar to around 85 000 vehicles.

[114] See Financial Times, "*Ford to invest more in Jaguar.*" 3 February, 1998; and The Observer, "*Speedy Scheele.*" 20 August, 1997.

[115] The Birmingham Post, "*Jaguar's sales accelerate to highest in decade.*" 12 January, 1998.

month before my visit to the site, the total production output (in a month significantly shortened by holidays) was over 70% higher than the previous record at the plant. The following month, the plant (in conjunction with a sister plant in Birmingham, and in the face of stiff competition from European and American companies) was awarded the biggest contract ever won by Lucas' aerospace division, to supply components for Rolls-Royce's latest Trent jet engine.

In these circumstances, it is hardly surprising that managers at the three companies should be positively disposed towards their current industrial relations arrangements. As the personnel director at LucasVarity explains:

> *"I think we're operating in the UK today in an environment where, in the main, relationships between management and employees, and management and employee representatives is as good as it has been for many years. We couldn't have had the conversations that we have today ten years ago. Attitudes have changed ... I think we can genuinely say that, within the limits of the competency of the workforce, they'll organise themselves in whatever way we want them to organise. Our ability to drive operating performance up is limited by the management intellect: if we were more clever, we could become even more efficient, but our efficiency at the moment is not held back by problems with the workforce."* (7/1/98).

As noted throughout, this changed situation at UK participants is contingent on various contextual features of the industrial relations system; as such, it is more conjunctural than structural, and one might expect British managers to be concerned about a return to the 'bad old days'. From this perspective, EU industrial relations regulation might be perceived as an opportunity to bring stability to the system before the wheel turns, with the re-establishment of conditions inimical to flexibility. There is, however, a certain confidence among the managers with whom I spoke that such a reversion is highly unlikely in the foreseeable future: if anything, globalisation is anticipated to

accelerate and competition to intensify, while there are no indications of dramatic change in the political or social contexts. In light of these forecasts, participant managers are unambiguous in their support for the UK's informal system of industrial relations, and their rejection of attempts to move it in the direction of the more regulated continental European models.

E. CONCLUSION

The analysis presented in this chapter suggest various qualifications to the 'new orthodox' view that German companies enjoy a flexibility advantage over their UK rivals as a result of the well-structured framework of industrial relations regulation within which they operate. As the evidence from Opel and Daimler-Benz demonstrates, the intense demands posed by the acutely competitive auto industry have placed German industrial relations under some degree of pressure, and highlighted its 'costs' to management in terms of the relatively compromised pace and scale of change; both internal and external forms of flexibility are affected. As was argued, it is not that Germany's industrial relations system imposes any greater degree of rigidity than previously (in fact, the opposite is probably true), but the relatively slow and compromised nature of change through 'negotiated adjustment' is less tolerable to management in a more hostile competitive environment.

What is more, competitors in countries such as the UK have been able to overcome many of the features of their industrial relations which previously paralysed them and, in the economic, political, and social climate at the end of the 1990s, operate to unprecedented levels of flexibility, frequently in advance of their German counterparts. In the

current context, the relatively 'informal' and decentralised nature of British industrial relations, previously a major source of rigidity, has become a primary source of 'low-cost' flexibility.

CHAPTER FIVE. INDUSTRIAL RELATIONS AND FLEXIBILITY IN ELECTRICAL ENGINEERING

A. INTRODUCTION

The format and structure of this chapter will largely follow the pattern of chapter four, although the focus of attention moves from the auto industry to electrical engineering. The chapter is again divided into three main sections, the first of which provides a brief sketch of the over-capacity and intense competition characterising the electrical engineering industry in the latter part of the 1990s.

The second section presents evidence of industrial relations and flexibility at the German operations of ABB and Siemens. It is divided into three main parts. First, the basic features of industrial relations are outlined, again drawing attention to the high levels of regulation, and the extensive and sophisticated network of employee institutions at both companies; some insight is also provided into the rather different business contexts within which industrial relations function at the two companies. In the second part, flexibility is explored according to the framework developed in chapter two (pages 62 to 68). The section concludes with a discussion of the results, proposing various amendments to the 'new orthodox' view of industrial relations and flexibility in Germany; as in chapter four, although these German companies continue to operate to a high level of flexibility, the accompanying 'costs' (in terms of time and compromises) are increasingly a burden in a highly global and competitive environment.

The final section reports on the situation at ABB Britain and Siemens UK. It is also divided into three parts, the first of which sketches the highly decentralised and relatively 'informal' nature of industrial relations at the two companies; as in chapter four, trade unions are well represented at the two plants visited (ABB's Transformer Division in Dundee, and Siemens UK's 'Heaton Works' in Newcastle), and management shows various signs of 'sophisticated consultative' management. The second part of the section, guided by the framework developed in chapter two, explores flexibility at the two companies, noting few similarities with the situation described in the 'new orthodox' literature. Finally, the discussion concludes by suggesting that the UK's lightly regulated industrial relations system, formerly seen as almost incompatible with anything other than crude *numerical* and *temporal* flexibility, has, at least for the companies in this study, become a facilitator of previously unthinkable levels of both internal and external flexibility. As in chapter four, these various amendments to the 'new orthodoxy' are argued to be important in understanding the negative response of both British and German managers to the EU social dimension.

B. INDUSTRY CHARACTERISTICS

What is commonly referred to as the 'electrical engineering' sector is in fact a broad and highly disparate collection of industries, often with little in common. To at least some extent, this reflects the activities of the diversified companies which constitute the sector. Both ABB and Siemens, for example, cover an extensive range of product markets from power generation to transportation and (in the case of Siemens) even such apparently unrelated industries as health care and

information technology. For both companies, however, power generation and distribution are a major focus, and the brief discussion which follows will therefore concentrate on this particular industry[1].

The power generation and distribution industry, like the auto industry, is characterised by three related phenomena: extensive overcapacity, intense competition, and rapid globalisation. By the mid-1990s power engineering companies were paying for their overzealous expansion at the end of the 1980s, when deregulation in core developed markets and anticipated demand in emerging markets led to grossly inflated forecasts of future growth potential[2]. An unprecedented surge of investment ensued, as companies sought to develop sufficient capacity to meet the expected high levels of demand. Unfortunately for the industry, for a variety of reasons[3] this demand did not materialise and, by 1997, it was estimated that global capacity was between 15 and 20% in excess of output. One of the immediate consequences of this was further consolidation in an industry already characterised by high levels of vertical and horizontal integration; by 1998 only five major players remained in the industry: America's General Electric, ABB, Siemens and

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[1] For a discussion on other aspects of the electrical engineering industry, see chapter 15 in CEC (1997c). The economic conditions differ quite widely across the various segments, but three features are common to all: fierce competition from developed and (increasingly) developing countries necessitating an increased focus on cost competitiveness; an accelerating pace of change and innovation as product life-cycles are slashed; and a need to develop global capacity as growth opportunities become concentrated in developing markets.

[2] See Financial Times, "*Survey: Power Generation Equipment. Industry faces unprecedented demands.*" 19 June, 1997; and Financial Times, "*Survey: Power Generation Equipment. Intense competition squeezes margins.*" 26 June, 1996.

[3] For a discussion on the factors behind the industry's disappointing growth, see The Economist, "*The balance of power.*" 6 June, 1998.

GEC Alsthom of Europe, and Japan's Mitsubishi Heavy Industries[4]. Rationalisation was another response to this overcapacity as companies ruthlessly closed non-profitable operations in an attempt to rescue margins and decrease capacity. Despite these efforts, however, competition within the industry remains fierce.

Global overcapacity, in combination with the deregulation of power production around the world, resulted in an intensely competitive industry situation by 1997. According to the Financial Times, prices for power generation equipment fell, on average, 50% between 1993 and 1997 and, as the decade drew to a close, there were no signs of a recovery in sight[5]. Although all leading competitors had transformed the quality and reliability of their product, and cut production costs by up to 50% in the ten years to 1996, margins had fallen dramatically and even the biggest companies were fighting to survive[6]. So fierce was competition in the European market that, in spite of annual growth in demand for power generation equipment of roughly 3% between 1990 and 1994, production within the region decreased by 6.9% over the same period as foreign competitors increased their market share at the expense of local producers (CEC, 1997c, chapter 15).

These figure also attest to the threats associated with the industry's increasing globalisation. In Europe, for example, imports from extra-EU

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[4] During 1997, Siemens acquired the power generation interests of Westinghouse (at that point the sixth biggest competitor in the industry) and Rolls-Royce, thereby further concentrating the industry into these five major players.

[5] Financial Times, "*Survey: Power Generation Equipment. Industry faces unprecedented demands.*" 19 June, 1997

[6] Financial Times, "*Under pressure to get together: talk of further consolidation in the world power engineering industry is in the air after a disappointing start to the 1990s.*" 3 June, 1996.

countries increased by an annual average of 13% between 1989 and 1995. The most significant gains were made by competitors from developing and industrialising countries (particularly in eastern Europe and south east Asia), who collectively increased their share of the EU market from 21% in 1989 to 37% in 1994 (Ibid.)[7]. But globalisation also offers numerous opportunities for power generating companies in Europe. Few industry analysts doubt that the most important growth markets for the future are in south east Asia: even the Commission estimates that this region will account for more than 40% of aggregate global requirement by 2010, and that this will lift total global requirement to 160% of 1995 levels. By comparison, future prospects for growth in domestic EU markets are estimated at 2% per annum.

The conjuncture of these three industry features placed incumbents in a rather pressurised environment. Two broad and simultaneous responses were viewed as necessary for survival: companies were to redouble their efforts at cost-cutting, and increase their presence in emerging markets. As the European Commission (Ibid., p15-8) suggests:

> *"Thus, in order to remain competitive EU producers must streamline production and increase cost competitiveness. Furthermore, they must try to benefit from the growth in emerging markets, in part by ensuring physical presence and by developing ventures with local operators."*

The constellation of changes which have swept the power generation and distribution industry in the past decade have been precipitous, unpredictable, and fundamental, and show no signs of abating. They have

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[7] According to the Commission, producers from these regions have made significant inroads into the European market through their ability to exploit a highly competitive combination of advanced technology and low production costs.

brought with them unprecedented levels of pressure and uncertainty for companies, for whom speed and agility have become the necessary counterparts to the traditional requirements of scale and know-how. The consensus among commentators is that an incremental response to such fundamental environmental changes will not suffice; the companies which will survive the intensifying competitive fray over the next decade will be those that are able to change continuously, rapidly, and thoroughly enough to overcome the threats (and exploit the opportunities) accompanying globalisation.

C. THE GERMAN SITUATION

1. Industrial Relations Background

The basic features of industrial relations at ABB Germany and Siemens AG differ little from those described at Opel and Daimler-Benz. In the first place, all four companies operate under the same three forms of industrial relations regulation: economy-wide substantive legislation, industry-wide collective agreements, and procedural regulation of management-labour relations at the company level. Secondly, and in spite of a rather radically different organisational structure at ABB Germany, representative institutions in all four companies are well co-ordinated and extremely adroit at enacting and extending their legal rights and powers. The tone of relations at the four companies is, however, not identical.

As noted in chapter one, ABB is a fast-moving and aggressively-globalising multi-national company. Although the company's operations in Germany are its biggest anywhere in the world, ABB Germany remains a

national subsidiary of a globally-oriented company. Unlike Daimler-Benz and Siemens AG, ABB is not rooted in Germany, and the company's thinking is not dominated by German ideas on co-determination and consensus. While managers within ABB Germany largely value the German model of industrial relations, they are less inclined (and, because of pressure from the global parent company, less able) to compromise their broader strategies for the sake of fostering relationships. Germany has also not profited much from ABB's aggressive globalisation drive; between 1992 and 1997, ABB's German workforce shrank from 40 982 to 25 460, a decrease of some 38% in 5 years, including a number of plant closures. The speed of such unpleasant change has placed significant pressure on relations between management and employee representatives and, although the company does remarkably well to maintain a largely positive rapport with its representational institutions, one does not need to look too far for signs of hostility[8].

ABB Germany itself is also outward looking for a national subsidiary[9], and local business unit managers often have significant international interests. So, for example, three of the six companies at ABB Germany's Käfertal site[10] - ABB Kraftwerke AG ('KWE': steam power generation), ABB

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[8] The first sight that greeted me on my arrival at ABB Germany's head quarters in Mannheim was bus loads of workers from a recently closed plant in Saarbrücken vociferously demonstrating outside the building in their ABB uniforms.

[9] The head of the company's supervisory board (*'Aufsichsrat'*) is ABB's President for Europe, and other members include ABB's CEO, the vice-president for Power Transmission and Distribution (a Swede), and the managing director of ABB Switzerland (ABB, 1998b). New appointments in 1997 included a new managing director (who was transferred from Korea where he had been managing director for five years) and a new personnel director, transferred from Hong Kong where he had been head of regional Power Transmission and Distribution for three years (ABB, 1997f).

[10] Käfertal is a suburb of Mannheim, and the site of ABB's biggest global facility for steam turbosets and turnkey steam power plants. In line with ABB's decentralised philosophy, the site's 3 800 workers are

Kraftwerksleittechnik AG ('KWL': power plant control systems), and ABB Kraftwerke Service GmbH ('KWS': power plant servicing) are, in ABB parlance, global 'lead centres' or 'centres of excellence'. This means that senior management of those three companies also have significant responsibilities within their particular global business areas; in effect, their managing directors are also business area managers, and are responsible for the financial and technical aspects of what are big global companies in their own right. For example, the managing director of 'KWS' - a USD 84 million subsidiary of ABB Germany - is also global business area manager for 'PSUZ' (servicing of steam power plants) which encompasses over 40 companies with revenues in the region of USD 750 million. It is clear that, while the German company may be important to management at 'KWS', overall interests and responsibilities are far broader.

Although ABB Germany is an extremely decentralised company - in terms of its structure, operations, and industrial relations[11] - the same pattern of closely networked workforce institutions is evident. The chairman of the company's combine works council is also a member of the supervisory board and the 'location' works council (*Standortbetriebsrat*) at Käfertal, and is head of the ABB Employee Council Europe (the company's

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organised into six different companies, although there is a significant degree of operational integration between the companies and, in fact, they all used to belong to the same business unit within BBC Brown Boveri before the merger.

[11] Because the company's 49 German subsidiaries are legally independent entities, there is no requirement to establish a central works council ('*Gesamtbetriebsrat*'), and instead there is only a combine works council ('*Konzernbetriebsrat*') at the central level. This is an institution with few legal rights via the WCA, the influence of which is a matter for senior management and combine works councillors to decide between them. The more both parties favour a company-wide framework for human resources management and industrial relations, the more issues are pulled up to be dealt with at the central level; in ABB Germany's case, this is rather limited.

European works council). He is also a prominent figure in the regional IG Metall leadership. All seven workforce representatives on the supervisory board are also leading members of the combine works council and their local works councils, as well as being members of the IG Metall; the other three worker representatives are all senior unionists from the IG Metall itself. The 20 members of the combine works council all hold leadership positions in their own local works councils, and all are unionists, 16 belonging to the IG Metall. On top of these strong personal links between the various institutions, a number of formal mechanisms connect works councillors across the company. According to agreement with the company, 'work communities' ('*Arbeitsgemeinschaften*') meet quarterly at the segment level for each of the company's four main segments[12]. These 'work communities' provide works councillors at all levels in the company with an opportunity to network, as well as serving as conduits of upward and downward information between the top of the organisation and the shop-floor. An annual two-day meeting of some 250 works councillors ('*Betriebsräteversammlung*') serves a similar function, and provides a broader constituency of workforce representatives with access to top management.

While unionisation rates are high across ABB Germany - estimated at around 80% among blue-collar workers and 30-40% in white-collar areas - the company's Käfertal plant was perhaps the most organised and militant site which I visited in Germany. Nearly 100% of shopfloor workers and a high proportion of staff are members of the IG Metall, and are organised by a strong *Vertrauenskörper*. The plant's workforce is divided up into

[12] Power Generation, Power Transmission and Distribution, Industrial and Building Systems, and Financial Services. Adtranz, the transport joint venture with Daimler-Benz and the company's fifth major segment, is a completely separate company except that financial results are consolidated.

'districts' of about 15 employees, each of which elects a '*Vertrauensman*' (shop steward) who represents his section on the '*Vertrauenskörper*'. Of the 29 members of the 'location' works council (*Standortbetriebsrat*), 23 are members of the IG Metall and leading '*Vertrauensmänne*'[13]; senior positions on the works council are all filled by '*Vertrauenskörperleitung*' (leaders of the shop stewards' body).

Siemens AG differs quite markedly from ABB Germany, not least in that it is a very German company. Some 51% of the company's world-wide total of 386 000 workers are employed in Germany, and contribute roughly 66% of the total added value across the company. Siemens is also famed for its commitment to German principles of consensus-building and compromise, and its CEO, Heinrich von Pierer, is renowned as a conciliator. He is widely cited for his 'integrative' conviction that there are no contradictions between the interests of workers and share-holders[14], and is an outspoken supporter of the German model of industrial relations and co-determination:

> *"It means that we create a relationship of trust, that one talks to the people, that one tells the truth, that one builds up a reserve of trust, not only if you are in difficulties, but over a long time ... The German system can work for management, as long as change can be implemented gradually."*[15]

Although Siemens AG is adamant that it is moving away from being an exporting German company towards becoming a truly global player, management is careful to avoid any confrontation with its workforce representatives. As we shall see, the institutions of employee

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[13] The remaining six are all members of the DAG.

[14] Financial Times, "*A strategist who has everything to play for: profile Heinrich von Pierer, chief executive, Siemens.*" 20 April, 1998.

[15] Financial Times, "*Germany needs its works councils.*" 16 February, 1996.

representation at Siemens AG are extensive and highly influential; management makes the most of their situation by engaging those institutions in a constructive fashion, maintaining strong and positive relations in a spirit of partnership. The numerous changes which the company has undertaken in response to a multitude of global challenges and opportunities are increasingly placing a strain on harmonious relations between management and these institutions but, perhaps more than any other company in the study, Siemens AG refrains from pushing the pace and scale of change to an extent which might jeopardise these relationships.

A second important feature of Siemens AG's industrial relations background, and one which marks it out from any of the study's other German participants, is the high proportion of salaried staff within the total workforce: some 63% the company's 1997 payroll was constituted by professional, technical, and clerical staff (a complete reversal from the situation in 1970, when the same proportion were blue-collar workers)[16]. As a result of both this high proportion of white-collar workers, and the well-recognised weakness of the IG Metall in the electronics sector (Streeck, 1984a; Turner, 1991), trade union density within Siemens AG is low. According to the company's estimates, overall union density is thought to average 30% (roughly 50% in blue-collar and 20% in white-collar areas). Nonetheless, the union has a disproportionately strong influence on institutions of employee representation in the company, with 80% of the company's 1 764 works

[16] Apart from the implications for the company's own industrial relations, this has a profound effect on the German economy: in 1996 the company employed 30% of all new engineering graduates across the country (Siemens, 1997a).

councillors being union members and all members of the central works council belonging to a union (56 of the 64 being members of IG Metall).

As at other German participants, the interlinkages between the company's various employee representative institutions are numerous and extensive. All seven workforce representatives on the company's supervisory board are also senior members of the central works council, and of the IG Metall. The three other labour representatives on the supervisory board are high ranking officials from the IG Metall, one being regional manager for Berlin-Brandenburg, one head of IG Metall's company co-determination department, and one a member of the executive council. As a senior personnel manager at Siemens AG notes, this provides the workforce (and the union) with significant influence over the management of the company:

> *"The supervisory board has a very strong position in every big company in Germany, including Siemens, because you must know that it is the body which appoints the members of the management board. That means all these employee representatives are really the superiors of the management board, and they know it! ... In addition to that, the supervisory board is the best informed body inside the company because it has the right to ask all questions and to ask the management board for a special report on this and that - the management board can't refuse it."* (9/3/98).

By comparison to ABB Germany, Siemens AG places a great deal of emphasis on industrial relations at the central company level, and the head of the central works council is himself not only the hub of employee representative institutions, but a powerful figure within the company. As well as his leadership of the central works council, he is head of the combine works council[17], head of the Siemens Europa Committee

[17] This body, comprised of 14 members from the Siemens AG central works council, and 14 from the central works councils of the most important subsidiaries (principally Siemens Nixdorf Information

(Siemens' European works council), and vice-chairman of the supervisory board. To assist him in the discharge of his duties, the company provides him with a Mercedes-Benz and chauffeur, and pays for a full-time secretariat of nine staff to support the central works council. Siemens AG does not design or seek to implement any strategically important programme or initiative without involving him and the leadership of the central works council and seeking their approval at every stage of the process.

In addition to the extensive personal networking, representatives from the company's 140 works councils gather on a quarterly basis in ten 'regional circles' ('*Verbindungskreise*'), serving the same basic purpose as ABB Germany's 'work communities'.

2. Flexibility

The analysis which follows, based on the framework presented in chapter two (pages 62 to 68), again highlights some of the growing frustrations and concerns of German managers with regards the functioning of their highly regulated industrial relations system in a global industry environment, where companies can no longer ignore cost competitiveness, and where the capacity for rapid and low cost change is increasingly important. As with the discussion in chapter four, the section concludes

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Systems, Osram, and Siemens Matsushita) is not generally the locus of strategic negotiations, the central works councils being considered more appropriate for such purposes. The combine works council, however, meets quarterly with management, and is considered important as a source of information and a forum for co-ordinating the activities of works councils across this diverse company. Members of the combine works council are also invited to attend all meetings of the central works council, and close ties are kept between its members.

with various qualifications to the 'new orthodox' view of a German flexibility advantage through industrial relations regulation.

a) Numerical Flexibility

In 1995, two year before my visit, ABB Germany closed a transformer business at its Käfertal site as part of a far-reaching rationalisation programme. According to the WCA (Sections 111-112), in the case of such major workplace changes (closing operations, moving production from one site to another, organisation of production, etc.) management must first negotiate with the works council in an attempt to reach a 'reconciliation of interests' (*Interessenausgleichs*); if this can not be achieved, a 'social plan' (*Sozialplan*) must be drawn up over which the works council has full veto rights of co-determination. In the case of multiple redundancies, this means, for example, that the criteria for selecting workers to be made redundant and the terms of separation are subject to co-determination, and are usually strongly biased towards social factors such as age, marital status, and number of dependants rather than operational or business factors. Even if this hurdle is overcome, individual workers still have the right to appeal to the Federal Labour Court for unfair dismissal. In light of all these barriers, and especially with a recalcitrant works council, ABB Germany decided that the costs and risks associated with making workers redundant would be too high. What is more, management wished to retain some of the highly skilled workers (many of them young and therefore probable victims of any *Sozialplan*) for re-deployment to other operations at the site. No 'reconciliation of interests' could be reached and, instead of laying off any of the employees from the closed

transformer business, management at the site was therefore forced to find employment for them all. Workers were divided up into groups and re-deployed to various other operations at the site, with the goal of retaining those whom management originally wished to retain, and losing the rest via natural attrition.

By 1997 progress was limited. At the KWS workshop which I visited, 50 of the original batch of 80 employees to be 'lost' were still present. Together they constituted nearly 50% of the workshop's payroll (50 out of 110 workers), and were utterly superfluous. Organised into a completely separate sub-section of the workshop, they were loaned out to other divisions of KWS (or indeed the wider site) according to need; that ABB Käfertal had no real need of them was clear and known to all, but they had no intentions of leaving, and management could not dispose of them.

It is such frustrations which do little to endear the works council to the managing director of KWS who is, as noted earlier, also global business area manager for PSUZ. Within the business area, 19 of the 40 companies under his command produce 110% of the income before tax (with the implication that the others are either not making, or even losing, money), and he faces significant overcapacity problems in a very competitive industry. In Germany alone there are three service companies within the business area when one would easily suffice; that, on top of these problems, he should have to finance 50 superfluous workers at his 'centre of excellence' causes him some degree of vexation.

This was, at the time of my visit, greatly amplified by the local workforce's involvement in a dispute in distant Saarbrücken. On the

Friday before my visit to Käfertal, it had been announced that the plant in Saarbrücken was to be closed. The day before the announcement, some 500 workers at the Käfertal site had asked their managers for leave the next day; management, of course, knew nothing about the plant closure and the co-ordinated request for leave did not become apparent until the following day. Many line managers were in fact happy to provide leave because of the substantial amounts of time off *in lieu* which had been accumulated through overtime working. On the Friday, some nine busses shipped these workers from Käfertal down to Saarbrücken where they participated in demonstrations with their colleagues from the plant which, it had just been announced that morning, was to be closed. This venture was not only incredibly well organised and orchestrated, it was also expertly planned: this was not a sympathy strike - which would have been highly illegal[18] - because the workers had taken leave and, in the words of a line manager,

"What they do with their holidays is none of my business." (12/11/97).

Nevertheless, the act of solidarity and defiance was clear, and by the following week management was still trying to piece events together. For the time-being all they were able to do was stipulate that any requests for leave in the near future be subject to scrutiny. In private conversations, there was little doubt that this had been an example of co-ordination between access to information via the supervisory board (the only feasible source of such timely information) and action organised at the local level by the *Vertrauenskörper* and elements of the

[18] According to one of the criteria developed over time by the Federal Labour Court (*Bundesarbeitsgericht*) for differentiating official from illegal strikes, sympathy strikes in support of an industrial dispute in companies which are located outside of the tariff area are not allowed (Greiling, 1997, p118; Berghahn and Karsten, 1987, p94).

works council. Although this would suggest a breach of confidentiality by one of the members of the supervisory board, the difficulties in proving this and tracing the culprit - as well as the damage that such 'pettiness' would do to already strained relations with employee representatives - made it unlikely that management would follow up on the incident; senior managers at the site informed the works council that the incident would be ignored provided no further such adventures were undertaken.

As we shall see, the militancy of Käfertal's location works council is one of the major obstacles to flexibility of any sort at the plant. Two hypotheses were advanced to account for the highly unionised and militant nature of the Käfertal workforce. To an extent, the site appears to be something of a victim of its location. Both senior management and the head of the combine works council (himself a member of the Käfertal works council) suggested to me that the area is notorious for activism; the managing director of KWS referred to Käfertal as a *"red area"*, and even the head of the combine works council spoke of the *"communists"* on his location works council. But the belligerence of the workforce is also a response to ABB's aggressive business strategy. The company's global aspirations, its hard-driving financial management, and the structure which holds this highly decentralised and dynamic organisation together create a very pressurised environment for players at the local level. In response, workforce representatives have brought to bear the extensive array of legal rights and the network of institutions available to them to limit, as far as possible, management initiatives which threaten the position of their electorate. The production manager at KWS in Käfertal captures

some of the tension between ABB's style of business and German industrial relations when he notes,

> *"This [radical works council] is a big problem for the company, but it is the answer of the works council and the trade union to ABB's structure and strategy. ABB seems for the works council a remote and unfriendly administrative centre in Zurich, therefore they have a remote and unfriendly administrative works council run by IG Metall, that's their answer."* (13/11/97).

Unlike ABB Germany (which shed 38% of its workforce in five years), Siemens AG has, out of concern for relations with workforce representatives, been reluctant to force the pace of rationalisation (or any form of unpleasant change) in Germany. When investors and analysts criticise Siemens AG, their major point of contention is invariably that the company is not doing enough to cut back its workforce and divest of non-core and often unprofitable businesses[19]. While CEO von Pierer contends that:

> *"This company has changed more in the last three years than it did in the previous 50 years"*[20],

analysts are unimpressed, and demand more cuts; Jack Welch, GE's outspoken CEO, has gone so far as to refer to Siemens as *"an employment agency"*[21].

It would certainly be incorrect to suggest that the company has not made any attempts to rationalise its German operations and expand globally,

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[19] See, for example, Financial Times, "*The great escape - Siemens.*" 24 April, 1998; Financial Times, "*Siemens.*" 29 January, 1998; and FT.com, "*German group's shares decline.*" 23 April, 1998.

[20] Financial Times, "*A strategist who has everything to play for: profile Heinrich von Pierer, chief executive, Siemens.*" 20 April, 1998.

[21] Financial Times, "*The essential guide to Heinrich von Pierer.*" 20 April, 1998.

but many investors feel that Siemens is reluctant to push through changes which would jeopardise relations with its central works council. There was, for example, little investor support for the decision in 1998 not to sell the loss-making Siemens Nixdorf subsidiary outright, but to enter into a partnership with Acer instead[22]. The chairman of the company's central works council added fuel to speculation that the decision was strongly influenced by that body when he suggested that,

> *"We knew the company was looking for a partner and insisted that Siemens Nixdorf remain part of a partnership."* (Siemens, 1998c, p10).

All 36 000 jobs which have been lost in Germany in the last 3 years (representing some 15% of the German workforce) have gone under terms acceptable to the central works council. Until recently, extensive use was made of early retirement programmes for any necessary redundancies. When Federal law was changed in July 1996, the company switched over to a system of partial retirement (*Altersteilzeit*) whereby the Federal Employment Service financially supports the gradual transition of employees aged over 55 years to retirement if companies meet a number of conditions[23]. Furthermore, to secure the support of Siemens' central works council for the sale of companies, buyers have had to provide a guarantee that all current employees will be retained on the same terms and conditions as they enjoyed at Siemens; the 1997 sale of the company's defence electronics business to DASA (Daimler-Benz Aerospace) and British Aerospace was cited by the central works council as a specific example of where they had successfully insisted on this

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[22] See, for example, Financial Times, "*Siemens receives mixed reaction to Acer deal.*" 24 April, 1998.

[23] For specific details of the legal and collectively agreed arrangements, see Eironline, "*Collective agreements on partial retirement.*" August, 1997; and Eironline, "*Pilot agreement on partial retirement in south-west German metalworking.*" October, 1997.

provision. Such demands do not make it easy for Siemens to find buyers for loss-making companies, as few prospective owners could expect to turn around unsuccessful businesses whilst matching the generous terms and conditions offered by Siemens.

b) Externalisation

The highly technical and complex nature of power generation equipment, the extremely high levels of precision required, and the minimal margin for error greatly limit the scope for *externalisation* at ABB Käfertal. Furthermore, what opportunity does exist to outsource certain straightforward aspects of production is further restricted by the relatively poor relations with the Käfertal works council. Again, although no formal, explicit co-determination rights exist with respect to outsourcing, the inevitable employment implications mean works councils effectively have veto rights over such initiatives. As the KWS managing director complains,

> *"Sure we could outsource some things, but you know this would mean job losses and the works council will not consider this."* (10/11/97).

Nor are company-level institutions the only obstacles to *externalisation*. As Siemens AG has discovered with respect to various organisational change initiatives, any measures which require consent from the IG Metall are bound to be severely compromised.

According to Siemens, many of its service divisions have to pay their employees metalworking industry rates for doing work which falls within the scope of the metalworking trade, where wages are on average 25%

lower[24]. This places the company at a significant cost disadvantage in industries where cost is an increasingly important competitive factor. In early 1998, therefore, management developed an outsourcing strategy which would allow the affected business units (and their 20 000 employees) to depart from the legal framework of the branch-level collective agreement for the metalworking industry, and apply instead the conditions for the metalworking trade. Such a strategy, however, is beyond even the rights of the social partners at company level to negotiate and, because it meant a departure from terms and conditions according to branch-level collective agreement, the company was compelled to approach the IG Metall for negotiations.

Predictably, the union strongly rejected management's plans and, as a demonstration of its intent, organised co-ordinated industrial action at a number of selected Siemens sites. After numerous protest actions and warning strikes, the company was finally forced into accepting a compromise agreement in April 1998[25]. According to union demands, this took the form of a 'supplementary collective agreement', thereby ensuring that the workers would, in contrast to Siemens AG's initial plans, remain within the ambit of the metalworking industry. Furthermore, the company was compelled to make substantial compromises in the scope of the agreement, which eventually only applied to 6 000 of

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[24] The distinction between the metalworking 'industry' and the metalworking 'trade' (which might, more accurately be referred to as the metalworking 'craft') is not entirely clear-cut, and is based more on size of company than industry coverage. As a rule, companies covered by agreements in the metalworking 'trade' (which are significantly less generous than those in the 'industry') are small to medium-sized companies performing craft work rather than mass production. The agreements are negotiated between the regional IG Metall, and regional employers' associations for the metalworking 'trade' (themselves members of Gesamtmetall).

[25] Eironline, "*New collective agreements for Siemens AG outsourced companies.*" April, 1998.

the 20 000 workers which Siemens had originally wanted to remove from the industry altogether. In return, the union agreed to a number of small concessions. For a start, the 2.5% industry wage increase for 1998 would not apply, and all future industry wage increases will become effective six months later for the workers concerned. From October 1998 the company would gradually start to phase out elements of payment above contract wages, including the workers' holiday bonus, as well as part of their Christmas bonus, while from 1999 the performance related element of an individual's pay could be increased to 5%. Finally, weekly working time for the 6 000 workers would be replaced by annualised working time of 1 575 hours in the west (average 35.5 hours per week) and 1 672 in the east (average 38 hours per week). While these measures would at least yield some relatively substantial savings for the company, the significantly compromised result was clearly a frustration to Siemens management.

c) *Functional Flexibility*

Functional flexibility, multi-skilling, and the various elements of 'lean production' have not received nearly the level of priority in the study's two German electrical engineering companies as they have at the auto manufacturers. Nor has the removal of job demarcations been a topic at the forefront of discussions between management and works councils in the same way that it has in the UK context. For a start, the types of job demarcations which have traditionally characterised UK industrial relations have never been a feature of arrangements at either ABB Germany or Siemens AG. The highly complex and technical nature of most electrical engineering work, in combination with an abundance of highly

skilled workers, also limits the need for workers to be able to perform a variety of tasks outside of their own field of specialisation.

That is not to suggest that *functional flexibility* is not a feature of production work at ABB's Käfertal plant, or the Siemens' power generation facility at Mülheim. On the contrary, it is achieved through a powerful combination of skilled workers and substantial capital investment. Between 1992 and 1997, for example, ABB invested over USD 83 million at Käfertal in new state-of-the-art machinery, and the site is one of the most well-equipped production facilities of its sort in the world. In combination with the high skill levels at the site (98% *Facharbeiter*[26]), one worker, with his knowledge of numerically controlled machines, is able to perform a wide range of operations, thus increasing his *functional flexibility* even if his manual skill base is no broader. The technological skills required to operate different machines are also becoming increasingly similar so that, with a basic knowledge of the numerically operated controlling system for a specific machine, one worker can now operate a number of different machines which all function on the same principles. So it is that highly skilled workers supported by the latest technology are capable of carrying out increasingly diverse and complex tasks. It is under these highly 'integrative' conditions that German industrial relations flourishes, and is at its most supportive of flexibility: management, workers, and worker representatives all benefit from these arrangements which provide for extremely high levels of labour productivity, 'humanised' and lighter work, and a happy electorate.

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[26] Workers skilled through the famous German apprenticeship system.

In light of the bleak industry conditions outlined at the start of the chapter, however, the scope for such 'integrative' solutions is diminishing. Even at the ultra high-tech ABB Käfertal site, management is increasingly being forced to consider potentially 'distributive' responses to the enormous pressures which they face both from within ABB, and the external market. As we have already seen with respect to *numerical flexibility* and *externalisation*, however, the site's works council is in a strong position to block such moves; so too with groupworking. Despite a framework agreement on groupworking between ABB Germany management and the combine works council, the location works council at Käfertal has refused to agree to the implementation of groupworking at the site, on the grounds that it is not in the workers' interests. A year after my visit to the plant, in follow-up conversations on the telephone, the atmosphere at the plant was still described as *"not right"* for the introduction of groupworking.

The works council's disruptive potential is also the reason that the managing director of KWS, wherever possible, does not bring work into Käfertal, preferring instead to send his professionals out to do the work at client sites:

> *"I try to avoid any kind of trouble I have with the trade unions. So, although I have my own facilities, when we are looking for business I always decide not to bring some parts here. So, I will go for a stator rewind outside my company, I will do it at the client site because if I bring this generator motor into the plant I am not sure that I will get it out at the right time. If you now have the situation here where they have blocked everything, you are not allowed to do any over-time, then maybe there will be a strike, then they will go for their solidarity demonstration next time in Saarbrücken. This way you have no real feeling of how long it takes for your repair work. That's why I don't bring work inside, I do it outside."* (10/11/97).

Even technology can be greeted with some scepticism by the works council. On my tour of the KWS workshop numerous idle machines were pointed out as relics whose scrapping the works council would not sanction - when the new machines were to be brought in, the works council could only be persuaded with the assurance that the old machines (with which they themselves were still familiar) would remain alongside the new. Although no explicit co-determination rights exist with respect to technology and automation, management had little choice but to concede to works council demands if the new machines were to be accepted.

With 63% of Siemens AG's workforce comprised of white-collar workers, *functional flexibility* on the shopfloor has been a lesser management priority than at many of the other participants in the study. As the discussion on Siemens Power Generation in Newcastle will again show, where these factors are important there is strong reason to doubt that German operations continue to enjoy any significant advantages over their UK counterparts.

Of greater importance to Siemens, however, has been its own 'top' initiative which encourages cross-functional project working and problem solving, not only involving the shop-floor, but between all levels and departments within the company. 'Top' is in fact a broad banner for a number of major change initiatives that have been introduced since February 1994 when a company agreement on 'top' was signed between senior management and central works council, but its implications in terms of work organisation relate mostly to the breaking down of departmental and functional barriers, and the attitudes which accompany such divisions of labour. By bringing together specialists onto project

teams, providing them with autonomy, and empowering them to set goals and make decisions, the idea is that creativity will be stimulated and innovations will ensue. Productivity improvements will also flow from a reassessment of processes and workflows, while happier and more motivated workers will add to both the quickened pace of innovation and the increased levels of productivity (Siemens, 1997b). The original 'top' initiative is popular with the central works council, and implementation across all 140 plants in Germany has been a success. Some of the more recent initiatives under the 'top' banner have, as we shall see, been more controversial as they have not always involved the significant increases in worker discretion which were an important component of the original 'top' agreement.

d) Temporal Flexibility

In line with the situation at German auto companies discussed in chapter four, most advances in *temporal flexibility* at Siemens AG and ABB Germany have been secured through creative agreements with local works councils, following management threats of disinvestment.

So, for example, when Osram - the world's second largest maker of light bulbs, and a wholly-owned subsidiary of Siemens AG - was looking to invest USD 15.5 million in a new, state-of-the-art assembly line for low energy lightbulbs in 1996 it sought significant concessions from the workforce at its Augsburg plant to overcome the plant's 40% cost disadvantage to a similar plant in Bari, southern Italy (EIRR, 1997e). The Augsburg site already held a substantial advantage in terms of skill-levels and productivity, but the significantly higher costs and

lower weekly machine running time meant the investment would go to Bari unless machine running time were extended from 128 to 152 hours per week, an increase of nearly 20%. Agreement was eventually reached on the extension, which required regular Saturday working and weekly machine running time from 22h00 to 06h00 on Sunday. Maintenance work, with Sunday premium rates, would be carried out by a limited number of skilled workers on a voluntary basis every sixth Sunday. A number of compromises were made by management to compensate workers for the loss of Saturday as a rest day: workers on day shifts will only be required to work four days from Monday to Saturday instead of five from Monday to Friday; every third Saturday will be free and flanked by two free working days so that workers will have a three day weekend; workers on dedicated night shifts will only have to work one Saturday in four when they will receive Sunday premium rates between 00h00 and 06h00; and average weekly working time will fall to 33.5 hours with pay unchanged. Although the arrangements only affect 250 of the plant's 2 000 workers, and although the works council was fully supportive of the agreement, management had to go to great lengths to secure permission for the deal. Because the arrangement contravenes the Working Time Act (which forbids the employment of workers on Sundays between 00h00 and 23h59), and because it deviates from collectively agreed working patterns, special dispensation had to be granted by the Bavarian labour authority and the IG Metall. Two more sets of protracted negotiations had to be concluded, and the company was only able to secure acceptance of the deal by supporting its application with a pledge to create 100 new posts and a guarantee that there would be no compulsory redundancies during the life of the agreement. The authority and the union finally approved the arrangements after a recommendation by a joint committee of employer and employee representatives.

Another such deal was struck in October 1997 at Siemens AG's medical technology unit in Erlangen to secure investment at the unit after losses of USD 94 million during the 1997 financial year. The works agreement, once again requiring the lengthy involvement, not just of the local management and works council, but of the IG Metall and local government, provides for the abolition of Saturday working premium rates and facilitates the provision of certain key services, such as spares stores, seven days a week[27].

Under similar circumstances, with a threat from ABB headquarters in Zurich of investment in new automation going elsewhere, the works council at ABB's Käfertal plant made an unprecedented concession on working time flexibility in 1995, agreeing to switch over to six day, four-group working. Under the agreement - a pre-condition for a USD 55 million investment in new equipment at the site - certain 'critical' machines run from 22h00 on Sunday until 22h00 on Saturday[28]; furthermore, emergency maintenance work can be carried out on Sundays. In return, as well as the investment guarantee, weekly working time for the workers affected is calculated in such a way that it would be slightly less than 35 hours while pay remains unchanged.

There are, however, clear limits to the kinds of *temporal flexibility* available to companies through these 'investment-leveraged' agreements; few aspects of firm-level flexibility are, for example, as restricted as

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[27] Eironline, "*Agreement on working time flexibility at Siemens.*" October, 1997.

[28] These flexible arrangements are limited to a handful of workers operating certain 'critical' machines, and the rest of the site continues to operate to a five-day, three-shifts, 35-hour working week.

the length of the working week[29]. Siemens' Nixdorf computer subsidiary was to discover this when, in August 1997, it announced the reorganisation of its loss-making product service division. According to the plan, the division was to be divided up into five new service companies which would no longer be members of Gesamtmetall. The move affected 1 700 service engineers whose terms and conditions would continue to follow those of the metalworking industry agreement, with the exception that working time would increase from 35 to 40 hours per week without compensation. According to the company, 90% of employees affected supported the move which was part of a cost-cutting exercise through which the company hoped to save USD 17 million and create between 200 and 400 new posts (EIRR, 1997c). A conflict ensued with IG Metall, the union strongly objecting to the proposed provisions and threatening industrial action at the new companies. As with the company's proposed outsourcing arrangement discussed earlier, Siemens was eventually forced to back down and, in a deal signed on September 1 1997, agreed to retain the new companies within the working time parameters of the metalworking industry[30].

A similar account is given by the former personnel manager of a Siemens lighting fixtures plant which had to be sold at the end of 1997 when, despite numerous pleas from both management and the local works council, the IG Metall would not contemplate a breech of the 35 hour week. According to this manager, who was encountered in his new role at Siemens headquarters,

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[29] It is interesting to note that Klaus Murmann, former head of the BDA, is on record as saying that the agreement on the 35 hour work week was the greatest mistake that he made during his term of office (see EIRR, 1997b).

[30] Eironline, "*No increase in weekly hours in Siemens Nixdorf re-organisation.*" September, 1997.

"We tried everything to reach a position where we could escape this restriction, but the IG Metall was not interested. We're bound within these laws, in tariff-agreements and company agreements; this is the problem in Germany, that we're so firmly bound within this whole framework." (12/3/98).

Once again, while much creativity has gone into exploiting whatever room for manoeuvre there has been with respect to working time arrangements, the eventual scope for *temporal flexibility* at ABB Germany and Siemens AG has been somewhat limited, as well as being costly (in terms of time and compromises) to secure.

e) Financial Flexibility

Pay is an issue which, as noted in chapter four, is subject to extensive regulation in the German context, and managers are highly critical of the many difficulties associated with *'indirect' financial flexibility*. Collective agreements determine, very precisely, the wage or salary structure (*Lohn- oder Gehaltsrahmenabkommen*) as well as wage or salary rates (*Lohn- oder Gehaltsabkommen*) for all workers below a certain level of management; for Siemens AG this represents 85% of its workforce. Negotiations take place between regional organisations of Gesamtmetall and IG Metall, but regional differentiation is limited by IG Metall's strategy of starting negotiations in key 'pilot' regions - where it knows it can win fairly generous conditions - and then seeking to extend such 'pilot' agreements across the west German states. As we saw with Siemens AG's attempts to outsource various of its service functions, the 'metalworking industry' is also broadly defined with little recognition of the different levels of value-added in different parts of the industry. Again, as with working time, the rigidity of the straight-

jacket imposed by these industry-wide settlements is one of the major criticisms cited by German managers of their industrial relations system. Moreover, as we have already seen at the auto companies, industry-level bargaining does not, in fact, free company management from the time and resource commitments of bargaining: as companies are increasingly forced to turn to their own 'over-tariff' bonus and special payments as the only potential sources of *financial flexibility*, they are finding themselves engaged in negotiations similar to the collective bargaining conducted at British companies.

Nor are the outcomes of such company and plant-level collective bargaining inevitably successful, or the levels of such *'direct' financial flexibility* particularly well developed. This is evidenced by the fate of the unfortunate ABB plant in Saarbrücken which was the centre of so much attention at the time of my visit to Mannheim. A victim of fierce competition in the automotive components industry (which faces similar challenges to those of the auto industry itself), the plant was a perennial loss-maker. In combination with the industry's over-capacity and the site's relatively isolated location, this had discouraged any potential buyers for the plant; as such, the only hope of survival lay in the plant's own ability to significantly reduce costs to a level which would make it competitive in its global market. With these factors in mind, and a clear awareness of ABB's lack of patience, plant management devised a DM 5 million cost-cutting package which included a DM 1 000 cut in the 'over-tariff' wages of each worker at the plant. According to works councillors[31], however, the workforce could make no more sacrifices: in the ten years since the merger, the plant

[31] Encountered whilst demonstrating outside the company's Mannheim head-office.

had been the subject of continual rationalisations and 'turn-around' schemes, and the workforce had shrunk from 700 to 240. When management gave an ultimatum to the works council which included earnings cuts, it was felt that no more concessions could be made and that, with new management and a new business plan, the plant should be given time for its most recent strategies to take effect. Time in ABB is a precious commodity, and on November 7 1997, word came from Zurich that, with the failure to agree on a dramatic cost-cutting package, the plant had forsaken its last chance and was to be closed. Senior management at ABB Germany were convinced that, had the works council not been so stubborn about accepting the earnings cuts (which would still have left their earnings above the regional wage agreement), the plant would have won some breathing space.

At Siemens AG, modifications to 'over-tariff' pay have been much more gradual. As part of its recent drive to improve the value of the company to its share-holders, Siemens AG embarked on its 'EFA' scheme[32] to link the pay of its 30 000 managers more closely to their performance. In October 1996, 'EFA' replaced the previous system based on a rigid remuneration matrix. Aimed at *"market-, performance-, and success-oriented remuneration"*, 'EFA' links a manager's pay and pension entitlements to function, performance and development potential (Siemens, 1996).

The central works council were not very supportive of management proposals on 'EFA' and, despite the conclusion of a company agreement with senior management, the issue remains controversial. The biggest

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[32] *'Entwicklung, Förderung und Anerkennung'* - Development, Promotion and Reward.

concern I encountered was that the inevitable appraisals which form the basis of performance assessment contradict many of the autonomy and empowerment provisions which the central works council had insisted on in the 'top' agreement by making managers susceptible to the judgement of their superiors. There are also concerns that the new system will break the sense of solidarity between organisational levels which had existed under the previous matrix system[33], and that it will result in lower salaries for many managers; one works councillor described 'EFA' as a *"well-sold cost-cutting package."* (9/3/98).

In an effort to improve the acceptability of the programme, however, management sought to accommodate the works council's appraisal concerns by introducing the 'EFA dialogue', and made further commitments to the 'culture change' initiative which forms the basis of the popular 'top' programme. According to the EFA dialogue, HR professionals will be involved in the appraisal process, and the scope of evaluation is broadened beyond just an individual's performance to include their training needs and other issues considered important by the reviewee. The personnel department is also radically restructured in a pilot project aimed at the 'democratisation' of manager-worker relations. This was a priority for the central work council when the 'top' programme was negotiated in 1993-94, the logic being that a greater degree of independence and responsibility will unlock creativity and productivity in employees. Under the new programme, the organisation chart for personnel has been discarded along with titles, and the management

[33] Indeed, it may be that this was one of the considerations encouraging management to introduce the system: both Heinrich von Pierer and other of his directors have been extensively quoted as critical of the cosy "family" climate that had come to pervade the company by the mid-1990s. (Young, 1997, p37; The Guardian, "*Paying court to shrewd strokes by Siemens chief.*", 21 February, 1998)

function has been split into two. The technical co-ordination of tasks is now the responsibility of a 'head of centre of expertise', and a newly created 'personal counsellor' has the task of personally advising individual employees (who choose their own counsellors). These changes are currently restricted to the personnel function, although the works council would like to see them introduced across the company. Management is, however, less convinced of the merits of further 'democratisation', and more concerned that the necessary changes to managers' remuneration be accepted by their powerful bargaining partner.

In spite of the numerous frustrations associated with *financial flexibility* (both *'direct'* and *'indirect'*) within the German industrial relations system, it would be altogether wrong to suggest that managers would like to see current arrangements torn down. Even the system of branch-level collective agreements on terms and conditions continues to hold a number of advantages for companies, particularly with respect to the famous peace-keeping obligation (Jacobi et al., 1992). As with virtually every aspect of the German industrial relations system, managers to whom I spoke were calling for reform, not demolition, of current arrangements[34].

3. Commentary

Although ABB Germany and Siemens AG are very different companies, with respect to their culture and approach to change, both sets of management

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[34] These views are in line with those expressed by other German managers and employers' associations. See, for example, Schnabel (1995); Müller-Jentsch and Sperling (1995); EIRR (1997a); Eironline, "*New proposals for a reform of collective bargaining in metalworking*." (December, 1997); Eironline, "*New proposals to modernise German industrial relations*." (August, 1997); and Eironline, "*New conflict resolution procedures discussed for labour disputes*." (April, 1998).

are aware of the changing competitive environment around them, and express growing concerns at various limiting factors within their highly regulated industrial relations environment.

ABB is a complex company in a number of ways, and many features of its global organisation and outlook clash with aspects of Germany's industrial relations system. The convoluted institutional arrangements for employee representation in ABB Germany reflect the company's near-religious emphasis on decentralisation, while ABB's dynamism and its global agenda place strain on an institutional framework which focuses rather narrowly on Germany as an entity and which was designed around stability and a *Langfristkultur* or 'long-termist culture' (Reeves, 1997). Moreover, the fast and uncompromising nature of change in ABB forces the pace in procedures which were designed with a long-term outlook based on consensus and compromise.

Some of the challenges facing ABB's PSUZ business area and its 'lead centre' (KWS) in Käfertal provide insight into the frustrations of managing in Germany as part of so dynamic and global a company. Within the cut-throat power generation industry, retrofits, field services and spare parts are currently the only areas showing growth and profitability[35]. To realise the market's potential and rise to the challenge of intensifying competition, the core management team of PSUZ, led by the managing director of KWS, has drawn up a strategic plan known as "Steam for the future" whereby turnover is planned to increase from USD 750 million in 1997 to USD 1 billion in 2000, and profit from USD 62 million to USD 125 million. As already noted, one of the business area's

[35] See, for example Financial Times, "*Survey - Power generation equipment.*" 19 June, 1997.

main problems at the start of the programme was overcapacity: in 1996, 19 of the 40 international companies within the business area accounted for 110% of income before tax. Germany is one of the countries where rationalisation is most needed: not only are there three ABB service companies in the country, but at the 'centre of excellence' 50 of the total workforce of 328 are completely superfluous. Unsurprisingly, as well as growth and capturing market share, cost cutting is an important aspect of 'Steam for the future', and is budgeted to contribute nearly USD 20 million to the bottom line by 2000. Increasing the company's presence in emerging markets is another important aspect of the strategy; according to the managing director of KWS:

> *"We're moving from an exporting to a global company. We thought in the past that we could do all our business out of Germany or Switzerland, but now what I think is that we have to go to the local markets to increase business coming out of the markets."* (10/11/97).

An ambitious but focused growth strategy financed by internal savings and process improvements best describes 'Steam for the future'. The project is aggressive in the scale of both its growth targets and its cost cutting, and management does not believe the company can tarry in a market upon which all the major players in the industry are converging in light of the difficulties in the rest of power generation; if ABB does not move quickly to capture market share, move operations to emerging markets, and cut costs to finance the expansion, the company will lose out to competitors who do. Unfortunately for management at PSUZ, the works council at Käfertal has other priorities; again, in the words of the managing director of KWS:

> *"We are going into implementation now with this programme 'Steam for the future'. Now we have thought of all things, everybody knows exactly how we are able to reduce costs*

from 38 million US dollars to 19, but now we should do it, let's go for that! But now we have to deal also with the works council - if we go for increased productivity and less material and less construction hours for a steam turbine, that has a big implication for production and we have to talk with the works council ... That is one group within our company which I feel is not really willing to work with us." (10/11/97).

Understandably, the main sticking point is the threat of job-losses. Every works councillor and manager with whom I spoke in Germany cited the protection of employment as the works council's top priority. When there is absolutely no alternative to job losses, works councils use their extensive array of legal rights to ensure that losses are incurred via natural attrition or employee-friendly schemes such as early retirement (*Vorruhestand)* or partial retirement (*Altersteilzeit*). Even these measures, however, win only grudging acceptance of rationalisation from works councils, not their enthusiastic support; as the closure of Käfertal's transformer division (and the subsequent forced retention of all its workers) demonstrates, there is also a limit to such acceptance. ABB's aggressive globalisation programme has resulted in dramatic workforce reductions at its German operations and, as the managing director of KWS concedes, this has greatly strained relations at various sites:

"It is a problem, we are always talking about reducing our personnel, and we are not able to do it without permanent fights with the works council, but we have to do it." (10/11/97).

The failure of KWS management to involve the works council in its initial strategic discussions for PSUZ can be seen in a number of ways. One of the clearest messages that came out of the research I conducted in four German companies was the importance of involving works councils early in any planning so that by the time a strategy is formulated it

has already taken employee interests into account; whatever frustrations the works council might pose for management, there is no point attempting to work around this body[36].

On the other hand, PSUZ is an international business area of which KWS is only one out of 40 companies; 'Steam for the future' extends well beyond KWS and it would be difficult to argue that the KWS workforce should have so profound an influence on a strategy with such international scope and impact. The difficulty for management is that KWS is the 'centre of excellence' for the whole business area, and there is little chance of some of the painful changes associated with 'Steam for the future' being accepted more broadly if the 'centre of excellence' does not implement the programme designed by its own top management.

Siemens AG, on the other hand, takes great pains to work constructively with its employee institutions of co-determination, seeking to build relations based on trust, compromise and consensus. As such, the company is reluctant to undertake any course of action which might jeopardise these all-important relations. Change at Siemens AG represents the textbook definition of 'negotiated adjustment', and is an indication of the company's commitment to, and belief in, the German model of co-

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[36] According to the production manager at KWS: "*It would be easier for me to do my tasks without the works council, but the works council has a social function and - for me the most important - it is anchored in our German laws, and therefore it's not useful for me to be in conflict with this law. It's like the law that I have to drive at 50 km/hour in the town: I can't say it's too slow, I prefer to drive 70 km/hour. It's a fact, we have the works council and we have to accept this. And I think it is better to handle it in this way than to say 'They are bad guys' - it's not useful, you lose time. If you have a problem you have to go and find these guys and discuss it with them; if you do it by yourself they will come in two weeks and say 'Hey, Mr manager, I have a problem with you', and then you have a problem with them*!" (13/11/97).

determination; as noted earlier, this commitment is perhaps deeper than for any other German participant company.

The contrast with ABB Germany is highlighted by Siemens AG's 'top' programme. 'Top' is the umbrella for all major changes within the organisation. Negotiations and discussions between senior management and central works council began in 1993 and were concluded almost a year later in February 1994, with the central works council involved from the earliest stages of design. During the initial discussions, they insisted that the basis for 'top' be a fundamental change in the relationship between managers and workers, a democratisation of the leadership function which would lead to a change in the climate of workplace relationships. Only in this environment of independence and empowerment, where managers accepted their status as *primus inter pares* (first among equals), could employees fully contribute to the three pillars of 'top' (innovation, productivity and growth). The dramatic consequences of these changes in the personnel department have already been discussed; although nothing quite so radical has taken place outside personnel, the central works council expresses its satisfaction with the extent to which its original aims of transforming manager-worker relations has progressed. To further encourage this transformation, at the start of 1996 the central works council negotiated the concept of a 'management dialogue' with central management. Under the 'management dialogue', managers receive, in the form of anonymous questionnaires filled in by the employees they lead, feedback about their leadership skills and behaviour. The results are then analysed in a group discussion chaired by a neutral moderator, and both sides must agree on ways to improve co-operation and partnership.

Unsurprisingly, 'top' has been popular with works councils across the company and, by early 1998, the programme had been implemented in all 140 plants across Germany. Both management and the works council are keen to point out the benefits which have accompanied the 'top' programme: productivity growth within the company has increased from 4.2% in 1993 to 9.5% in 1997; registered inventions have increased from 3 018 to 6 031; and sales increased from just over USD 44 billion to USD 58.5 billion. At least one German production site has been saved by 'top': Siemens AG's telephone production facility in Bochalt (Northrhine-Westphalia) was in serious danger of closing and production moving to south east Asia before the introduction of 'top'. The improvements brought about by the cross-functional teams which were established under 'top', however, cut telephone production time by 50% thereby making the plant competitive with any in the world.

In all, some rather significant differences characterise the industrial relations situations of ABB Germany and Siemens AG. But there are a number of important similarities as well. Firstly, it would be wrong to suggest that Siemens' conservative and incremental approach to change is economically more successful than ABB's radical and thrusting strategy or, given the demands of the intensely competitive and global electrical engineering industry, that it is sustainable in the medium to long term. In fact, by almost any financial measure ABB is significantly ahead of Siemens. Over its first nine financial years, ABB averaged 16.4% return on capital employed (ABB, 1998a); by comparison, despite all the improvements made since 1995, Siemens had only barely improved from 7.8% in 1994 to 9.7% in 1997 (Siemens AG, 1998a). Whereas ABB's shares had, within eight years of the original merger, increased by five and a half times, significantly ahead of the Zurich stock exchange index (ABB,

1997c), Siemens AG's shares have trailed Frankfurt's DAX index by over 30% since 1995[37]. Siemens was also given a firm warning by the financial community in July 1997 when Moody's credit rating agency downgraded USD 1.5 billion of the company's debt from triple-A rating to AA1, citing slow progress in cost cutting in core businesses as one of the main reasons for the decision[38]. In short, Siemens AG is under significant pressure to increase both the pace and scale of change across the company but, as we have seen, its attempts have frequently been frustrated by various elements of Germany's heavily regulated industrial relations system.

For Siemens AG, the principal concern regarding German industrial relations is the rigidity of external features, in particular the labour cost and working time aspects of government policy and branch-level collective agreements. But a growing tension is also evident between the commitment to maintaining strong consensual relationships with the workforce, and the various challenges and opportunities associated with globalisation of the company's product, labour, and financial markets. Siemens AG, like many German multi-nationals, has recently used pressure from its foreign subsidiaries to wrest unprecedented concessions from its domestic workforce and thereby increase flexibility, but such changes are, as we have seen, almost always compromised in pace and scale. While the company may accept this as the necessary precondition for maintaining advantageous relations with its workforce, investors do not and, as the company turns increasingly to Anglo-Saxon sources of

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[37] Financial Times, "*The great escape - Siemens.*" 24 April, 1998.

[38] Financial Times, "*Siemens disputes debt downgrade.*" 12 July, 1997.

finance[39], so the pressure mounts to force the pace and scale of often unpleasant change. Not even a company the size of Siemens AG is impervious to these pressures, and the perceived need for reform of German industrial relations from within the ranks of Siemens' senior managers is growing. In an address to a conference in Dallas in 1993, one of the company's most senior personnel managers described how intense pressures from globalisation and increased competition had,

> *"resulted in unforeseen stormy weather. In consequence, the social partnership is currently being subjected to a crash test that has not been experienced since the 1950s. The resultant creaking noises in the system are clearly audible."* (Liebig, 1993, p15).

By comparison, ABB Germany is quite outspoken in its demands for reform of Germany's industrial relations system, described by the senior vice-president for HR policies as *"very nearly over-regulated"*[40]. In the company's annual report for 1996, for example, ABB Germany tempers expectations about future performance with a cautioning that,

> *"Among the framework conditions within which our company operates, the situation of 'Production-location Germany' ['Standort Deutschland'] must be counted. Here we see a*

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[39] The consensus among commentators is that insufficient sources of finance exist in Germany to fund the globalisation strategies of the country's industrial giants (Financial Times, "*Access to US capital markets: German companies*". 1 May, 1997). This is why, to attract foreign investors, companies such as Daimler-Benz, Bayer, Hoechst and Deutsche Bank have switched to US generally accepted accounting principles. Furthermore, German share-holders are themselves becoming increasingly demanding: in September 1995, for example, Deutsche Bank's funds management division (the biggest money manager in Germany) started a new fund limited exclusively to companies with proven records of increasing share holder value (Evans, 1996). In all, German companies are increasingly facing the types of financial pressure to which Anglo-American companies are accustomed, with significant implications for their industrial relations.

[40] Statements by other leading German industrialists suggest that this is not an isolated view. The CEO of the Krupp engineering group, for example, has complained that, "*What doesn't help is that the German consensus system seeks compromises that always take longer and which are rather more expensive.*" (Quoted in FT.com, "*One Europe, two systems.*" 1 June, 1998).

series of advantages, but also a persistent requirement for reform." (ABB, 1997e, p22).

As at the German auto companies, managers in both ABB Germany and Siemens AG concur on two points: they express support for the basic structure and principles of German industrial relations, but they believe it needs reform. In summing up this position, Gall (1997, pp.63-64) refers to,

"The emerging crisis in the German model of industrial relations ... The essence of this is that the structures, institutions and practices of collaboration and co-operation between capital and labour mediated by the state worked well in a period of economic expansion, but in a period of contraction where there is no 'slack', these same structures institutions and practices are no longer working and can no longer work in the same way."

From management's perspective the reforms require an overall reduction in the legislative and institutional constraints on companies' ability to introduce rapid and far-reaching change, not the opposite. In short, they want more flexibility through less (not more) regulation.

D. THE UK SITUATION

1. Industrial Relations Background

As at the study's UK-based auto companies, two broad features characterise the industrial relations backgrounds of ABB Britain and Siemens UK, and distinguish them from their German counterparts. In the first place, industrial relations in both companies are conducted on an extremely decentralised basis (significantly more so than the auto companies) and, secondly, they are voluntary in nature, with little in the way of external regulatory intervention. Within this pattern of

informal industrial relations, trade unions are also well represented at site level in both ABB Britain and Siemens UK, and both sets of management show various of the characteristics of 'Sophisticated Consultative' human resources management (Purcell and Ahlstrand, 1994).

a) Decentralisation

ABB Britain is probably the most decentralised company in the study. As at ABB Germany, the UK company is little more than a holding company for over 30 legally independent companies. The combination of ABB's management philosophy and the extraordinary diversity of ABB Britain's businesses - ranging from the construction of power plants to turbocharged marine engines and household watermeters - makes for an extremely decentralised company, and the virtual absence of administrative overhead. The central personnel department, for example, consists of one HR director and a secretary, and virtually all issues pertaining to industrial relations and human resources management are delegated to the local company level. In contrast even to ABB Germany, there is no overarching framework which brings together the industrial relations actors from ABB Britain's various disparate companies, and central personnel even steers clear of setting guidelines and policies. The only aspects of the personnel function managed at ABB Britain level are the company's pension scheme, its medical insurance scheme, and its car fleet.

Siemens UK is also a diversified electrical engineering business. Like ABB Britain, Siemens UK is in reality a holding company for the 33 Siemens companies based in the UK. Central intervention in personnel

matters is kept to a minimum, although the central personnel function at Siemens UK does play a more active role in defining corporate policies. Most significantly, as part of the company's strategy of international bench-marking and productivity improvement under the European Foundation of Quality Management (EFQM), central personnel has developed a policy of 'Management by Co-operation'. This is a formal, written policy document which lays down *"The principles and characteristics of leadership in Siemens"* (Siemens, 1998b, p1). Deemed to be *"valid across all our businesses"* and *"an integral part of our corporate culture"* (Ibid., p3), this booklet is given to all managers in the company. Exchange of best practice is facilitated by a bi-monthly 'Personnel Partners' initiative which brings together the personnel director of Siemens plc. and the personnel managers of all the major UK sites. Beyond such exchange of best practice and guidelines on management style, however, industrial relations and human resources management are conducted entirely at local business level. There are no company-wide industrial relations institutions, and management believes that there is insufficient overlap between its various operations for such institutions to add any value to its present communication structure[41].

b) 'Informality'

At ABB Britain's transformer division[42] in Dundee, 173 of the 185 shopfloor operatives are members of the AEEU; the other 12 belong to the

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[41] The personnel director does meet with national trade union officials from the AEEU, TGWU, GMB, and MSF every six months, but these meetings are informal and geared, more than anything else, towards the maintenance of good relations.

[42] The site is one of four sites (and seven business units) making up ABB Power Transmission and Distribution Limited ('Power TDL'). ABB Power TDL is, in turn, one of the bigger subsidiaries of ABB

GMB. Although the site does not operate as a post-entry closed shop, in practice the shopfloor has always been 100% unionised. Staff at the site are significantly less unionised, with only about 12% belonging to the MSF union. The shop-floor unions are well organised, with 11 shop stewards (ten from AEEU, one from GMB) and one convenor. None of them are on full-time release from duty, but the six members of the 'negotiating committee' (five from the AEEU and one from the GMB) are on part-time release. The negotiating committee meet fortnightly with management, and there is a two monthly shop stewards meeting for all eleven stewards. Union leadership at the site maintains only limited links with the external union structure (the former[43] convenor interacting on a social basis with the local FTO), and little effort is made to network with unionists from other ABB sites.

Union density at Siemens Power Generation Limited in Newcastle (also known as the 'Heaton Works'[44]) runs at around 80%, with the shop-floor again being described as a "*virtual post-entry closed shop*". Five unions operate at the site - AEEU, GMB, UCATT, and AMU on the shopfloor (although the latter two are so small as to be considered insignificant), and MSF and APEX (GMB) for staff. The unions are well

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Britain, with 1 300 workers and an annual turnover in excess of USD 320 million. The Dundee site employs 267 workers and has revenues in the region of USD 41 million.

[43] Shortly before my visit, an internal dispute within the trade union during wage negotiations had caused the long-serving convenor to step down because of a challenge to his authority. By the time of my visit, a new convenor had not yet been elected.

[44] The Heaton Works, founded by Sir Charles Parsons (inventor of the world's first practical steam turbine generator) in 1889, has played a significant role in the development of steam turbine power generation, and for decades led the world in this field. In the company's first hundred years it had four owners (CA Parsons, Reyrolle Parsons, Northern Engineering Industries, and Rolls-Royce) before being acquired by Siemens in June 1997. During the 1997/8 fiscal year, the company employed 897 workers and had revenues of just under USD 100 million.

organised under the strong leadership of a full-time AEEU convenor who has been at the company for 32 years. He is significantly more involved in external union affairs than his counterpart at ABB Dundee but, again, the external unions have only a limited influence at the site and will only become involved in internal matters when invited by the local union leadership (usually when an impasse has been reached and external help is required). There are 24 shop stewards on part-time release for the four unions representing the 400 blue-collar workers, and 18 for the two unions representing the 500 staff. Since the early 1990s a 'Joint Trade Union Committee' - comprised of the convenor, three representatives from the shop-floor, and two from the staff - has existed to interact with management on all issues except bargaining where shop-floor workers and staff continue to negotiate separately.

Finally, numerous features of 'Sophisticated Consultative' management characterise both sites. For a start, both sets of management have increasingly sought to develop constructive relations with the unions. At ABB Dundee, the whole senior management team meets formally with the 'negotiating committee' on a fortnightly basis, in addition to daily informal contacts. As we shall see, in an effort to improve both the initial design and subsequent implementation of initiatives such as the Investors in People (IIP) and Activity Based Costing (ABC) programmes, management has engaged workers and shop stewards from the earliest stages of conception. While the ABC programme was introduced across ABB's businesses world-wide as a cost-cutting instrument[45], at Dundee it became an important component in the site's cultural change process by which management was attempting to bridge the trust gap which existed

[45] The Economist, "*Cost-cutting activity.*" 1 August, 1998.

between themselves and the workforce, and encourage a greater degree of direct task participation by workers.

Development of individual employees is also accorded high priority at the site. In accordance with a framework of 'personnel standards' established by ABB Power TDL, the Dundee site, by the time of my visit, was well on its way towards Investors in People (IIP) accreditation. Training links had been established with the Dundee college of higher education, harmonisation of terms was well underway[46], and a 360 degree appraisal system (with six monthly reviews) had been introduced for salaried staff, with concrete plans to extend it onto the shopfloor. As we shall see, there are also a number of productivity drives at the site, and direct task participation (in the form of multi-skilling and teamworking) is well developed.

Similarly, at the Heaton Works, relations with the unions have become a priority since Siemens took over the site in 1997. Following the take-over, and in line with Siemens UK's 'Management by Co-operation' policy, an entirely new communications framework was installed. Following the monthly board meeting, and preferably on the same day, the senior management team (including the managing director, personnel director, and manufacturing director as a rule, and other relevant directors when necessary) meets with the Joint Trade Union Committee in a 'Company Consultative Forum'. In addition to this, there are regular weekly consultative meetings between senior management and the Joint Trade

[46] For example, a pension plan for blue-collar workers was introduced for the first time in the plant's history. In the past, workers had always refused such a plan on the grounds that they would rather have 'money in their pockets' than make contributions to a pension which would only be accessible many years later.

Union Committee. Again, no new initiatives are introduced at the site without prior consultation and involvement of the unions[47].

In line with Siemens UK policy, the site had conducted an extensive employee opinion surveys within six months of the acquisition, with plans to follow it up annually; an IIP programme was also well established. Under the company's 'staff dialogue' scheme, every employee at the site receives an annual performance review which is linked to a personal development plan which, in turn, fits in with a career structure. All managers also receive comment and feedback via a '180 degree appraisal' system. As we shall see, in line with Siemens UK's policy booklet 'Management by Co-operation', most operational decisions are taken with a view to facilitating employee participation because,

> *"It is essential that managers listen to and involve others in planning and problem solving, so that we make the best decisions and accelerate the pace of innovation. The manager needs to engender a spirit of trust in the team, so employees feel free to express constructive views, however radical, even when they differ from those of their manager."* (Siemens, 1998b, p6).

Crucially, however, these measures are all voluntary. Both sets of management also insist on maintaining direct lines of communication to their respective workforces, as well as retaining the final decision-making authority. As a supplement to information and consultation via the trade unions, management at ABB Dundee makes significant efforts to communicate directly with the workforce. A daily schedule of meetings

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[47] According to the site's personnel manager, partnership and trust are the foundations of the new management team's approach to the unions: "*Part of what we're trying to change is having the focus being on 'we're all part of this together - one business - and we'll sink or swim together', not as being part of separate entities. And what we want to achieve is partnership with the trade unions, and I think we have made some good steps from where this business was to where it is now in terms of working together.*" (15/7/98).

has been ritualised, starting with area meetings at 08h30 feeding into a meeting of the full senior management team at 09h00. Senior managers also address the workforce directly in a monthly 'bulletin'. Spread over five days, two members of the senior management team (on a rotating basis) hold one hour meetings with groups of 30 workers, starting off with a 40 minute address followed by 20 minutes for questions[48].

In addition to the mandatory monthly communication forum, management at the Heaton Works also have two direct channels through which to communicate with the workforce. Firstly, following the monthly board meeting, and either following or preceding (depending on schedules for the day) the 'Company Consultative Forum', the same senior managers address all line managers in a 'Management Communication Meeting'. A 'Core Brief' is then distributed to all managers with an obligation to brief workers and receive feedback within three days. Secondly, there is also an 'Employee Focus Group' every two months when the MD meets alone with a group of 12 randomly selected employees; in the absence of managers and union representatives, the employees are encouraged to speak freely and openly.

2. Flexibility

The pessimistic image of British firm-level flexibility portrayed by the 'new orthodox' literature (see pages 118 to 99) is based on exactly the type of decentralised, informal, and relatively unregulated industrial

[48] Although management has invited the negotiating committee to be involved in drawing up the agenda for these meetings and even speaking at them, they have so far declined, partly out of concern about being associated with a management organ and partly because they are not accustomed to playing a proactive role at the plant.

relations as encountered at ABB Britain and Siemens UK. However, an analysis of flexibility at these two companies, guided by the framework developed in chapter two (pages 62 to 68), shows few signs of the debilitating rigidities described by the 'new orthodox' view of British industrial relations and flexibility. As with the three British companies in chapter four, the most impressive strides have been made with respect to internal forms of flexibility; these have been accompanied (and greatly facilitated) by recent moves away from management-imposed external flexibility. Again, the discussion concludes by proposing various amendments to the 'new orthodox' view of British industrial relations and flexibility.

a) Numerical Flexibility

Competition for ABB Britain's Dundee plant (which manufactures power transformers, distribution transformers and overhead fuse-gear) is particularly fierce, not only from external competitors but from other ABB companies as well: with 24 power transformer and 32 distribution transformer sites around the world, ABB suffers from well-recognised over-capacity, and a sense of impending rationalisation permeates the business area. Pressure is maintained by business area management who regularly monitor a number of key performance indicators and publish quarterly league tables of ABB companies around the world for 19 different measures. This precarious situation is compounded by the plant's poor history and recent industry changes. In the five years before the ABB merger in late 1988, the plant changed ownership four times. Even after being acquired by ABB, performance remained poor and the plant lost USD 3.3 million in 1995 alone after privatisation of the

electricity industry and the establishment of price-sensitive 'Regional Electricity Companies' halved its potential market from USD 131 million to USD 66 million a year, and introduced competition from around the world into the bidding process. The plant's relatively small size and remote location present further challenges to its competitive position.

Management itself describes the plant's development path from 1994 to 1996 as being characterised by *"savage cost cutting"* and *"uncompromising management style"* (ABB, 1998d). In this time, management took drastic action and laid off roughly 120 workers - almost a third of the plant's workforce - in less than three years, all by forced redundancy. That recourse to such an unpleasant remedy shook workforce faith in management and in the company goes without saying, but senior management are convinced that the plant would have been closed were it not for the radical package of changes which had been forced through in a relatively short period of time; even unionists grudgingly concede that there was little alternative if the plant was to remain operational.

Since the middle of 1997, however, strong efforts have been made to allay some of the damaging sense of insecurity which followed in the wake of these measures. As part of the drive towards building trust and changing the culture at the site, management has made every effort to retain workers wherever possible and, as part of the 1998 wage negotiations, a guarantee was given that no jobs would be lost due to outsourcing or any of the company's improvement initiatives. Management was keeping its options open by insisting that this provision would have to be re-negotiated every year, but everyone was hopeful that the subsequent success of other initiatives at the plant would make unilaterally-imposed *numerical flexibility* a thing of the past.

The past 30 years have also seen a continuous and dramatic decline in employment levels at the Heaton Works. From a peak of 11 800 employees in 1968, the payroll had been reduced to 1 700 by 1996, when Rolls-Royce decided to put the company up for sale. This was almost halved in the space of a year, to 900 by the time Siemens bought the company in 1997. Again, although these dramatic and unpleasant changes have been highly unpopular with workers and managers alike, both sides are forced to concede that without such *numerical flexibility*, the plant would not have been able to stay in business.

Be that as it may, following the last round of drastic cuts, the new management team realised that if it was to secure workforce support for a much-needed change programme at the site (called 'SPG 2000') it was going to have to move to establish a sense of trust and security. The project's co-ordinating manager, himself a veteran of many rationalisation programmes, stated categorically at the outset of SPG 2000 that he wanted nothing to do with the project if it were in any way going to be associated with job losses. To assuage such concerns and encourage full workforce involvement in the programme, the company made the commitment that there would be no job losses as a result of changes implemented via SPG 2000; much of the project's subsequent success is ascribed to the resultant absence of the threat of redundancy.

b) Externalisation

Various features of the work done at ABB's Dundee site preclude a heavy reliance on *externalisation* (or the use of a 'peripheral workforce' for

that matter). In particular, the exacting requirements for precision and customer expectations of near-perfect levels of product quality greatly reduce the scope for putting work out to external agents. Transformers (like the steam turbosets manufactured at Käfertal) are built to tolerance levels in the order of hundredths of a millimetre, and are expected to operate without interruption for up to 30 years; manufacturers simply can not afford to relinquish control over all but the most basic of functions.

Unlike the situation at Käfertal, however, Dundee does not have to contend with a powerful (and often uncooperative) works council, and various non-core activities have indeed been outsourced, for two main reasons. Firstly, the companies to whom the work is outsourced focus on these components as the core products of their own business, and quality gains are therefore anticipated; and secondly because they can often manufacture the components at lower cost. The acceptance of such outsourcing initiatives by the workforce and their representatives has been greatly facilitated by the added sense of security brought about by the company's pledge not to make compulsory redundancies, and it is in management's efforts to retain affected staff that the most tangible evidence of this new commitment to job security is to be found. So, for example, the manufacture of insulating material (a relatively simple cardboard product) has recently been outsourced to the ABB 'centre of excellence' in Poland; in contrast to former times, the affected workers were not laid off, but retrained to perform other tasks within the factory. Similarly, the company no longer produces magnetic cores for distribution transformers, but has outsourced this function to British

Steel[49]. The latter have always provided the steel for the magnetic cores, but recently purchased the equipment with which to cut the steel to shape; as the process is simple, and British Steel could achieve economies of scale well beyond ABB Dundee's capacity, management decided to purchase ready-cut magnetic cores instead of just the steel. Again, no redundancies resulted, and all workers were retrained for other activities. Finally, the production of holding tanks for distribution transformers - involving much metalworking and welding, but little precision engineering - was outsourced to a local company in Dundee. In this case, although management did not retain the 14 affected workers, the agreement with the new supplier included a provision that all of them would be taken on. Although, ideally, the unions at the site would have liked to keep all activities 'in-house', they understood the justification for such outsourcing and were, for the most part, happy with the measures which management was taking to limit the impact on workers.

For many of the same reasons as at ABB Dundee, outsourcing has not been pursued to any great lengths at Siemens' Heaton Works. Furthermore, by the time of my visit the plant was still largely in flux following the rather dramatic changes to the scope of its activities following the acquisition by Siemens[50]. As such, little had been done even in the way of identifying non-core aspects of production with potential for outsourcing. In principle, however, as part of the security deal which

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[49] This only holds for distribution transformers. The production of magnetic cores for power transformers is far more complicated, and is retained in-house and performed by skilled workers.

[50] Following the acquisition, the production of complete power stations was wound down and the plant focused instead on the much more lucrative after-market servicing of turbines and generators; a third of its initial order book was also to be made up of work sub-contracted from Siemens' main power generation site in Mülheim, Germany.

accompanied SPG 2000, management had committed itself to no forced redundancies through such improvement measures, a move which both management and unions recognised would greatly facilitate any future discussions over outsourcing.

c) *Functional Flexibility*

As noted throughout, of all the traditional weaknesses of British industrial relations, none are described as so flagrantly obvious or destructive as the barriers to *functional flexibility*. In support of the findings in chapter four, the evidence at ABB Dundee and Siemens' Heaton Works casts further doubt on this central tenet of the 'new orthodoxy'.

Complete *functional flexibility* has been an accepted principle at ABB Power TDL's Dundee plant since the early 1990s. A number of factors - intensifying competitive pressure, the ever-present threat of closure (particularly in light of the transformer overcapacity within ABB), and a shrinking workforce - made it clear to everyone at the plant that job demarcations were a luxury which could no longer be afforded. The original concession was literally 'bought' by management in a wage round with an additional eight Pounds per week for the removal of formal demarcations. The principle was soon followed by practice and, by 1998, following a prolonged re-training programme, an impressive level of *functional flexibility* has been reached. In the power transformer division, virtually every operative can move at least one step forward and backward of his own station, and does so as and when required. On the easier to manufacture distribution transformers (and in overhead fuse gear), most workers are qualified to perform every operation from

the first layer of core-winding, right through to final testing. Such flexibility, considered essential for the plant's survival, is taken for granted now by management and workers, and considered unremarkable. Although the unions have not gone out of their way to encourage the process, they have not been in a position to prevent it either, and nor have they tried - the case for strengthening the plant's competitive position by discarding damaging practices has been compelling, and management has encountered few obstacles to change where they have consulted the workforce beforehand, and convinced them of the necessity for such change.

Self-inspection has also become widely accepted and practised as inspectors have been laid off or retrained for direct tasks. In addition, operatives have been required to undertake increasing amounts of measurement and record keeping as part of a drive to improve product quality. In 1996, for example, the plant embarked on a stringent 'six sigma' quality programme, which has required significant direct involvement by shopfloor workers in tracking a number of quality measures and the factors influencing them. Prior to introducing the programme, the company engaged in discussions both with workers directly as well as their union representatives; a pilot scheme was then introduced into the winding department which was soon spread more widely across the plant as the benefits became apparent. Within two years 'six sigma' had saved the plant over USD 330 000 in cost of quality and helped place Dundee at the top of ABB's transformer league table on a number of quality measures.

The introduction of teamworking has been another important change to work organisation and processes at ABB Dundee. The concept goes back to

1987 when the plant started manufacturing the higher-voltage and more complex power transformers. At the time, a team of Swedish workers was brought over to assist the newly-trained Dundee workers with their first few projects. These Swedes brought with them groupworking according to the 'humanisation of work' project, with rotating leadership and significant autonomy from supervisors and managers. These notions did not take hold at the time in Dundee but when, some five years later, management discovered lean production and sought to introduce teamworking at the plant, the unions already had notions of a model upon which they thought teams should be based. Management, of course, had different ideas and wanted management-appointed team leaders to assume leadership and responsibility within teams, and receive additional payment for these additional responsibilities; for the unions this was tantamount to workers taking over the role of supervisors. After abortive discussions with the unions, management decided instead to approach the workers through the site's well-developed direct channels of communication. In areas where most interest was expressed, pilot projects were introduced, the success of which facilitated the broader uptake of teamworking across the plant. By the time of my visit, the whole shop-floor was working in teams according to management's original notions, and the concept was well accepted by workers. The whole episode is something of an embarrassment to the unions, and only members of the negotiating committee are aware that, officially, the unions still do not recognise teams. For management, the opportunity to work around the trade union obstacle to their plans, and the limited ability of the unions to interfere with developments, is considered a major factor in the success of teamworking at the plant.

The emergence of *functional flexibility* has followed a similar path at the Heaton Works. The principle of *functional flexibility* within parameters was already introduced via agreement at the site in 1989, in exchange for the introduction of a 37 hour working week; it was one of the aspects which originally made the plant attractive to Siemens when Rolls-Royce put it up for sale. Although good progress had already been made in implementing the agreement, the new management team sought to take the principle of *functional flexibility* even further. The 1998 wage agreement therefore contained a commitment by the workforce to 'complete flexibility within competence', and the company in turn undertook to provide any training necessary to meet this goal.

The flexibility negotiated in 1989 was initially limited to areas of overlap between different but related functions. For example, fitting (mechanical) and armature winding (electrical) were traditionally viewed as completely different crafts, and neither set of craftsmen would even consider 'stepping across the line'. The breakthrough made in the 1989 agreement was a recognition of areas of overlap within which both sets of craftsmen could work. Once this divide had been breached, the movement towards cross-functional flexibility gathered momentum: with falling order books in the early 1990s, winders started moving spontaneously over to fitting when their workload was low, and vice versa. No formal agreements covered such interchange between crafts, but both sets of craftsmen realised that there was no alternative in a world of radically fluctuating workloads.

The barriers to *functional flexibility* at Heaton Works have not always been broken down with such ease and spontaneity but, where potential conflicts have arisen, they have been settled by negotiation. One

example of such an incident in the early 1990s involved a programme for the re-training of welders to do fitting work. The welders (although the majority of them were aged between 45 and 58) were only too keen to acquire new skills, as nobody foresaw much work for welders in the future. The fitters, on the other hand, were less enthusiastic. First of all, their allegiance to their craft dictated that they would sooner have the company bring in other fitters who had been made redundant elsewhere to meet the increased workload. Furthermore, an increased number of fitters meant less opportunity to work overtime and shifts (with their premium rates), and increased their insecurity: at the next round of redundancies a flexible welder/fitter would be much more attractive to the company, and therefore much more likely to be retained, than a simple fitter. Nevertheless, the company made its case to the union leadership who then consulted their members; when the concerns of the latter had been addressed[51], agreement was reached and the programme went ahead.

Self-certification has been another big step towards *functional flexibility* at Heaton Works. Traditionally, craftsmen have insisted on having their work checked by an inspector as a guarantee of quality. Self-certification also means an increased workload, it is a distraction from what the craftsman views as his primary activity, and it means increased responsibility for his output. Like cross-functional flexibility, self-certification took root gradually. It was initiated under Rolls-Royce ownership when the parent company sub-contracted some of its aerospace work to the site, on the condition that craftsmen would sign individually for their work. Eager for the work in a period of low

[51] If redundancies become necessary, fitters will be considered fitters, cross-functional welders will be considered welders, and any reductions within each category will then be made.

order intake, the workers agreed. This, however, was an exception to the rule, and at the time when Siemens bought the company the principle was eschewed by the workers and their unions. Within a year, however, both the light and heavy machine shops were operating entirely under self-certification, and the blade shop was well on its way towards complete implementation of the principle. As with all such change at the site, the advances had been made in response to ever-intensifying product market competition, and were secured through discussion with the workers themselves as well as their union representatives.

Through exactly the same mechanisms, a dramatic reduction in the number of indirect staff has been achieved at the Heaton Works, with their roles and responsibilities being taken on by the craftsmen themselves. Of the 800 redundancies at the site between 1996 and 1998, most were unskilled, indirect workers; by the time of my visit, in 1998, only 5% of the plant's payroll was constituted by unskilled workers, attesting to the extent to which they had either been made redundant or trained up to semi-skilled levels[52]. Every operator has also had to undertake to keep their work areas clean themselves. Such changes have had significant implications for the workforce, and have been achieved through extensive negotiation with the unions; they have also been accompanied by what the convenor describes as a *"significant education/communication/training programme"*. Again, while these changes have been of little direct benefit to the workforce, their importance to

[52] The site's deputy convenor is an example of what the impact has been on skilled workers: a time-served turner by trade, in the year since the Siemens take-over he had been required to obtain the necessary qualifications for stacker driving as well as crane driving, both of which have been added to his repertoire of responsibilities.

the site's competitive fortune is well recognised; in the words of the AEEU convenor:

> *"When Siemens were going to purchase this company, it was a company that had lost an awful lot of money. Siemens would only purchase it to make money. Sad though it is, you've got to have as many people in the company as possible working directly on the product to produce that product in a highly efficient way, making money for the company. Now if you've got a whole host of indirect workers - such as the gauger, the inspector - it's all pulling the opportunity to make a profit down, it's an impediment."* (17/7/98).

Ironically enough, any foot-dragging by the workforce in moving towards greater *functional flexibility* has been the result of their exposure to working methods at Siemens AG's Mülheim plant. To introduce workers at Heaton Works to Siemens' methods and techniques, a significant exchange programme has developed whereby German workers come over to Newcastle for specific projects, and British workers go to Mülheim. A trade union delegation has also visited Mülheim. The British describe their amazement at the extent to which they are, in most areas, ahead of their German colleagues in flexible working practices. Armature winding was cited as an example: in the UK factory an armature winder can, and does, work on any part of a rotor; he can also move to the stator shop and work, not only in a completely different department, but on a completely different part of the generator. In Germany, craftsmen are still far more specialised and would not be expected to be so flexible. The situation is similar in engineering where white-collar staff recount their experiences in working with their German colleagues: a British draftsman would think nothing of it to be working in blading one day, heavy casting the next, and fabrication the next; again the German workers are far more specialised and disinclined to move around. Such discoveries have done little to encourage workers to concede ever

greater levels of flexibility which often bring with them increased work loads; nevertheless, an uncertain and fluctuating order-book in an intensely competitive environment dictates that the process will continue.

In light of the many changes in the plant's scope of activities, as well as a certain degree of scepticism on the part of the site's strong unions, the introduction of teamworking at the Heaton Works has been somewhat more incremental and cautious than at ABB Dundee, although progress has been no less impressive. At the time of my visit, two pilot team-working projects were under way, on the gantry mill in the heavy machine shop, and in the blade shop. In both cases management has appointed team members (basically the existing machine operators together with the engineers, draftsmen, and other support staff for the function), explained what was expected of the teams, and then left them to elect their own team leaders[53]. One of the objectives set for these teams is to understand where productivity is lost in the day-to-day performance of their jobs, to analyse this lost productivity, and to undertake steps to improve it. To this end they have had to take on significantly increased amounts of measurement and to do their own analysis, on top of the regular performance of tasks. They are also encouraged to think their own way through problems and to take ownership and responsibility for their work - including tooling and machine repair - and self-certification is well advanced, to the extent that individual workers sign for each piece of equipment which they work on. Teams are

[53] This is interesting, being the only UK example in my study of a company which allowed teams to elect their own team leaders. Management remained true to their word and did not interfere in the elections, even though they were not entirely happy with the leader (an inspector) chosen by the team in the blade shop. The team on the gantry mill chose a shop-floor worker.

given a fairly high degree of autonomy in job allocation and even manning levels, and they are empowered to spend up to a certain amount of money without requiring permission. These teams have been well received by management, the workers involved, and the unions, and plans were being drawn up at the time of my visit to extend them to other appropriate areas of the shop-floor.

d) Temporal Flexibility

As part of the drastic package to save ABB's Dundee plant in the mid-1990s, over-time was stopped by management in June 1995. Described as a *"disease"* at the plant, over-time levels were running at 25% of total working time and management was well aware that workers and supervisors conspired to keep levels as high as possible. This was, of course, extremely costly to a plant which was under imminent threat of closure, and senior managers perceived the need for immediate and radical action. At the time, nobody close to the shop-floor believed that management would be able to sustain this new policy, and it was widely held that this would be no more than a temporary disruption to an inevitable reliance on overtime. But, in line with their commitment to follow through on all change initiatives, management stayed true to their word and, since June 1995, work is only done in over-time if delay is due to supplier failure, in which case the costs can be back-charged to the offending supplier. Management planning is now described as much more realistic and, convinced of management's sincerity, workers make every effort to meet deadlines in normal working time.

In spite of this move away from a dependence on overtime, the plant still has recourse to a number of shift-working patterns. Agreed between 1995 and 1997, these working-time models can be invoked if it is financially viable for the company to pay the associated premium rates, for example when there are bonus payments for early delivery[54]. Alongside normal day working, there are night shifts, double day shifts, and extended 12 hour shifts, any of which can be worked seven days a week if necessary. Notice periods are one day for moving onto a shift-pattern, two weeks for coming off and, what is more, different parts of the plant can be working on different patterns according to production requirement. By the time of my visit, despite initial union scepticism (primarily because the shift patterns are less convenient for their members than simple over-time working), the site's new working time arrangements were well established and operating smoothly.

In 1989, in return for the introduction of a 37-hour working week, the unions at the Heaton Works agreed to an increase in both *functional* and *temporal flexibility*, and a three-shift system was introduced. By 1998, the plant had various different shift patterns at its disposal, including a day shift, a night shift, the three-shift pattern, as well as weekend working (including Sunday). Different parts of the factory can be on different shifts at the same time, depending on workload; so, for example, at the time of my visit, the heavy machine shop was working three shifts around the clock, seven days a week, while assembly was on day shifts, five days a week. Two weeks earlier the whole plant was on

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[54] Through recourse to the flexibility offered by these shift patterns, all three major orders which had been completed at the plant immediately prior to my visit were delivered significantly ahead of schedule. Not only did this win substantial bonus payments for the plant, but it also improved the plant's attractiveness to other potential customers.

three shifts a day, seven days a week because they had been able to win an unexpected order on condition that a tight schedule was met. Notice of one week is normally required for a change in working time pattern, although workers will usually take overtime or move to shift working with much less notice (often only a few hours). Because of the relative strength of local union leadership vis-à-vis the external union, such flexibility deals can be struck at the site without recourse to higher levels of authority.

e) Financial Flexibility

As discussed in chapter four, *'indirect' financial flexibility* is of little relevance to participant UK companies who are not party to any industry agreements, or subject to highly developed statutory non-wage labour costs. In fact, negotiations over wages and benefits at the study's two UK electrical engineering companies are even more decentralised than at the auto participants, and are conducted entirely at plant level. Many of the disadvantages of this decentralised bargaining (such as fragmentation, competition, and strife) have been overcome by recent changes at both ABB Dundee and Siemens' Heaton Works, and the two plants now operate to a higher level of *'direct' financial flexibility* than at any time in their past.

The payment system for shopfloor workers at ABB's transformer division in Dundee is simple: there are two rates, one for skilled and one for semi-skilled workers. There is no differentiation for the significantly higher skill requirements of workers in the power transformer segment,

but this is compensated for by the impressive *functional flexibility* of workers in distribution transformers and over-head fuse gear.

Although management's liberal and explicit use of power in adjusting wages and the procedures of wage negotiation has been a source of controversy and tension at the plant, the resultant cost reductions have also been a major factor in the plant's dramatic turnaround since the early 1990s. The decentralisation of bargaining and the direct link between plant profitability and wage agreements provides the plant with significant flexibility to adjust to its own circumstances, and has arguably been one of the main contributing factors to the business unit's survival and gradually improving fortunes. Furthermore, relations between management and the workforce display a robustness against industrial action which would have been unthinkable in Dundee (a city renowned for the militancy of its workers) 15 years ago.

The pay round for 1995 provides the most extreme example of management-imposed *'direct' financial flexibility* at the site, as well as some of the attendant dangers. Management opened negotiations with a declaration that the plant was unable to afford a pay increase for the year. Instead, an offer was made of a performance related bonus payment to constitute a proportion of a worker's total wages; provided the plant did not run at a loss for the year, workers would be slightly better off than the previous year. The unions, persuaded by the plant's bleak outlook for the year, reluctantly accepted the proposals. They were also convinced by management's assurances that the plant would not lose money because the distribution transformer segment (which was suffering heavy losses) would, perforce, have to be closed. Later in the year, however, management rescinded on its original plans. With signs that the collapse

of the market for distribution transformers would be reversed in two to three years, management decided to gamble with a short-term loss in the belief that the business would be better placed in the longer-term if it continued to manufacture distribution transformers. The senior management team therefore took a unilateral decision to keep the segment going and incur heavy losses for 1995. This, of course, had disastrous consequences for workers' pay that year but, in the words of the former convenor,

> *"We could hardly turn around at this point and say, 'But you promised to close half the business down!'"* (08/05/98).

Instead, the entire workforce took a big pay decrease for the year, and the negotiating committee was made to look incompetent. By 1998 management had been proved right, and the distribution transformer segment was thriving. From their perspective, although the 1995 incident was unpleasant and regrettable, a sizeable section of the plant had been saved and, with it, a significant number of jobs. Furthermore, losses for 1995 had been curtailed by the one-off decrease in wages, and the plant was able to survive and move on to a more sound financial footing. For the workforce and unions, however, management had broken its word that there would be no pay cuts that year. Workers knew nothing of the original plans to cease production of distribution transformers, and union leaders were not about to confess that they had sanctioned such a plan. As far as the workforce was concerned, management had misled them into accepting a payment scheme which had resulted in a painful loss of wages. In former times, this incident would have incited the traditionally militant workforce to industrial action; in the

competitive climate at the second half of the 1990s, it would take far more to justify this costly and potentially dangerous course of action.

Attempts to exploit some of the ill-feeling which had arisen in the wake of 1995 disappointment during the 1998 wage round also ran aground. All the usual procedures were followed for bargaining, with the blue collar unions sitting together at the same table (represented by the six member 'negotiating committee'). In keeping with their new approach of candour with the unions, however, the management team broke away from the usual ritual of claims and counter-claims, and started the discussions off by explaining to the negotiating committee exactly what the business prospects were for the year ahead, what the business plan was for the next couple of years, and what the implications were for pay rises. According to management's analysis of the plant's medium-term outlook, a modest wage rise in 1998 would facilitate crucial investment in technology and training, with significant benefits (in the form of higher pay rises) by 1999 and 2000. They then made a 'final offer' of x% and suggested that the rest of the negotiations concern how the workforce would like to receive that rise, insisting that a portion of it go as a contribution to a company pension scheme (which was finally being established). Needless to say, the negotiating committee was caught off-guard by this unusual behaviour and were split in their response. It was not long before the convenor realised that management was not posturing and suggested that the offer be accepted; although it meant something of a short-term sacrifice, he was persuaded by the longer-term benefits. Several of his negotiating committee, however, were not convinced and, besides, the workforce would not look kindly on a negotiating committee which conceded so meekly, especially after the 1995 debacle. Some of the more militant shop stewards saw this as an

opportunity to re-ignite the workforce and win back some of the union's lost influence at the site, stirring up sentiment on the shop-floor in a bid to pressurise both management and the convenor. But the 'uprising' was unable to muster wide-spread support from a workforce which had been kept updated by management throughout the bargaining process and, having painted themselves into a corner, the negotiating committee had to call on the local FTO for help. In the end, a deal was brokered which saw no real changes to management's original offer, but which allowed the negotiating committee to extricate themselves from their predicament without losing face. The only casualty was the convenor who resigned in protest at the challenge to his authority[55]. Despite this hiccup, the whole process took only seven weeks (half the time usually spent negotiating), and industrial action was again averted.

The first point to make about *'direct' financial flexibility* at Siemens' Heaton Works is that, like ABB's transformer division in Dundee, negotiations take place at the plant; as such they are geared specifically to the site's competitive position and performance. Not that this comes without a price: significant amounts of management time and resources are expended annually in negotiations which are replicated at numerous sites across the company. Nevertheless, the benefits to the UK company of tailoring agreements to conditions at individual sites are considered to outweigh the costs, especially since many of the earlier problems associated with bargaining at the plant level, such as fragmentation, inter-union competition, and conflict have been overcome. The last industrial action of any sort at ABB's Dundee plant was in

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[55] By the time of my visit, some months after the incident, he had not been replaced, and there was a relatively wide-spread hope (among managers and workers) that he would change his mind and resume office.

1986, while nobody at the Heaton Works even remembers when last there was a serious dispute at the site. Furthermore, the number of bargaining units at both ABB Dundee and Siemens Power Generation have been significantly reduced since the late 1980s, to the point where, in 1998, there was only one unit each for shopfloor workers and white-collar staff.

The continued separation of blue- and white-collar bargaining units, however, provides something of a frustration for management at the Heaton Works, where the two units have always insisted on different anniversary dates, greatly prolonging the whole course of wage negotiations. Such negotiations typically last from January until at least May as the 'staff negotiating committee' (who submit their claim in January) do not sign an agreement before the 'works negotiating committee' (who submit their claim in April) have reached a settlement[56].

In early 1998, however, a major step was made towards a further significant simplification of bargaining, when agreement was reached on the harmonisation of anniversary dates for wage negotiations. As of 1999, both major bargaining units will begin their wage negotiations simultaneously in October, thereby reducing much of the cost and inconvenience associated with the previous arrangements. There are also clear signs that, with improving relations between staff and shopfloor unions, and growing awareness of the costs and inefficiencies of

[56] Traditionally, anniversary dates for the annual pay rounds have been January 1 for staff and April 1 for the WNC. The normal course of events is that the staff submit their claim, engage in some half-hearted negotiations, and wait for the WNC to submit its claim. The real negotiation is undertaken by the WNC, and the staff normally await the outcome of this round before accepting a settlement in line with what the WNC could win.

maintaining two bargaining units, this will coincide with a move to single table bargaining.

Another move towards greater simplicity of wage determination at the site is management's proposal to reduce the number of pay grades on the shopfloor. Although, in recent years, the number of grades has already been significantly reduced to six, almost all workers fall within the top three, and the company is looking to further reduce the number of official pay grades in line with this *de facto* reduction. The unions are also in favour of the move, and it is anticipated to proceed without obstacle at the 1999 wage round. The current arrangements are already significantly less convoluted than the German system of collectively agreed pay grades, and will become even simpler with the envisaged changes.

3. Commentary

As with UK participants in chapter four, the evidence of flexibility at ABB Britain and Siemens UK is a far cry from the institutionalised rigidity described by research associated with the 'new orthodoxy'. There are also few indications that ABB Dundee and Siemens' Heaton Works are at any significant flexibility disadvantage to their German counterparts on any of the measures of flexibility; if anything, they probably enjoy something of a flexibility lead over corresponding plants in Käfertal and Mülheim.

The economic environment in which these two firms operate is similar to that pertaining in autos, with the industry characterised by fierce

global competition, severe over-capacity, and a decreasing demand for labour, with virtually all growth potential concentrated in 'emerging markets'. In combination with a prolonged period of sustained political an social hostility towards labour institutions (Howell, 1995), this has significantly reduced the bargaining power of trade unions over management, and opened the way for management-initiated change. These contextual limitations on trade union power have been further aggravated by aspects of broader trade union structure and strategy (Undy et al., 1996; Howell, 1995). Particularly noteworthy of industrial relations at both ABB Dundee and Siemens' Heaton Works is the pronounced pattern of "*isolated decentralisation*" (Darbishire and Katz, 1999), which places unbuttressed plant-level trade unions more at the mercy of management, and also encourages co-operation and goal-congruence with the company to the exclusion of broader union objectives; this is, of course, in stark contrast to the well-developed network of co-ordinated worker institutions in the German context.

At the same time, however, it would be incorrect to ignore the consequences of a changed managerial approach to flexibility at both sites. As with the situation in autos, both sets of management have been forced by the intensely competitive industry conditions to abandon their own inefficient, rigidity-inducing practices, including unilateral attempts to impose all change, and an over-reliance on external (particularly *numerical*) flexibility.

In most circumstances, 'Sophisticated Consultative' management (perhaps best described as the UK's voluntary version of 'negotiated adjustment') has been the mechanism by which management at both plants have sought to accommodate change and increase flexibility. Managers have increasingly

raised employment security and encouraged participation by both workers and unions in change initiatives, in the hope that such participation will improve both the design of change programmes and their subsequent acceptability. So, for example, the unions have played an important part in both major change programmes under ABB Dundee's 'strategic change process' initiated in 1995. Following a visit by external representatives from local government, unions and employers' associations, an Investors In People (IIP) team was established in mid-1997 comprising eight randomly-selected volunteers each from the office and the shop-floor. The focus for this team - which enjoys substantial support from the shop-floor and the unions, and has direct access to senior management for resources and advice - is the improvement of communication at the site, and the enhanced training and development of workers. The team meets fortnightly and is divided into sub-teams which meet weekly. Management and the unions at the site are confident of reaching the standards required but, for management, the process of engaging workers and unions is of far greater importance even than the formal outcome.

The Activity Based Costing (ABC) programme at the site is another, perhaps even more dramatic, example of worker participation in change. As already mentioned, this initiative was designed as a cost-cutting project by ABB's central finance department in Zurich, but was designated to the HR manager at the Dundee site and has become a central pillar in the plant's BPR programme. Two teams of randomly-selected volunteers were again created from across the plant with the objective of mapping 'as is' processes and 'should be' processes, and thereby identifying process improvement opportunities. Work on the project was done off-site at Dundee College where, it was felt, participants could

better concentrate on the assignment, away from the usual operational distractions. On completion of the initial analysis phase, team members did two presentations: one to the senior management team, and one to the site's shop stewards and foremen.

The major vehicle for operational change at the Heaton Works is the 'SPG 2000' programme. This is the banner under which the company is introducing Siemens' global 'top' programme as well as Siemens UK's EFQM project, and encompasses a broad range of change initiatives (including the measures discussed under *functional flexibility*). It was launched shortly after the change of ownership and, as at ABB's Dundee site, management has sought to include the unions and the workforce in the all subsequent change processes. The steering group, for example, which was established to monitor progress included senior trade union representatives from both shopfloor and staff areas. The implementation 'teams' which were set up to improve productivity were composed entirely of volunteers, many of them shop stewards. When, as a supplement to SPG 2000, the company engaged the services of a German engineering consultancy, management paid heed to union concerns about rationalisation, and explicitly instructed the consultants that this was not a programme to reduce workforce numbers.

As noted, these initiatives differ from 'negotiated adjustment' in the German context in two important respects, both related to the UK's lack of industrial relations regulation. Firstly, with no social rights to buttress their economic vulnerability, British unions enter the relationship as significantly less equal partners; any participation in decision making is distinctly 'employer led' (Turner, 1993). Secondly, management is not obliged to follow this negotiated route and can revert

to unilateral decision making if circumstances dictate; the relative weakness of local unions places management in a position to over-ride most union opposition if this becomes necessary (which is further facilitated by management's well-developed direct channels of communication to the workforce). In effect, management at the two companies enjoy the best of both worlds: a (somewhat unequal) form of 'negotiated adjustment' for contending with most change requirements, and outright managerial prerogative when unpleasant change is urgently required.

Again, the prevailing conditions have not only satisfied management's traditional ideological attachment to 'managerial prerogative' (see pages 146 to 149), but have contributed to some rather impressive advances in competitiveness at both companies. Following dramatic and sudden industry changes in late 1994, ABB Dundee's financial results for the first half of 1995 suggested that the plant stood to lose nearly USD 7.5 million in 1995 (a negative profit margin of nearly 20%); nobody even contemplated the future beyond that. In the end, losses for the year were restricted to USD 3.3 million, and in 1996 the site scraped back into the black. By 1997 some degree of profitability had been restored, and management was discussing the plant's medium-term future with the unions. Dundee had reached the top of ABB's transformer league tables on a number of measures, including cost of quality (where the proportion of attendance hours spent rectifying quality problems was reduced from 8% in 1994 to 3.7%), through-put times (with down-time decreasing from 27% to 11.2%), and inventory turn. Changes during the first half of this troubled period were completely management-imposed and often brutal; since 1997, however, management has increasingly

sought to involve the workforce - both directly and indirectly - in its efforts:

> *"To become the 'best in class' as defined by the customer, ABB, our employees and world-wide benchmarking by the year 2000."* (ABB, 1998d).

Without the levels of flexibility attained at the site it is difficult to imagine how the plant would have survived, let alone be in a position to aspire to world-class performance. The same can probably be said of Siemens Power Generation. *Numerical*, *functional*, and *temporal flexibility* were all important features which attracted Siemens to the Heaton Works originally, and which enabled Rolls-Royce to sell the historical site instead of close it down. The site's extensive *functional flexibility* has subsequently been put to good effect in restoring Siemens Power Generation to profitability. Following changes initiated under 'SPG 2000', productivity in various key production areas has increased dramatically. So for example, in turbines, after nine months of self-directed analysis and action the local 'team' (cross-functional and including representatives from the shop-floor, professionals, and managers) had attained a 37.5% productivity improvement in the manufacture of N-type rotors, and a 41% improvement for K-type rotors. In all, 4 600 additional hours of capacity had been created[57]. In spindle turning and casing manufacture, the 30% productivity deficit with relation to Mülheim which existed at the time of purchase has been largely eroded. So confident is the site in its ability to improve that, according to business plans, the average

[57] The nature of this job, especially the relatively short completion time of six weeks (which allows for a steeper learning curve), facilitates such dramatic improvement, but all teams are showing good progress. In cylinders, for example, where jobs take 12 to 14 weeks, productivity improvements of 12.5% have been realised.

productivity deficit with respect to Mülheim (30% at time of purchase) will be eradicated by the end of the 1999 financial year.

The positive results of such flexibility are not limited to these plants either; both ABB Britain and Siemens UK, in stark contrast to operations in Germany, have grown dramatically over the last decade. At the time of the ABB merger, in 1988, ABB Britain companies had a combined turnover of under USD 200 million and employed a few hundred workers (ABB, 1998c); by 1997 turnover had grown to USD 2.8 billion and the number of employees to 12 300, spread across 22 manufacturing centres and 105 operational locations (ABB, 1997b). Management is also in no doubt that much of the company's success has been due to flexibility advantages in the UK industrial relations system; in the introduction to the 1996 company report, the CEO notes:

> *"The willingness of employees in these [recently acquired ABB Britain] companies to adopt modern work practices and procedures has been a major factor in their rapid and successful incorporation. Over the past few year, European industrialists have grown envious of the UK's conducive business environment - lower overall costs coupled with a flexible, intelligent and vibrant workforce is an unbeatable combination. This is certainly true of ABB in the UK" (ABB, 1997a, p3).*

Siemens UK's development path has virtually mirrored that of ABB Britain. Between 1986 and 1997, revenues at the company grew ten-fold from USD 330 million to USD 3.3 billion, and they are expected to top USD 6.5 billion by the start of the new millennium. Such growth has often come at the direct expense of Siemens' German operations. When, for example, the company established a new centre for testing and demonstrating combined cycle gas turbine technology it did not expand its existing test facility in Berlin, instead investing USD 245 million into the 'Cottam Development Centre' in Nottinghamshire, a joint venture

with PowerGen[58]. Similarly, in 1997 Osram invested USD 16 million in expanding its existing factory in Shaw near Manchester, shifting some production from its Berlin factory to Shaw. When asked the reason for the move, Osram's president told the Financial Times that the costs at Shaw were only 34% of those in Berlin and, furthermore, the company was also influenced by the factory's flexible working arrangements, especially the ability to quickly change shift patterns depending on demand[59]. As suggested by Osram's decision to invest a similar amount at its Augsburg plant instead of in Bari, the company does not shift investment and jobs from Germany unless there are significant advantages in doing so. As the Shaw example demonstrates, the relative flexibility of working conditions in the UK often provide just such an advantage. The personnel director of Siemens UK recognises this:

> *"One of the biggest disadvantages they face in Germany is inflexibility: it is very difficult to make decisions and implement changes that often need to be carried out quite quickly ... a sense of realisation is hitting German companies like a tidal wave, that the costs and rigidities of doing business in Germany are making them uncompetitive. This combined with a drive to become truly global is causing a lot of companies to send the majority of new investment overseas. They're not closing down operations or pulling out of Germany, but new investment is going overseas."* (29/7/98).

Such assertions run counter to the 'new orthodoxy', discussed in chapter two, describing the relative flexibility and adaptability advantages of the German model of industrial relations over UK arrangements. There is, however, little cause to doubt Siemens UK's success. For the 1996/97 financial year, the company reported that productivity improvements had

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[58] Financial Times, "*Showcase power station planned.*" 8 May, 1997.

[59] Financial Times, "*Low wage bill entices German bulb group.*" 3 February, 1997.

resulted in savings of USD 50 million[60], and that in all businesses where they were established they comfortably met the 15% return on equity target which Siemens AG has set for all businesses globally[61]. It is worth noting that for the same financial year, the parent company could only manage 10.5% return on equity (Siemens, 1997a, p1).

In light of all these positive recent experiences with the UK's industrial relations system, it is perhaps not surprising that management at ABB Britain and Siemens UK should be reluctant to change the basic features of the system. In particular, as discussed, the voluntary and decentralised nature of British industrial relations have been a significant source of flexibility to these companies as they have faced up to intensifying competition in product markets, and a growing need to be fast-moving and agile. Although, as at Vauxhall and Jaguar, the changes which have taken place in industrial relations and flexibility are largely conjunctural not structural, and the current fortuitous situation at UK companies is, to a large extent, contingent upon changed economic and political circumstances, managers at these five companies show few concerns about a reversion to the type of situation described in the 'new orthodoxy'; whether short-sighted or astute in their analysis of a fundamentally changed context, these managers are convinced of their preference for the UK's lightly regulated industrial relations system.

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[60] Some 1,5% of turnover in one year, roughly on a par with the savings from productivity improvements reported by Siemens AG.

[61] Financial Times, "*Siemens UK expects turnover to top pounds 4bn.*" 17 January, 1997.

E. CONCLUSION

The evidence presented in this chapter again suggests certain modifications to the 'new orthodox' view of German companies enjoying a significant flexibility advantage over the British rivals on account of the well-structured framework of regulation governing their industrial relations. In the first place, there are few signs of a relative flexibility advantage for ABB and Siemens' German operations over their UK counterparts; if anything, the reverse is probably true. Secondly, the impact on firm-level flexibility of the two contrasting systems of industrial relations has changed somewhat. For German companies, the costs (in terms of time taken and compromised outcomes) of negotiating all change with a series of interconnected and powerful bargaining partners, previously considered all-but insignificant, have taken on a new relevance in light of the highly global and intensely competitive industry conditions prevailing at the end of the 1990s. For UK companies, on the other hand, a constellation of factors - relating to both management and trade unions, as well as the economic and political contexts within which they interact - have combined to overturn many of the former obstacles to (particularly internal) flexibility.

These qualifications to the 'new orthodoxy' are, as has been argued, important to understanding the reservations and concerns which both sets of managers have with respect to the EU social dimension. For German managers, resolution of some of the difficulties currently being experienced with flexibility lies in an internally-driven reform process of the country's industrial relations system; while there is no clear consensus, even among employers, of exactly what reforms are needed, it is clear that managers would like to see a reduction in the overall

level of industrial relations regulation within which they operate. EU social and industrial relations regulation fails these criteria on two counts: it is derived from outside the system and is therefore inherently insensitive to prevailing conditions within that system, and it underpins (and even extends) the regulation already governing industrial relations. Managers at ABB Britain and Siemens UK, on the other hand, have little reason to question their own informal industrial relations arrangements, which have provided them with ample flexibility in a turbulent and hostile competitive environment. They see little need to reform a system which, under current industry conditions, is a source of unprecedented adaptability, and even some degree of flexibility advantage. Working for subsidiaries of European multi-nationals, they are also familiar with the flexibility implications of industrial relations regulation according to Roman-Germanic principals, and are quite convinced of their preference for the UK's model of industrial relations; EU social and industrial relations regulation is viewed as an unneeded burden.

CHAPTER SIX. CONCLUSION

A. INTRODUCTION

In light of the evidence presented in the two preceding chapters, this chapter returns to the question expounded at the start of the thesis, shedding further light on both the nature of employer response to the EU social dimension, as well as some of the factors underlying that response. The discussion is divided into three main sections.

The first section returns to the issues of industrial relations regulation, flexibility, and employer opposition to extending the EU social dimension; sustaining the argument advanced throughout the thesis, this opposition is linked to growing employer concerns about the impact (both direct and indirect) of industrial relations regulation on the various aspects of firm-level flexibility. German employer opposition, the thesis contends, is grounded in increasing frustration associated with the already high level of industrial relations regulation pertaining at national level. Faced with a growing requirement to cut costs and implement rapid change, German employers perceive a need to reform their domestic industrial relations system through decreased levels of regulation; to the extent that EU social policy initiatives strengthen (and even advance) German regulation, they are strongly resisted. UK participants, on the other hand, currently enjoy unprecedented levels of firm-level flexibility which they associate closely with the lightly regulated industrial relations environment in which they operate. This 'economic rationality' greatly compounds an historical ideological disapproval of industrial relations

regulation on the grounds of 'managerial prerogative', making for unambiguous British opposition to the EU social dimension.

The second section of the chapter highlights the rather pessimistic implications of this analysis for the future of the social dimension. An intensification of the conflict and controversy surrounding the social dimension is anticipated, and any prospects of the emergence of an EU industrial relations system are viewed as extremely slight. The most likely outcome envisaged is a continuation of the current piecemeal process of legislation being forced through by political will and horse-trading, in the face of unrelenting employer opposition.

Finally, the discussion turns to two difficult questions which arise in the wake of the study's findings. In the first place, the assumed direct correlation between flexibility and competitiveness is questioned, and a more nuanced relationship between these two concepts proposed. Secondly, the question is raised of whether there is, in fact, an integrative solution to the highly complex dilemma confronting the social dimension; the study proposes no answers, but points to the issue of investment in human resources as a potentially gainful avenue to be explored.

B. EMPLOYER RESPONSE REVISITED

1. Appraising the theoretical model

For the purposes of this study, the theoretical framework expounded in chapter two (pages 62 to 68) - which treats firm-level flexibility not as an uncomplicated, uni-dimensional characteristic, but a multifarious concept - has several advantages over previous models of flexibility. In

the first place, it represents an advance over the 'new orthodoxy' literature (see pages 118 to 126), most of which makes little effort to draw distinctions between different aspects of firm-level flexibility. Such an undifferentiated approach to flexibility would not have captured the asymmetrical developments in firm-level flexibility in both the UK and Germany over the last decade or so: *functional flexibility* at British companies has made dramatic advances, while *numerical flexibility* has often been compromised in the process; German managers are significantly more concerned about their high non-wage labour costs (reflecting low levels of *'indirect' financial flexibility*) than the difficulties associated with *externalisation*. Generic analyses of 'flexibility' would have a difficult time making sense of these uneven developments, as would many of the other attempts to differentiate forms of flexibility discussed in chapter two. As noted in that chapter, *temporal flexibility* is perhaps the most inadequately represented in earlier models of firm-level flexibility. Boyer (1987) omits it altogether, while Atkinson (1984 and 1987; Atkinson and Meagre, 1986) conflates it with *numerical flexibility*, and Clarke (1986) with *functional flexibility*. The discussion in chapters four and five, however, suggests that, not only is *temporal flexibility* an important aspect of firm-level flexibility in itself, but that it has developed along quite different paths from these other two forms of flexibility in both British and German companies. *Temporal flexibility* has been the preferred mechanism for all minor adjustments to the volume of labour at participant companies, while unpopular *numerical flexibility* has been reserved for slower, more drastic changes. *Functional flexibility* has proceeded almost completely independently of *temporal flexibility*, with the former receiving more attention in British companies, and the latter in German firms. No attempts were uncovered to develop (and

differentiate) 'core' and 'peripheral' workforces, and whatever its merits in other industry segments, Atkinson's model of the 'flexible firm' would have been of limited analytical value in this study. Finally, flexibility of labour costs proved to be a top priority at all participant companies, and the two forms of *financial flexibility* an important addition to Grenier's (1997) typology.

By distinguishing between the various components of firm-level flexibility and analysing industrial relations according to a systems model, the discussion in chapters four and five has also highlighted the subtle interplay between different aspects of the industrial relations system and flexibility. German and British companies in both autos and electrical engineering have all faced the same harsh economic conditions of intense, global competition and severe overcapacity, but these have been channelled through the respective industrial relations systems in different ways, with contrasting implications for firm-level flexibility. In concluding the argument, this section draws out the most important features of industrial relations at the two sets of companies, their links with the various forms of flexibility, and employer assessments of the implications of EU social regulation for both industrial relations and flexibility. Employers' economic concerns can broadly be grouped into two categories: apprehension over the *direct* impact of such regulation on certain forms of flexibility, and its *indirect* impact on the balance of power within the industrial relations system (with further implications for flexibility).

2. British Response

As outlined in chapter three (pages 146 to 149), there are at least two perspectives from which UK employers might approach the EU social dimension. First, British managers (particularly in engineering) have a long history of animosity towards any developments which would infringe on their 'managerial functions'. Although I encountered no explicit reference to management's right to manage in British employer response, this is not to suggest that it is absent from their underlying motives for opposing EU measures; in the political and social climate of the EU at the end of the 1990s, such invocations would do employers' position more harm than good, and it is hardly surprising that they would choose instead to disguise their ideological objectives in politically-neutral economic rhetoric. As noted, however, their choice of flexibility as basis for opposition is somewhat perplexing in light of the 'new orthodox' view of British industrial relations and flexibility (pages 118 to 126).

The preceding two chapters have, however, proposed various amendments to this 'new orthodoxy', and it is argued that any 'political rationality' of UK employer opposition to EU social policy measures is now strongly reinforced by the 'economic rationality' of flexibility. In the current economic and political context, British companies enjoy flexibility at least equal to (and often in advance of) their German counterparts at significantly lower 'cost' (in terms of time and comprise in negotiating change). To the extent that EU initiatives threaten to disrupt these advantageous arrangements, either directly or indirectly (through affecting the balance of power), they meet stiff opposition from UK employers.

At the most basic level, British employers are extremely wary of any measures which have direct and immediate consequences for their operations, either by affecting processes or introducing costs. As the regulatory *status quo* in the UK is significantly lower than in Germany, such effects are felt sooner and more intensely by British companies. As noted throughout, one of the characteristic features of industrial relations at most British participants, and one which has greatly facilitated recent improvements in most forms of flexibility, is their highly decentralised nature. Locally-based industrial relations have enabled company and plant-level actors to devise and implement new, tailor-made working time models (*temporal flexibility*), and work processes and organisation (*functional flexibility*), while wage increases have been driven primarily by the ability of the company (or even business unit) to afford them (*'direct' financial flexibility*).

Significant opposition was expressed to EU measures, particularly procedural measures, which would result in centralisation of industrial relations. All British participants were, for example, vehemently opposed to any form of collective bargaining at EU sectoral level, and the EWC Directive also drew unanimous criticism for its centralising implications. ABB Britain provides the most pertinent example. When ABB established its Employees Council Europe (ECE) in 1996, British operations were, in line with the UK's opt-out from the Maastricht Treaty's Social Policy Agreement, offered the option of not participating. ABB Britain was one of the few UK companies to make use of this right, and refrain from participating in its parent company's EWC (thereby causing their European colleagues some degree of

inconvenience[1]). As one of the chief opponents of ABB Britain's participation explains, the principal reason for this decision relates to the proposed body's centralised nature:

> *"I lobbied very strongly that we should not participate. I wrote a paper on the issue, and I like to believe it went some of the way to the decision to opt-out, and the reason is ... that I don't actually believe it will be a benefit to our business: it's not consistent with the culture of a UK decentralised company."* (17/03/98).

Not only does ABB Britain not have the apparatus for disseminating information from such a centralised body, but concerns were voiced about its potentially centralising impact on industrial relations at the British subsidiary. Furthermore, little in the way of benefits were anticipated from participation. With the ending of Britain's opt-out from the Maastricht 'Social Chapter', and the legislation enacted under its terms (including the EWC Directive), ABB Britain was, at the time of my visit, preparing to send representatives to ABB's ECE. This was hardly a matter of great concern to any ABB Britain managers but, as ABB Power Transmission and Distribution's personnel director explains, there was also little excitement at the potential business gains:

> *"I think that if we look at the issues that are facing Power TDL today and as we anticipate them in the next two or three years, then I think it's going to be largely irrelevant. I'm not sure that it's going to materially help the business in doing just about anything."* (13/5/98).

Similar views were also expressed at the other four UK participant companies, with little perception of added value and some degree of

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[1] No other ABB managers believed that the UK would be able to sustain its opt-out from the 'social chapter' for long and were thus reluctant to draw up a constitution and form a body which would have to be amended at some stage in the future. A solution was eventually found whereby two seats would be allocated to UK representatives but the UK would not sign the initial agreement. The seats would, therefore, remain empty until such time as ABB UK reversed its decision, either voluntarily or through legal coercion, and sent representatives to sign the agreement.

concern for the costs as well as the potentially centralising effects of the new institution. Exactly the same concerns were also voiced about the proposals for a Directive on National Information and Consultation. At Siemens UK, for example, although the company has advanced policies on communication and 'Management by Co-operation', the personnel director believes that such processes have most value at the local level, and that insufficient commonality exists between the company's various diverse business operations to justify a national company-wide forum:

> *"People nowadays really are tied more closely to a specific business group and it really wouldn't lend itself comfortably within our organisation structure and the established communication arrangements to have some kind of UK forum, given that we have other arrangements already in place."* (28/7/98).

At ABB Britain, where an even greater emphasis is placed on decentralised industrial relations, the response to this Directive is almost identical. According to a senior personnel manager in the company:

> *"It's not consistent with our culture of developing decentralised companies in the UK. We believe that our decentralised businesses give us a real competitive advantage compared with some of the businesses against whom we're competing in the UK, Europe, and the rest of the world. It will almost certainly be a distraction and an additional overhead cost rather than a true value adding process."* (17/3/98).

The other prominent feature of industrial relations at British participants, and one which has likewise been a significant factor in recent flexibility advances, is its informal or voluntary nature. Particularly with respect to working time and employment protection, the relative absence of legislation has imposed few constraints on either the form or level of *temporal* and *numerical flexibility* at UK participants. While companies have voluntarily chosen to forego much of

their scope for the latter, they have all made impressive moves towards more sophisticated forms and higher levels of *temporal flexibility*; EU legislation, in the form of the Working Time Directive, was roundly criticised for its limitations on such flexibility. At Siemens UK, for example, in spite of a strong public commitment to the EU[2], this Directive met with a very hostile response:

> *"Our view on the legislation is that it is a pain in the backside and we shall fully apply the derogations, and have in fact already started, changing individual contracts and concluding workforce agreements ... Our attitude is bollocks to the law, we're not in the least bit interested."* (Siemens UK personnel director, 27/9/97).

To circumvent the Directive's limitations on shift-working and overtime, the company has had to negotiate 'complete flexibility' deals with workers who might be affected (primarily those in service and maintenance departments), whereby workers agree to work an unlimited number of hours, as and when needed. In reality this is not what will be expected of people, but such dramatic measures are seen as the only way to preserve the arrangements under which the company and its workers have been working, and with which neither have had any problems. Where workers are on collective contracts, the company has concluded workforce agreements to similar effect. Far from being an adjuvant to organisational flexibility, this EU initiative presented Siemens UK with

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[2] Like its parent company, Siemens UK is an outspoken advocate of the EU. Despite the UK's 'opt-out' from EMU, for example, Siemens UK turned its adoption of the Euro as in-house currency into a public campaign, organising a series of 'Euro Forums' to build support for the single currency across the country in 1998. (See Financial Times, "*Siemens takes to the road in call for Euro readiness.*" 18 May, 1998). Such support also runs deeper than just the single currency; in an interview for my MPhil research in 1996, the company's personnel director explained Siemens UK's opposition to Britain's opt-out from various elements in the Maastricht Treaty: "*Our view is very simple - you're either in a club or you aren't. We're all in favour of the EU, from an economic, industrial and, to a certain extent, political point of view, and it could become a much stronger entity if we all subscribed to a belief that that's the way it should be.*" (24/5/96).

a series of potential rigidities and, although the company believes that it has been able to negate most of the immediate constraints, its support for such legislation is extremely limited.

In addition (and closely related) to their direct and immediate implications, many of these measures have another, possibly more important, consequence in that they provide workers and unions with additional bargaining power[3]. As Vauxhall's personnel director suggests, with regards the Working Time Directive for example:

> *"Our unions will pick it up, and if we have to do something, they will make us do it. The legislation says we can negotiate something alternative, and we will try to do that, and they will say, 'Well, here's the price'."* (21/4/98).

As noted above, and in contrast to the situation in Germany, direct legal constraints on management strategy and flexibility have always been minimal in the UK context. Far more important have been the indirect limitations imposed by powerful sectional interests within the workforce, with competing trade unions imposing their control over the supply and cost of labour, work organisation and processes, and working time. However, the hostile economic climate of the 1990s, compounded by the cumulative effect of two decades of political and social malevolence towards trade unions, and the fragmented structure and decentralised government of the unions themselves, have all contributed to a significant swing in the balance of power in favour of management. By the early 1990s these various forces had not yet fully taken effect, and

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[3] According to Martin's (1992) framework of bargaining power (see page 73), industrial relations legislation is one of the important contextual influences upon the balance of power. Turner (1991) argues that such regulation provides unions with a crucial bulwark against other hostile features of the industrial relations system, including adverse economic, political, and social conditions, and anti-union management strategies.

researchers found few signs of changed British flexibility, but their impact has intensified throughout the decade and, by the end of the 1990s, unions' power to control the internal labour market had been greatly diminished. Under intense pressure from markets, management have used their new-found freedom to drive through dramatic changes, particularly with respect to *functional flexibility*. Demarcations have been torn down, workers trained to perform a variety of functions, and new forms of work organisation introduced. With diminished union power, management have encountered little opposition to the development of new working time models (*temporal flexibility*), or to significant advances in the outsourcing of non-core aspects of production (*externalisation*), thereby cutting costs and facilitating intensified operational focus on core competencies. Decentralised collective bargaining has directly exposed workforces and their representatives to the adverse industry conditions, forcing wage moderation and high levels of *'direct' financial flexibility*.

Management strategy has, itself, been 'flexible', combining the opportunistic exploitation of union weakness with a pragmatic realisation that change processes will only succeed if workers participate in, and are committed to, such measures. 'First order' strategies have deliberately been kept beyond the influence of unions, as have most 'second order' policies and strategies on outsourcing and lean production. Where workers and their representatives have increasingly become involved is at the 'third order' stage of implementing these higher-order decisions: the operational design and execution of programmes conceived of and developed by management at higher levels of the organisation. By this stage, of course, the scope for alteration is greatly limited, and the current weakness of unions at

this level has further restricted their ability to modify management strategies. The outcome has been that, with minimal legal restrictions and relatively weak unions, management strategies for change have been far less compromised than is the case at German companies, with less time spent negotiating and fewer concessions made. The results have benefited management both politically (through increasing their organisational control) and economically (by improving flexibility), and they are not about to see these advantages overturned by EU social policy legislation.

By and large, current EU measures pose only a limited threat to the *status quo* in Britain, but employers fear that any advances in the social dimension might be the thin edge of an EU-level regulatory wedge, with significant direct and indirect impact on British industrial relations in the future:

> *"I think one has to be very careful that we don't wake up one day with a great raft of regulations which, taken individually, don't seem that bad, and individually can be justified, but taken as a whole mean that you become so regulated in everything you do that you are no longer flexible, and not able to respond to the fact that the market and the world have moved on, as indeed I think the Germans and the French are discovering ... I think you've got to be careful with these things because in the end you could find yourself not able to do the things you have to do to survive."* (Jaguar personnel director, 8/6/98).

British engineering employer opposition to the Commission's proposals reflects a clear preference for voluntary employee involvement, and relatively 'informal' processes and institutions of industrial relations at a decentralised level. These features have, in the recent UK and global environments, been closely associated with a weakening of union power and a turnaround in the flexibility situation at UK participant companies. The same characteristics of British industrial relations

which were identified as insurmountable obstacles to flexibility by the 'new orthodoxy' have become the principal sources of flexibility in a changed context. In this context, few obstacles (direct or indirect) limit flexibility, and British managers are less than excited at the prospects of EU industrial relations regulation which would impose direct constraints on flexibility, as well as fortify trade union strength; this 'economic rationality' greatly compounds their historical ideological disapproval of such regulation on the grounds of 'managerial prerogative', making for unambiguous British employer opposition to the EU social dimension.

A striking feature of all these changes is their contingent nature; they are conjunctural not structural and, just as the absence of regulation is of great advantage to British employers in the current climate, there is nothing to prevent the re-emergence of conditions equally unfavourable to employers and flexibility (Streeck, 1984a). From this perspective, EU social policy legislation might be viewed as a stabiliser, an opportunity to introduce much-needed constancy into British industrial relations before the wheel turns again, bringing a new cycle of rigidity and conflict. It was, however, abundantly clear from all my discussions with British managers that they do not anticipate a return to the constellation of economic, political, and social conditions prevailing during the 'new orthodoxy' and, as such, they are emphatically opposed to the EU-induced juridification of British industrial relations.

3. German Response

As noted in chapter three (pages 149 to 150) power-sharing has, for some time, been a well-established reality for German managers, and 'managerial prerogative' is a far lesser influence on their response to EU social and industrial relations regulation. Coupled with this much-reduced 'political rationality', most economic considerations suggest that they should be at least mildly positive in their disposition towards the EU social dimension. As we saw, however, this is far from the case.

The high levels of regulation in Germany - at all four tiers of the system, and in the form of both extensive legislation and a centralised, coherent labour movement - have had two implications for flexibility in the globalised environment of the late 1990s. First, industrial relations legislation places direct constraints upon management choice, prescribing and stipulating various components of the employment contract. *Numerical* and *temporal flexibility* are, as discussed in chapter two, both subject to numerous laws regulating employment protection and working time, while *'indirect' financial flexibility* is significantly bounded by government policy and legislation on statutory non-wage labour costs. Until fairly recently, these constraints were perceived as a relatively small price to pay for "*unencumbered internal mobility*", and were comfortably borne by German companies monopolising the high-ends of their respective markets. As we have seen, however, German internal flexibility is no longer exceptional, nor do German companies continue to enjoy uncontested dominance in the most lucrative segments of their markets. As such, the costs and rigidities associated

with Germany's highly regulated industrial relations system are of greater consequence to German companies than in former times.

Although this already-high level of regulation greatly limits the direct consequences of EU measures on German companies, it also heightens employer sensitivity to the introduction of any additional rigidities or costs. Despite the Working Time Directive's marginal impact in Germany, for example, any further regulation of what ABB Germany's vice-president for HR policies describes as a *"very nearly over-regulated"* industrial relations system is strongly resisted. As an official on the BDA's European Union and Social Policy Committee explains, flexibility is a key point in German employer opposition to the Directive:

> *"We see that, with the changing economy, companies need more and more flexibility, and not the opposite, and the Working Time Directive has imposed limits which sometimes create obstacles which are unsuitable, and which are unwanted by companies ... Therefore, we think that the Working Time Directive has made limitations which, under the changing circumstances which require more flexibility, they are bad, and this is a bad Directive."* (10/10/97)[4].

As at UK participants, the EWC Directive was unanimously opposed by German companies for its centralising and bureaucratic implications; according to ABB Germany's vice-president for HR policies,

> *"No-one was happy with that; no-one really wanted that. I don't know a single employer in Germany who wanted to have that legislation."* (10/11/97).

In its official response to the initial EWC Directive, the BDA described the envisaged institution as "*an unacceptable burden to*

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[4] According to an official BDA policy document, "*The BDA was particularly critical of the short time-frame for averaging working time, which did not provide companies with sufficient flexibility in extraordinary circumstances ... It is precisely in the quest for greater flexibility of work that such strict regulation is a barrier to the competitiveness of the European economy.*" (BDA, 1998d, p47).

competitiveness", and registered its opposition to the Directive on the grounds that the proposed instrument would,

> *"lead to delays to, or even the prevention of, necessary organisational changes [and] burden the organisation with a disproportionate organisational-bureaucratic cost"* (BDA, 1991, p2)[5].

According to the vice-chairman of Gesamtmetall's International Social Policy Committee, the subsequent experiences of German companies with their own EWCs have done little to inspire enthusiasm:

> *"From the beginning we were against this legislation ... now it's a compromise and we have to make the best of it but, nevertheless, I would say that German industry, they do their task, but they say it's of little benefit ... when you ask an employer they will say, 'Okay, we can live with this, but it costs money and adds bureaucracy, and it's nothing which could help a company to get more competitive, or to get leaner - that's what we want.'"* (7/10/97).

There is clearly little to distinguish between these views and those of UK employers. Although German industrial relations are already conducted on a significantly more centralised basis than is the case in Britain, this is viewed as a mixed blessing by German employers, many of whom are trying to move away from such centralisation towards a greater focus on plant-level arrangements. The EWC Directive, which stimulated an even higher level of aggregation, and brought with it few tangible benefits and numerous immediate costs, was met with no more employer support in Germany than it was in the UK[6].

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[5] The position statement goes on to elaborate: *"Serious consideration must be given to the danger that, on account of the ponderousness and duration of the consultation arrangements prescribed by the guidelines, necessary organisational changes will be delayed and timely implementation prevented."* (BDA, 1991, p4).

[6] The same applies to the prospects of EU collective bargaining, which is vehemently rejected by German employers.

The second, and perhaps more important, consequence of the well-developed regulatory framework is that it has buffered the position of labour against the adverse economic context, and prevented the dramatic shift in the balance of power which has characterised the UK situation[7]. The ability of workforce institutions to extend their legal rights, and enhance their influence in matters pertaining to *externalisation*, *functional flexibility*, and *'direct' financial flexibility* was noted in all four German companies. With the balance of power in the German industrial relations system far more delicately poised than is the case in the UK, the *indirect* impact of EU social policy legislation is possibly of even greater concern to German managers. Opposition to the Commission's proposals for National Information and Consultation, described by the BDA as *"a catalogue of information and consultation obligations"* (BDA, 1998d, p50), is illustrative. As the legal specialist with responsibility for EU social policy affairs at Siemens AG explains, the principle point of opposition from German companies is the extent to which the proposed legislation would further strengthen the powers of German works councils. Of particular concern to German managers are the draft Directive's proposed sanctions, whereby decisions made without being preceded by the necessary information and consultation would be made void. Few managers in Germany perceive a need for fortified works council rights, and these additional powers are a source of anxiety for many German managers. According to Daimler-Benz's EU social policy expert:

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[7] In addition to the effects of regulation, social and political differences between the two countries have also been telling. While trade unions have been vilified by politicians, the media, and public opinion in the UK, they enjoy a well-entrenched and respected position in all aspects of political and public life in Germany. Their acceptance as part of the social landscape has further buttressed labour's position, and moderated the impact of the hostile economic climate.

"What worries me the most about this new draft is this idea of sanctions. It's just a question of checks and balances, and if you are changing this system that has developed in Germany over the years, then this system of checks and balances will get out of balance, and that's what will really cause problems. You know, if you are strengthening the sanctions of the works council, then they can be much harder, and take on harder positions, and that will change the whole environment for negotiations ... It is these sanctions that will prohibit management from putting into practice certain decisions ... You know, sometimes in business things can move quite quick, and if you have this model of strengthened works council involvement, then that can cost you because you can not decide quickly, and you can not put into force your decision, and that will block the company." (4/2/98).

Restricted by legislation and powerful labour institutions, management strategy has necessarily been based on compromise, consensus-seeking, and co-operation. Where 'first order' strategies are subject to approval by the supervisory board, as at Daimler-Benz and Siemens AG, issues such as globalisation have proceeded far more cautiously than at GM and ABB, where they are largely beyond the direct influence of German labour institutions. Even at these hard-driving, aggressively-globalising companies, however, all 'first order' strategies must be formalised in corporate policy and then implemented at operational level in Germany, with works councils and supervisory boards having significant influence at both stages. Although management at all four German companies increasingly (and, often, opportunistically) use competition between sites, and the threat of disinvestment to leverage greater flexibility, they remain bound within a tight framework established by laws, industry agreements, and powerful bargaining partners. The most costly and burdensome constraints for management are those associated with *'indirect' financial flexibility*, *temporal*, and *numerical flexibility*, although German managers also express growing concerns about difficulties relating to *externalisation*, *'direct' financial flexibility*, and certain aspects of *functional flexibility* (especially regarding lean production). As noted throughout, these companies

continue to operate to high levels of sophisticated flexibility but, in the current industry context, managers are concerned that change is often not fast or radical enough. Under these circumstances, while they continue to support the basic structure and underlying principles of their industrial relations system, German managers perceive a need for targeted deregulatory reform which would free their hand in devising and implementing strategies, and increase firm-level flexibility; to the extent that EU social policy initiatives strengthen (and even advance) German regulation, they are strongly resisted. Having spent almost an hour expounding on the *"very tight corset of legislation"* within which German companies must operate, ABB's vice-president for HR policies went on to conclude:

> *"This is very important for you to understand why many German companies are not very happy about the addition of European restrictions coming over them. Already living in this situation, we are not eager to have more restrictions, because we already have so many."* (10/11/97).

As Sadowski et al. (1994) have argued, although the German industrial relations system has always been considered to be comfortably above the highest possible level of EU regulation, and the only fear was that EU social policy legislation threatened to dilute social standards and labour protection in Germany, the reality has been the reverse. EU social policy legislation has, in fact, led to a not-insignificant strengthening of German social regulations; this has not gone unnoticed by German employers who have become extremely sensitive to the potential dangers of EU initiatives. As the EU social policy expert at Daimler-Benz notes,

> *"We already have strong regulations on the German level and, from the employers' point of view, we always hoped that perhaps the European measures would reduce a little bit of the German edges. But, in fact, everything is put on top of it, and this*

levelling up costs companies time and money ... You know, German employers are not asking for new legislation because we already have a very strong burden of social policy legislation from our national law. The European rules often do not take into consideration the German system, and then it is just added on top of something we already have." (2/2/98).

Even initiatives which are largely ignored in the UK can sometimes meet with surprising opposition in Germany. The VDU Directive[8], a relatively obscure and apparently innocuous piece of health and safety legislation, is an example of this. The Directive contains a number of obligations for employers relating to workplaces using screens[9], most of which are little more than common sense, but if every detail were insisted on to the letter, it is not difficult to see how the legislation could prove onerous to companies. And, according to ABB Germany's vice-president for HR policies, this is what has happened in Germany, where the unions have sought to use this prescriptive EU instrument to leverage their power vis-à-vis management:

"This causes us problems because the IG Metall tries to use these new guidelines as a vehicle for getting new equipment for everyone; so usually I can say that we are not very happy about the European legislation on social and labour law that comes over us, we don't need it ... This concerns every company - there are more and more work places with screens in them and, if there are severe restrictions, the employer has to obey and it can be very expensive for them. This is not widely discussed in Germany but every company is suffering from it; I talk to my colleagues - they are furious." (10/11/97).

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[8] Full title: Council Directive of 20 May 1990 on the Minimum Safety and Health Requirements for Work With Display Screen Equipment. This was the fifth individual Directive to be adopted under the Framework Directive for Health and Safety of 1989.

[9] These include the requirement to *"perform an analysis of workstations in order to evaluate the safety and health conditions to which they give rise"*. The legislation also prescribes detailed design and layout features of the workstations themselves, including characteristics of screens (character size, brightness, etc.), keyboards, desks, chairs, even the temperature and humidity in the room.

Indeed, managers at the study's other three German companies expressed similar frustrations with this piece of legislation, a virtual irrelevance for participating UK companies.

Although, as noted in chapter three, it is not difficult to hypothesise that German employers might support the extension of the EU social dimension as a means of preserving their own industrial relations system and simultaneously burdening their European competitors, this study uncovered little evidence of such a position. From the perspective of German employers, such a strategy is considered counterproductive because, as noted (and despite original conjectures to the contrary), most EU social policy initiatives actually add to the levels of existing German regulation[10]. Moreover, even where the content of EU legislation falls below the level of domestic regulation, it almost invariably has implications for the German situation:

> *"For us it's not possible to install the German system everywhere in Europe, and we don't want to do that. We wouldn't be accepted, and we wouldn't be able to go back in Germany once we had reached a level like that across all of Europe; there would be no more majority to pull the wheel back, to go back to a less regulated situation."* (Vice-president for HR policies at ABB Germany, 10/11/97).

There are, in other words, two reasons why it is not in the best interests of German companies that their European competitors should be saddled with more industrial relations regulation, even when the

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[10] Like their British counterparts, German employers are also concerned that the EU's current regulatory agenda is but the thin edge of a much more extensive regulatory wedge. With regards the Working Time Directive, for example, the vice-chairman of Gesamtmetall's International Social Policy Committee cautions that: "*We already have the shortest working time in Europe, and therefore what can come from the EU? We hope nothing serious, but we warn our companies: 'Be careful, even with the shortest working time, the EU will perhaps find something which can be serious, even for Germany' ... Our warning is that the Commission will bring more. They are very tricky, they always want to bring a little bit more than what we already have, and if we don't try to stop them now, we will see more later.*" (7/10/97).

immediate impact of such regulation is limited in Germany. Firstly, these EU regulations reinforce and anchor regulations that currently exist within the German industrial relations system, providing a second (and even less accessible) layer of regulation which will need to be reformed, if reform of the first, national, layer is ever achieved. As a senior official at the BDA elucidates:

> *"These regulations have one consequence which we also don't like. We are struggling for more flexibility in Germany. This is one of the big disadvantages of our country, particularly towards Britain, but also towards other countries, and as soon as things are fixed by European law, we will not be able to change anything. And therefore we don't think that further restrictions should take place and, secondly, we don't like that there are new regulations which make our strong existing laws unchangeable."* (10/10/97).

Secondly, increased regulation of adjacent European industrial relations systems removes a favourable point of reference or 'bench-mark' for German management: as long as Germany's regulated system remains at an extreme in the European context, it lends credence to management's arguments that reform needs to be in the direction of less, not more, regulation. For each issue in which European regulation approaches German standards, the equivalent German regulations are accorded increased legitimacy and virtually removed from the agenda in the domestic debate over regulatory reform. If European companies were the only competitors confronting German firms, extending the EU social dimension might serve the interests of German employers but, in the context of global competition, the country's managers realise that they have little to gain, and a lot to lose, by such a strategy.

The position of German managers is more complex than that of their UK counterparts. Unlike their British counterparts, German managers accept, and even value, a certain degree of industrial relations regulation. In

fact, for the most part, they remain positively disposed towards Germany's highly regulated industrial relations system. They are, however, increasingly uneasy about the cost and flexibility disadvantages that their companies now suffer vis-à-vis their British and American competitors. For German managers the solution does not lie in a complete dismantling of the German model of industrial relations, but a careful and calculated reform of current arrangements. To succeed, such reform should entail a certain degree of deregulation, tailor-made to German circumstances. EU social policy legislation fails on both counts: it invariably introduces even more regulation, and, being developed to apply in 15 different countries, it is far too generic and non-specific to be of relevance to the German situation. As the BDA argues,

> *"The responsibility for a policy for improving employment and strengthening competitiveness must, to be successful, lie with member states. To achieve these ends, structural reforms, more flexible labour markets and, especially, meaningful reductions in the taxes and social burdens on companies remain of the utmost importance."* (BDA, 1998b, p1).

C. IMPLICATIONS FOR THE SOCIAL DIMENSION

The analysis presented throughout this thesis does not hold out much hope for a resolution of the controversy surrounding the EU social dimension in the short to medium-term future. As noted in chapter three (and outlined in Appendix C), the social dimension has made significant institutional advances over the last decade to the point where, in theory, little in the way of industrial relations and social policy in EU member states remains outside its jurisdiction. As Davies (1992, p339) notes, the implications of the various institutional advances made are that:

"The Community should broaden the scope of its interest in social policy, probably to the point where no labour law topic was excluded a priori, and the Community's interest should be to see that certain results or situations obtained throughout the member states."

As also highlighted in chapter three, EU-level political institutions are increasingly aware of the deficit in the level of social integration across the Single European Market as compared to the degree of economic integration; numerous social, political, and economic arguments are advanced in favour of developing the EU's social dimension to a level more in keeping with the Community's spectacular achievements with respect to economic harmonisation. There can be little doubt that Economic and Monetary Union (EMU), unquestionably the Community's most significant move towards closer integration to date, will be accompanied by a further heightened awareness of the social dimension and its relative pallor. The previous absence of an institutional base from which to develop EU industrial relations and social policy has been a much-cited obstacle to securing advances in the social dimension; now that this shortcoming has largely been rectified, both the conditions and the institutional apparatus exist to give it new life.

Any such moves will not, however, be welcomed by EU employers; in fact, they will be fiercely opposed. The thesis has set out to argue two main points. Firstly, that a high degree of employer opposition to EU industrial relations and social regulation exists in both Britain and Germany. Citing responses to EU regulatory initiatives from companies as well as employers' associations, a number of common points of opposition have been highlighted. Although the main focus of the study is limited to a small number of large British and German engineering firms, the extent to which their responses correlate, not only with each other, but

with the responses of employers' associations at national and EU levels, suggests that their apprehension and disapproval are broadly indicative of the mood characterising EU employers more generally[11]. The second main assertion of the thesis is that, to a significant extent, this opposition is grounded in a growing concern among employers for the negative effects of industrial relations regulation on firm-level flexibility. We have seen how, in the industry conditions prevailing at the end of the 1990s, participant managers in both countries are adamant that any further such regulation will be harmful to companies' flexibility and, therefore, competitiveness. While an ideological dimension to this opposition has been recognised (particularly for British employers), it is argued that this is greatly compounded by strong economic concerns which, in spite of Commission assurances that EU social policy measures will enhance both flexibility and competitiveness, will not be easily assuaged.

In light of this analysis, I suggest that the scene is set for an intensification of the controversy and conflict surrounding the EU social dimension. As EU-level political institutions perceive a growing need to develop an EU-level framework of industrial relations and social policy regulation, and as they increasingly acquire the institutional wherewithal to do so, they will confront determined opposition from employers, themselves faced with unprecedented levels of competition and an unrelenting pace of change, and increasingly sceptical of the effects of such regulation on firm-level flexibility. The possible outcome of

[11] That such a degree of similarity should exist in the opposition of employers in the UK and Germany - whose industrial relations systems arguably lie at the two poles of a European spectrum of regulated industrial relations arrangements - is itself an indication of the commonality which exists across the range of European employers.

this conflict remains highly uncertain. On the one hand, the emergence of an EU-level industrial relations system will require, not merely the subjugation of employer opposition to regulation, but the active and willing participation of employers from across the EU. As the findings presented in this thesis suggest, there is little likelihood of this in the short to medium-term future. On the other hand, the various institutional advances made by the social dimension over the last decade have reduced the potential for employers and their political allies at member state level to obstruct the progress of measures under the social dimension. If the two most recent 'social action programmes' for the periods 1995-7 (CEC, 1995b) and 1998-2000 (CEC, 1998b) are any indication, the Commission has sought to accommodate these various pressures in two ways. In the first place, to address employer concerns about the burden of industrial relations regulation, the number of proposals for new legislation has been significantly reduced from over 40 proposals in the 1989 'social action programme' (accompanying the 'social charter') to just six in the 1998 version. Secondly, however, with the strengthened institutional base for the social dimension, and in line with analyses calling for a more meaningful body of EU social and industrial relations regulation, the issues which have been brought onto the EU social agenda are significantly more substantial and contentious[12]; in a sense, the Commission has abandoned its former *ad hoc* approach of forcing through as many minor pieces of legislation as it could, and has adopted a more focused strategy of developing the basic building blocks for a future EU industrial relations system. As we have seen, however, it is exactly these (mostly procedural) measures, aimed at encouraging 'negotiated adjustment' and 'bargaining for change',

[12] Issues such as the proposal for a Directive on National Information and Consultation, and renewed interest in the Participation element of the European Company Statute.

which are of greatest concern to employers. As such, and with the various advances in other aspects of the EU as background, the scene is set for a very volatile phase of development for the EU social dimension, and one which will, to a significant extent, determine its future shape.

D. SOME UNANSWERED QUESTIONS

1. Flexibility and Competitiveness

Although managers throughout the study were inclined to conflate flexibility and competitiveness into a single notion, the finding of a British flexibility advantage raises some difficult questions in light of well-recognised German competitive superiority.

Numerous measures exist for comparing corporate and national competitiveness, each with different implications for the relative positioning of firms and countries on a scale of competitive advantage. One of the most commonly used measures, focusing on the efficiency with which labour and capital inputs are deployed within the economy, is total factor productivity (TFP). According to all comparative studies of TFP, the UK economy as a whole trails Germany by a relatively significant margin; the most recent such study, conducted by the McKinsey Global Institute (McKinsey, 1998), suggests that the gap is roughly 14%. Concealed within this statistic is an even greater deficit (of 26%[13]) in terms of labour productivity, or the efficiency with which human resources are deployed. This significant deficit is, as noted,

[13] According to different studies, anywhere between 3% and 5% of this difference is accounted for by the relative size advantage which German manufacturing companies enjoy over their British competitors, but this still leaves a significant UK shortfall in labour productivity.

difficult to reconcile with this study's finding of a relative British advantage in terms of the costs and (in many cases) levels of flexibility.

The study's British participants are, however, atypical UK companies and plants in that they are all (with the exception of LucasVarity[14]) national subsidiaries of foreign-owned companies. The significance of this, according to Eltis (1995b, p14), is that foreign-owned British manufacturing companies are, on average, 29% more productive than their locally-owned counterparts. According to one hypothesis with respect to the UK's productivity gap (DTI, 1997a, p15; McKinsey, 1998), a relatively small 'head' of leading UK companies operate to levels of productivity comparable to their best mainland European rivals; average UK productivity levels are then dragged down by a poorly performing 'body' of companies and a relatively long 'tail' of laggards. There is, indeed, a certain amount of evidence to substantiate this hypothesis: in autos, for example, three of Europe's five most productive car plants are located in the UK, including Nissan's Sunderland plant which is reckoned to be the most productive plant in Europe and one of the most productive in the world[15]. There are various indications that participant British companies might well fall within this 'head' of top UK performers. Given the highly sensitive and confidential nature of productivity data, obtaining such information from participant companies and plants was, understandably, difficult. Rough indications, however, suggest that for most paired cases British companies and plants were not

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[14] LucasVarity itself is partly American owned. The division of the company involved in the study was the aerospace division; according to the British Department of Trade and Industry, the aerospace components industry is one of a handful in which British companies outperform their German counterparts on most productivity indicators in any case (DTI, 1997b, p25).

[15] Financial Times, "*Nissan UK plant most productive in Europe.*" 27 August, 1997.

at any major productivity deficit to their German complements. At the two most directly comparable plants, Vauxhall Luton and Opel Rüsselsheim, the consensus view at both plants (in discussions with managers and workforce representatives) was that Luton had, in recent years, closed a formerly wide productivity gap, and there was no longer any significant difference between the two plants. Jaguar has, likewise, made impressive advances in the past decade, with dramatic improvement in product quality and operating efficiency. ABB Britain's Transformer Division in Dundee has, since 1996, been steadily climbing ABB's league table on various measures of competitiveness, while much of the 30% productivity deficit which had existed between Siemens UK's Heaton Works and its parent plant in Mülheim when the plant was acquired in June 1997 had already been eroded within a year of the new management team taking over; management (led by a former director from the Mülheim plant) has drawn up a business plan which foresees a complete erosion of the shortfall by year-end 1999.

Among various features distinguishing foreign-owned British subsidiaries from their domestically owned counterparts, two are particularly pertinent in accounting for their superior competitive performance: their managerial competence through access to international 'best practice', and high levels of investment in human skills and equipment. Again, according to Eltis (1995b, p14), the investment per head of foreign-owned British manufacturing companies is a staggering 112% above their British-owned counterparts. There can be little doubt that such investment has played a crucial role in improving both flexibility and competitiveness at UK participants; this is perhaps most clearly demonstrated in the competitive advances at Vauxhall and Jaguar during the latter half of the 1990s, following substantial investment from

their American parent companies. As noted in chapter four, for example, the latest round of model changes at Vauxhall have seen just under USD 500 million in investment at the company's two sites, while Ford invested an estimated USD 6,5 billion (including purchase price) in Jaguar between 1989 and 1997[16]. While advances in flexibility have undoubtedly been important in improving these companies' competitive performances, without these high levels of investment, the improvements in competitiveness would have been limited.

What is more, even if participant UK companies have closed a significant portion of their productivity deficit vis-à-vis German counterparts, they often continue to operate in much lower value-added sectors of the market. Opel Rüsselsheim, for example, manufactures not only the same model Vectra as Luton, but the top-of-the-range Omega as well as Cadillacs for export to the USA. Rüsselsheim is also the site of GM's International Technical Development Centre from where research and development are conducted, not only for Europe, but for most of the rest of the world outside of North America; by contrast, Vauxhall's research and development functions were closed down and moved to Rüsselsheim during the 1970s. In spite of the impressive advances made at the Heaton Works, it remains little more than a satellite plant to Siemens' main power generating facility in Mülheim, doing sub-contracting and service work for the parent plant. Three of the six companies operating at ABB Germany's Käfertal site are 'global lead centres' within ABB's highly competitive world-wide operations; none of ABB Power TDL's subsidiary companies or plants in the UK enjoy this honour. To at least some extent, these differences can be accounted for by the dramatic decline of British manufacturing since the Second World War (paralleled by an

[16] Financial Times, "*Lex column: Ford/Jaguar.*" 6 January, 1998.

even more dramatic renaissance of German manufacturing), and the significant incumbent advantages enjoyed by the study's German plants at the start of the 1990s. After decades of poor performance and deterioration British plants will have to establish a clear and incontrovertible lead over their German equivalents to displace them at the top of the value chain. Various German manufacturing strengths make this a rather unlikely prospect, not least of which is the country's highly-skilled workforce.

Differences in the relative emphasis placed on training at British and German participants provides some insight into the substantial skill advantage which the latter enjoy over their British competitors and which, I suggest, is a significant source of competitive advantage to these German companies. Again, specific figures were not always available, but the comparisons which can be made are revealing. Formal training is, of course, significantly more advanced in Germany: of Siemens' 15 800 global trainees in 1997, for example, 14 100 (or 90%) of them were German. This means that a little over 7% of Siemens' German workforce is constituted by apprentices; by contrast, Siemens UK had 23 apprentices in 1998, constituting less than 0.2% of all workers[17]. Even when company-specific, informal training is taken into account, UK companies fall some way behind German firms. Siemens UK's Heaton Works, which is (with more than half the company's total number of apprentices) one of Siemens UK's highest priority training sites, spent roughly 3% of its total personnel costs on workforce training in 1997. In the same

[17] Another insightful comparison is with ABB's German operations which are, by turnover, not much bigger than Siemens UK, and whose activities are very similar. During 1997, ABB Germany trained 1 115 employees (4,5% of the workforce) in 38 special 'training locations' across Germany; what is more, the company was planning to increase this number in 1999.

year, ABB Germany's training costs accounted for more than 4% of personnel costs across the entire company; figures were not revealed for the prestigious Käfertal site, but the proportion was said to be significantly higher. Average spend per employee on training at Siemens AG and ABB Germany during 1997 was in the region of USD 1 650, roughly five times higher than the USD 330 at ABB Power Transmission and Distribution's transformer plant in Dundee[18]. By UK standards, Vauxhall has an impressive training record and, in 1997, the company's CEO was appointed chairman of the UK government's new Training Standards Council which would monitor the quality of government-funded workplace training. As noted in chapter four (page 237), the Luton plant runs a well developed Employee Development and Assistance Programme (EDAP) known as *Guidelines*, which has produced some impressive results. Formal, workplace training is, however, rather limited. An estimated 8% of the workforce at Luton is skilled via apprenticeship (compared to 55% at Opel Rüsselsheim, and nearly 100% at Eisenach). One of the major innovations of the site's *First Time Quality* programme has been that employees in final assembly have, for the first time, been taken off the line and provided with formal training; even this, however, only comprised an average of eight hours per worker. When added to the self-initiative, after-hours training at the open learning centre, this amounts to around 23 hours of training per employee per year, just over half of the five days formal training per year at Opel (Opel, 1997a).

[18] To be fair to the Dundee plant, this pitifully low figure was a legacy from the plant's treacherous financial position in the period 1994 to 1997, and far more money was budgeted for training during 1998 and 1999. The example is, however, illustrative of the gap which can exist between British and German companies in this important aspect of competitiveness.

These rough statistics provide some insight into the source of Germany's continued dominance over the UK in high value-adding processes, as well as the means by which German companies, despite various flexibility disadvantages, are able to sustain a productivity advantage (or at least maintain parity). What German workforces lack in fast, low-cost adaptability, they make for with significantly higher levels of skill which, in combination with investment in technology, makes for a powerful combination, the competitiveness of which is not easily matched. While best-practice UK subsidiaries of foreign multi-nationals are, through a combination of extensive flexibility, access to international managerial best practice, and capital investment, able to approach (and sometimes surpass) the productivity benchmark set by this German strategy, the sole reliance by the vast majority of UK companies on simple workforce flexibility, with poor management and inadequate investment[19], provides an insufficient base from which to compete. Furthermore, even the leading UK performers can rarely match their German competitors in high value-adding processes. Although, as noted throughout the thesis, organisational flexibility is increasingly being considered as crucial to competitive success, this analysis suggests that it is by no means the only viable source of competitive advantage nor, indeed, that, in itself, it is a sufficient source of competitiveness.

Perhaps the most difficult question to answer (from the competitiveness perspective) is whether these various features can obtain simultaneously: can high levels of investment in skills and technology co-exist with a highly flexible and motivated workforce? The 'new orthodoxy' suggests they can, and that the unrivalled success of

[19] The UK invests less per capita than any other G7 country (DTI, 1997a and 1997b).

Germany's industrial relations system provides concrete substantiation thereof. There are increasing signs, however, that the 'new orthodoxy' has been left behind by major contextual changes. Not only have the costs and limitations of flexibility in the German context been highlighted in the prevailing global product market conditions, but question marks even hang over the assumed positive motivational effects of co-determination: according to a survey conducted in 1997, covering 450 companies employing 9 million workers across 18 European countries, the level of job satisfaction among German workers is little more than average, with workers in seven other European countries describing more positive attitudes towards work (ISR, 1997)[20]. Furthermore, the high levels of unemployment (especially long-term and youth unemployment) in Germany raise question-marks against the social achievements of the country's industrial relations system[21]. By just the same token, however, the continued poor competitive performance of many UK companies (particularly with respect to labour productivity), in spite of sometimes dramatic improvements in firm-level flexibility, suggests that a focus on flexibility to the exclusion of capital investment and skills is itself a poor competitive strategy.

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[20] Although job satisfaction in Germany was indeed higher than that pertaining in the UK, workers in other countries with significantly less regulated industrial relations systems (such as Ireland and Portugal) reported higher levels of motivation than Germany.

[21] Various commentators argue, in fact, that Germany's high levels of unemployment also contribute to its high levels of productivity: most unemployed workers are unskilled and less productive, and the exclusion of these poor performers from the active German workforce raises the average productivity of the remaining workforce. See, for example, The Economist, "*Productivity: the British disease revisited.*" 31 October, 1998.

2. A Way Forward for the Social Dimension?

The analysis throughout this thesis, drawn largely from the perspective of employers, is somewhat pessimistic with regards the competitive value added by the EU social dimension's current agenda. Without ignoring social and political considerations, it is perhaps relevant to conclude by asking whether there might be a different tack for the social dimension which would simultaneously improve the competitiveness of its companies and the livelihood of its citizens. Such grand considerations fall well beyond the scope of this modest study, but the preceding analysis does invite some speculation.

A potentially constructive approach for EU-level actors might be to re-assess, in the wake of fundamental economic changes, the relative strengths of different types of national industrial relations system, and judge which of these might be appropriately developed at EU level. The analysis presented within this thesis suggests that the abiding strengths of German participant companies relate mostly to high levels of investment in technology and human resources, while for UK companies low-cost and rapid flexibility has, in the current environment, become a source of some relative competitive advantage. The type of deregulation and controversial change which would necessarily accompany an EU-led strategy for developing UK-style flexibility would be rejected, not only by trade union movements and political groupings across Europe, but by many European employers. Employer unanimity in opposition to EU industrial relations and social regulation should not be interpreted as a call for a deregulated European industrial relations area. This is particularly pertinent to German employer response. Although German managers are aware of (and frequently frustrated by) the relative time

and cost disadvantages which have recently come to be associated with their model of industrial relations, they are also conscious of a number of strengths inherent in their arrangements, and would arguably be equally as opposed to a deregulatory EU agenda as they are to the current regulatory drive. There is broad agreement among German employers that the level and complexity of industrial relations regulation needs to be reduced, but that solutions need to emanate from the national level. As such, this is an example of an inappropriate issue to be dealt with at EU level, and falls largely within the jurisdiction of national industrial relations actors. While EU-led industrial relations deregulation is, therefore, not a viable strategy for the social dimension, evidence from employer response suggests that further traditional industrial relations regulation is perhaps not the best way forward either: if additional labour regulation is going to harm firm-level flexibility (as British and German employers are convinced it will), and if flexibility is an important component of successful competitive strategies (as a wide range of commentators suggest it is), then EU institutions would do well to be circumspect in their application of further such regulation.

Based on the analysis of significant competitive advantage through a highly-skilled workforce, however the issue of investment in human resources is a topic which might be addressed at EU level. Certain member states, like Britain, suffer from widely-recognised barriers to skill development, frequently associated with an over-reliance on purely market-based incentives for companies to train their own workers; in this environment, it is often cheaper for firms to poach skilled workers from other companies through offers of higher wages, rather than invest in training. While a significant degree of indirect regulation of

training exists in other member states, such as Germany - through, for example, the long-term approach to the employment relationship induced by the difficulties of laying off workers - this often carries with it the type of costly external rigidity described in chapters four and five. One way to avoid this, while simultaneously encouraging a higher level of investment in human resources across the Community, might be to address directly the issue of training and skills at EU level. This could take the form of incentives (such as corporate tax breaks for money spent on training), exchange of best practice, and regulation.

One of the most original proposals to emanate from the social dimension in recent years was the recommendation, contained in the interim report of the 'Gyllenhammar Group' (studying organisational and industrial change), that large companies laying off workers without having provided them with sufficient training should face some form of sanction (Gyllenhammar et al., 1998). This would represent a break from the traditional focus of industrial relations regulation, and carries with it potential for both social and economic benefits. In the first place, all companies would be forced to invest in training their own workers for fear of facing sanctions when redundancies had to be made; this would have the obvious social advantage of improving the educational and skill levels of workers across the Community. It would also reinforce the EU's high-profile employment creation strategy, having direct bearing on at least three of its four 'pillars' (employability, entrepreneurship, and adaptability), with further positive social and political implications. From the employer perspective, the analysis presented earlier suggests that a more highly skilled workforce would be a significant competitive asset. Importantly, the proposal also contains a certain degree of flexibility for companies, in that such training

need not necessarily be formal vocational training, but can take the form of training specifically tailored to the needs of employees and companies; this, as the McKinsey (1998, p27) productivity report suggests, is an advantage to companies and their workers:

> *"investment in specific vocational skills is less obviously needed; indeed, it may not be as effective as employer or employee-led training in a more dynamic economy because of the rate of change in the skills required and the extent to which they are specific to a particular employer."*

Numerous difficulties confront such an approach: what is the appropriate level of training that workers should receive? Does it differ by industry, region, or size of company? How portable will such informal training be and, therefore, of how much value to workers outside the firm in which they received it? There are no easy answers to these difficult questions and, in the end, this proposal was considered too 'revolutionary', and omitted from the group's final report. It does, however, mark a new train of thought, an attempt to move beyond the limitations imposed by thinking in terms of one 'model' versus another, and seeking instead to develop a new 'model' for a new EU in a changed global environment. According to the analysis presented in this thesis, it is such original thinking that is needed to develop a meaningful and beneficial social dimension for the European Union, one which adds value both economically and socially, without detracting from either competitiveness or social justice. As far as employers are concerned, the current approach fails to deliver on at least one of these criteria; there is also reason to believe that some of their criticism is valid.

E. CONCLUSION

The purpose of this thesis has been to explore employer response to the EU social dimension, addressing the question, *"How are employers in the UK and Germany responding to the EU social dimension, and why?"*

It has been argued that managers in both countries are unenthusiastic about the social dimension, and that a high level of opposition to EU industrial relations and social regulation exists among employers in both the UK and Germany, (with indications that their position is indicative of employer response more broadly across the EU). In accounting for this negative response, the thesis highlighted the issue of firm-level flexibility, arguing that, in the current global economic context, a concern for the adverse impact of further social and industrial relations regulation on such flexibility contributes significantly to employer criticism of the social dimension. In Germany, where a high level of domestic regulation already pertains, employers experience numerous cost and time disadvantages in achieving flexibility within such a highly regulated environment; little scope is seen for further juridification. In the UK, where the relative absence of industrial relations is traditionally viewed as a significant barrier to organisational change, participant companies currently operate to unprecedented levels of flexibility, at lower 'cost' than their German counterparts; for British managers, there is a concern that regulation emanating from the social dimension will disrupt these advantageous circumstances. Neither set of employers perceives any business benefits in the social dimension's regulatory agenda, and both groups are quite adamantly opposed to current initiatives.

The analysis foresees little prospect of a solution to the controversy surrounding the social dimension. With increasingly empowered political institutions pursuing an extension and deepening of the social dimension, confrontation is almost inevitable with employers who, themselves, face intensifying competition in global product markets and are increasingly concerned at the flexibility implications of traditional industrial relations regulation. Resolution of the difficulties surrounding the social dimension is well beyond the scope of this thesis but, from the perspective of economic competitiveness, it was suggested that a new direction for the social dimension, focusing on the development of human skills, might gainfully be pursued.

As noted at the outset, this study was founded on the relatively modest objective of exploring employer response to the EU social dimension. As such, the analysis has largely been limited to the economic considerations of one group of actors, to the virtual exclusion of other aspects of a broad and multifaceted debate. In thus restricting the focus of the study, however, a relatively in-depth depiction of employer concerns over the social dimension has been developed. It is my hope that this insight might add to an incremental understanding of the most important issues confronting the EU's social dimension, such that it might progress in a manner and direction which will benefit all associated with, and implicated in, the great 'European project'.

APPENDIX A. ABBREVIATIONS.

ABB - Asea Brown Boveri

ABB Power TDL - ABB Power Transmission and Distribution Limited

ABC - Activity Based Costing (ABB)

ACAS - Advisory, Conciliation, and Arbitration Service

ACTSS - Association of Clerical, Technical, and Supervisory Staffs (a section of the TGWU)

AEU - Amalgamated Engineering Union

AEEU - Amalgamated Engineering and Electrical Union

AG - *Aktiengesellschaft* (Public limited company)

AMU - Associated Metalworkers' Union

APEX - Association of Professional, Executive, Clerical, and Computer staff (a section of the GMB)

ASTMS - Association of Scientific, Technical and Managerial Staffs (union)

BA - Bachelor of Arts

BDA - *Bundesvereinigung der Deutschen Arbeitgeberverbände* (Confederation of German Employers' Associations)

BDI - *Bundesverband der Deutschen Industrie* (Federation of German Industries)

BPR - Business Process Re-engineering

BSc - Bachelor of Science

CAG - Competitiveness Advisory Group

CAMI - GM's Canadian joint-venture with Suzuki

CBI - Confederation of British Industry

CEC - Commission of the European Communities

CEEP - *Centre Européen d'entreprise à participation publique* (European Centre for Public Enterprises)

CEO - Chief Executive Officer

CGB - *Christlicher Gewerkschaftsbund* (Christian Federation of Trade Unions)

CIP - Continuous Improvement Process

CNC - Computer Numerically Controlled

CSEU - Confederation of Ship-building and Engineering Unions

DAG - *Deutsche Angestellten Gewerkschaft* (German Salaried Employees' Union)

DBB - *Deutscher Beamptenbund* (German Civil Servants' Federation)

DGB - *Deutsche Gewerkscahftsbund* (German Trade Union Confederation)

DIHT - *Deutscher Industrie- und Handelstag* (German Association of Chambers of Commerce)

DTI - Department of Trade and Industry (UK)

ECE - Employees Council Europe (ABB)

ECJ - European Court of Justice

ECSC - European Coal and Steel Community

EDAP - Employee Development and Assistance Programme

EEC - European Economic Community

EEC - European Employee Council (GM)

EEF - Engineering Employers' Federation

EEF - European Employee Forum (GM)

EETPU - Electrical, Electronic, Telecommunications and Plumbing Union

EFA - *Entwicklung, Förderung und Anerkennung* (Development, Promotion, Reward Programme) (Siemens AG)

EFQM - European Foundation for Quality Management

EIRR - European Industrial Relations Review

EMU - Economic and Monetary Union (European Union)

EPA - Employment Protection Act (1975)

ERT - European Round Table of Industrialists

EU - European Union

Euratom - European Atomic Energy Community

EWC - European Works Council

FTO - (Trade union) Full-Time Official (UK)

FTPM - Ford Total Productive Maintenance

GCSE - General Certificate of Secondary Education (UK)

GM - General Motors

GmbH - *Gesellschaft mit beschränkter Haftung* (Private limited company)

GME - General Motors Europe

GM-IO - General Motors International Operations

Gesamtmetall - *Gesamtverband der Metallindustriellen Arbeitgeberverbände* (Federation of Employers' Associations for the Metalworking Industry)

HRM - Human Resources Management

IGC - Inter-Governmental Conference (European Union)

IG Metall - *Industrie Gewerkschaft Metall* (Industrial Union for the Metalworking Industry)

IIP - Investors in People (UK)

ILO - International Labour Organisation

IMVP - International Motor Vehicle Programme (MIT)

IRA - Industrial Relations Act (1971)

IRS Employment Review - Industrial Relations Survey Employment Review

ISR - International Survey Research

ITDC - (GM's) International Technical Development Centre (in Rüsselsheim)

IW - *Institut der deutschen Wirtschaft* (German Economic Institute)

JNC - Joint Negotiating Committee (at Vauxhall and Jaguar)

JPC - Joint Plant Committee (at Vauxhall and Jaguar)

JPM - Joint Production Meeting (Jaguar)

KWE - (ABB) *Kraftwerke AG* (Käfertal)

KWL - (ABB) *Kraftwerksleittechnik AG* (Käfertal)

KWS - (ABB) *Kraftwerke Service GmbH* (Käfertal)

MBA - Masters of Business Administration

MBUSI - Mercedes-Benz United States International Inc. (Daimler-Benz's)

MD - Managing Director

MIT - Massachusetts Institute of Technology

MPhil - Masters of Philosophy

MSF - Manufacturing, Science, Finance

NESC - National Economic and Social Council (Ireland)

NNC - National Negotiating Committee (Vauxhall)

NUMMI - New United Motors Manufacturing Inc. (GM and Toyota)

NVQ - National Vocational Qualification (UK)

OECD - Organisation for Economic Co-operation and Development

PSUZ - Power Segment - Global Servicing of Steam Turbines (ABB)

Q1 - (Ford's) Quality standard (for suppliers as well as internal production sites)

QNPS - Quality Network Production System (GM)

ROCE - Return on Capital Employed

SJNC - Staff Joint Negotiating Committee (Jaguar)

SPG 2000 - Siemens Power Generation 2000 (UK)

TASS - Technical, Administrative and Supervisory Staffs

TEC - Treaty on the European Community

TEU - Treaty on the European Union

TFP - Total Factor Productivity

TGWU - Transport and General Workers' Union

TPM - Total Productive Maintenance

TUC - Trades Union Congress

TULRA - Trade Unions and Labour Relations Act (1974)

TUPE - Transfer of Undertakings (Protection of Employment) regulation (1995)

TURCA - Trade Union and Labour Relations Consolidation Act (1992)

TURERA - Trade Union Reform and Employment Rights Act (1993)

UCATT - Union of Construction, Allied Trades, and Technicians

UK - United Kingdom of Great Britain and Northern Ireland

UNICE - *Union des Confédérations de l'Industrie et des Employeurs d'Europe* (Union of Industrial and Employers' Confederations of Europe)

US(A) - United States (of America)

USD - United States Dollar

VMI - *Verband der Metallindustrie Baden-Württemburg* (Employers' Federation for the Metalworking Industry in Baden-Württemburg)

WCA - Works Constitution Act (Germany)

WEM - Western European Metal Trades Employers' Organisation

WIRS - Workplace Industrial Relations Survey

WNC - Works Negotiating Committee (at Siemens UK's Heaton Works)

APPENDIX B. INTERVIEW GUIDES

INTERVIEW GUIDE - ABB EUROPE

INTERVIEW 1: STRATEGY VIS-À-VIS EU 'SOCIAL DIMENSION'

SOURCE: SENIOR CORPORATE PERSONNEL MANAGEMENT (+ 'PUBLIC AFFAIRS' FUNCTION)

Duration: ± 60 minutes.

A) ORGANISATION WITH RESPECT TO EUROPE

1. To what extent is corporate business strategy determined at a European level?

    * Is there a conscious attempt to 'Europeanise' the company (or part of the company)?

2. How important is the 'European project' to the company, and to what extent are resources committed to influence EU policy?

3. At which organisational level is response to EU social policy legislation formulated?

    * Corporate? National? Divisional? According to specific legislation?
    * To what extent is corporate response influenced by input from other organisational levels?

4. Which department(s) deal with EU social policy legislation?

    * Personnel? 'European department'? 'Public Affairs'?

5. How aware are other directors and senior managers of EU social policy legislation and its implications for the company?

B) MECHANISMS FOR INVOLVEMENT IN THE DEBATE

1. By which sources does the company seek to stay informed of recent developments in the 'social dimension'?

    * Employers' Associations? Direct access to politicians? Lawyers and consultants? Publications? Permanent or ad hoc interest group? Other?
    * What is the role and value of each?

2. Through which channels does the company seek to influence the form that legislation takes?

    * Employers' Associations? Direct access to politicians? Lawyers and consultants? Publications? Permanent or ad hoc interest group? Other?
    * What is the role and value of each?

C) SPECIFIC LEGISLATION

1. EWC Directive

    * At which stage did the company become involved?
    * How did you stay informed, and then seek to influence the outcome?
    * What has been the company's strategy for implementation - Article 13? Involvement of 'outsiders' (lawyers, consultants, union specialists etc.)? Incorporation of the British?

2. a) National Information and Consultation
   b) Participation accompanying the European Company Statute

    * At what stage did the company become involved in these proposals?
    * By what mechanisms are you keeping in touch with developments?
    * By what channels are you seeking to influence the outcomes?
    * How does the overall strategy differ from that for the EWC Directive?

3. Working Time Directive

* What strategy was adopted for this Directive?
* Did it differ from the strategies above?

4. Atypical Workers

* What strategy?
* In what ways has it been different?

INTERVIEW GUIDE - ABB EUROPE

INTERVIEW 2: POLICY TOWARDS EU 'SOCIAL DIMENSION'

SOURCE: SENIOR CORPORATE PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) BACKGROUND

1. What is the company's policy/position regarding:

    * The single market?
    * EMU?
    * European integration?

2. How and where are any such policies formed?

    * Role of CEO, board, and senior management?
    * Input and influence of different departments and levels?

B) THE 'SOCIAL DIMENSION'

1. What is the company's position on the role and importance of the 'social dimension'?

2. Where was it formed and what form does this position take?

    * Informal position
      Formal policy but not written down
      Formal, written policy
      Written policy given to employees

C) THE 'SOCIAL DIALOGUE'

1. What is the company's position on the role and importance of the 'social dialogue' at inter-professional Community level?

2. What form does this take?

3. What is the position on the role and importance of the sectoral 'social dialogue'?

D) SPECIFIC LEGISLATION

For each of the following pieces of legislation:

* EWC
* National Information and Consultation
* Participation (accompanying a European Company Statute)
* Working Time
* Atypical Work

1. What is the company's policy/position?

2. Where is it formed, and what form does it take?

3. Did it change at all through the various stages of the Directive's development?

4. What specific measures have been taken in implementing the EWC, Working Time and Part Time Work Directives?

INTERVIEW GUIDE - ABB EUROPE

INTERVIEW 3: HRM INSTITUTIONS AND PRACTICES

SOURCE: SENIOR CORPORATE PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) CONTEXTUAL FACTORS

1. Industry features

    * Degree of internationalisation? Competitive pressures? Customer pressures?

2. Competitive strategy

    * Degree of globalisation?
    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?

3. Corporate structure

    * Basis of divisionalisation (geographic or product line or both)?
    * Extent of centralisation/decentralisation?
    * Regulatory role of centre: direct intervention or monitoring key indicators or setting broad parameters?
        - Does this differ by issue/function?

4. Personnel function

    * Is the personnel director a member of the main board?
    * How much influence does the function have at this and other levels?
    * What is the main function of the personnel department at this level of the organisation?

* Is the corporate personnel function involved in any change programmes, or programmes to improve operational performance?
* What are the three biggest issues facing the personnel department within the company?

B) EUROPEAN AND INTERMEDIATE INSTITUTIONS AND PRACTICES

1. Are there any Europe-wide industrial relations/HRM policies or practices?

2. Is there a discernible 'corporate culture' or management philosophy/style at ABB?

* Is it a strong culture? Is it important to the company?
* How is it fostered and propagated?
* From what history and tradition has HRM at ABB developed?

3. Besides EWCs, are there any supra-national bodies or mechanisms for integrating national industrial relations and HRM policies and practices?

INTERVIEW GUIDE - ABB BRITAIN

INTERVIEW 1: POSITION ON EU 'SOCIAL DIMENSION'

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) THE 'EU PROJECT'

1. To what extent does ABB Britain formulate policies/positions, and engage in the debate surrounding the 'EU project'?

    * Single market? EMU? 'Social dimension'?

2. To what extent are these policies/positions fed into the policies of ABB Europe?

3. What is the company's policy/position on:

    * Single market? EMU? Closer political integration?

B) THE 'SOCIAL DIMENSION'

1. Through which channels does the company seek to remain updated on developments in the 'social dimension'?

    * Corporate head office? Employers' Associations? Lawyers and consultants? Publications? Membership of interest group?

2. Through which channels does the company seek to influence these developments?

    * Corporate head office? Employers' Associations? Lawyers and consultants? Publications? Membership of interest group?

3. What is the company's position on the role and importance of the 'social dimension'?

4. Which levels and departments have most influence in formulating this position, and others relating to EU social policy legislation?

C) THE 'SOCIAL DIALOGUE'

1. What is the company's position on the role and importance of the 'social dialogue' at inter-professional Community level?

2. What is the position on the role and importance of the sectoral 'social dialogue'?

D) SPECIFIC LEGISLATION

1. EWC Directive

* What position did the company take during the formulation stage of the legislation?
* Has it changed at all since the UK's accession to the 'social chapter'?

2. What is the company's position on the following issues?

* Proposals for legislation on National Information and Consultation?
* Proposals for Participation to accompany a European Company Statute?
* The Working Time Directive?
* The Part Time Work Directive, and proposals on other forms of Atypical Work?

3. What changes to existing industrial relations structures and practices has the formation of an ABB EWC induced?

4. What impact have the Working Time Directive and Part-Time Work Directive had on the company's industrial relations?

5. What impact would you anticipate from a Directive on National Information and Consultation?

INTERVIEW GUIDE - ABB-UK

INTERVIEW 2: INDUSTRIAL RELATIONS AND HRM

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) CONTEXTUAL FACTORS

1. Industry features

    * Degree of internationalisation? Competitive pressures? Customer pressures?

2. Competitive strategy

    * Degree of globalisation?
    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?

3. Corporate structure

    * Basis of divisionalisation (geographic or product line or both)?
    * Extent of centralisation/decentralisation?
    * How many layers between business unit and head quarters?
    * Regulatory role of centre: direct intervention or monitoring key indicators or setting broad parameters?
        - Does this differ by issue?
    * What degree of operational relatedness or integration exists between business units?

4. Personnel function

    * Is there a personnel director on the company's main board?
    * To what extent does the personnel director:
        - organise regular meetings of personnel managers?

- become involved in productivity/performance improvement programmes?
- become involved in strategies for corporate change?
- have a dedicated training and development budget?
- engage in discussions on the firm's scope of activities and 'mission' (e.g. acquisition/divestment decisions)?
- influence budget and control activities?

* Size and structure of personnel department?

B) INSTITUTIONS AT SUPRA-FIRM LEVEL

1. To which Employers' Associations and/or trade federations does the company belong?

* Role/Actions? Influence and importance?

C) AT FIRM LEVEL

1. Is there a company-level J.C.C. or similar body?

* Composition? Internal organisation?
* What are its rights and duties?
* What role for shop stewards and/or full time union officials?
* What is the body's disposition towards change?
* What is its importance/influence within the company?
* What resources are made available to the body?

2. Collective bargaining?

* At which level(s)?
* How is the company organised to bargain? Role of personnel?
* Frequency? Scope of issues

INTERVIEW GUIDE - ABB-UK

INTERVIEW 3: INDUSTRIAL RELATIONS AND HRM

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) CULTURAL CONTEXT

1. Is there a discernible 'corporate culture' or management philosophy/style at ABB-UK?

2. From what history and traditions have industrial relations and HRM at ABB-UK developed?

B) FIRM-LEVEL PRACTICES

1. Information and consultation:

   * What mechanisms? (Indirect, formal, informal, direct)?
     - J.C.C? Newsletters? Meetings? Email? Etc.
   * How frequently and with whom?
   * Which issues? To what scope and depth?
   * Is it a company priority?

2. Training:

   * % skilled? No. of apprentices?
   * Other major training schemes?
     - internal/externally run?
     - objectives?
     - relative priority?

3. What mechanisms to encourage employee involvement and participation:

   * Teams/groups/modules?
   * Quality circles/problem solving groups?

* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

4. What are the three biggest issues facing the corporate personnel department?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Personnel's role?
* Union and/or workforce disposition?
* How long for agreement? Which level? *Quid pro quo?* Results?

D) INTERMEDIATE LEVEL

1. Does the company engage in regional/multi-establishment collective bargaining, information and consultation, etc.

INTERVIEW GUIDE - ABB-UK

INTERVIEW 4: INDUSTRIAL RELATIONS AND HRM - BUSINESS UNIT LEVEL

SOURCE: BUSINESS UNIT MANAGER AND/OR HR SPECIALIST

Duration: ± 60 minutes.

A) INDUSTRY FACTORS

1. Size of establishment (workforce and turnover)?

2. Product market:

    * Degree of internationalisation? Competitive pressures? Customer pressures?

3. Business unit's competitive strategy:

    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?
    * Degree of automation? Role of technology in production process?

4. Role of centre:

    * Direct intervention/monitor key indicators/set parameters?
    * Degree of business unit autonomy?

B) ROLE OF PERSONNEL

1. What is the unit manager's disposition towards the personnel function? Is personnel represented on the plant's senior management team?

2. To what extent does personnel:

* become involved in productivity/performance improvement programmes?
* become involved in strategies for corporate change?
* have a dedicated training and development budget?
* influence budget and control activities?
* have input into, and influence over, business strategy?

3. Workforce training:

* % skilled? No. of apprentices?
* Other major training schemes?
    - internal/externally run?
    - objectives?
    - relative priority?

4. Size and structure of personnel department?

C) EMPLOYEE REPRESENTATION

1. Are there any formal structures for the representation of employee interests (e.g. Joint Consultative Committees, Works Councils, etc.)?

* Composition? Internal organisation?
* How formed (elected or appointed)? Mandate?
* What are its rights and duties?
* What role for shop stewards and/or full time union officials?
* What is the body's disposition towards change?
* What is its importance/influence at the site?
* What resources are made available to the body?

2. Trade union representation:

* Which unions and what membership densities?
* What are their roles/functions?
* What formal rights/obligations do the unions have?
* How have they responded to recent change and innovation?
* How important/influential are the union at the site?
* What resources are made available by the company?

INTERVIEW GUIDE - ABB-UK

INTERVIEW 5: INDUSTRIAL RELATIONS AND HRM - BUSINESS UNIT LEVEL

SOURCE: BUSINESS UNIT MANAGER AND/OR HR SPECIALIST

Duration: ± 60 minutes.

A) CULTURAL AND HISTORICAL CONTEXT

1. Is there a distinctive 'culture' or management philosophy/style at the establishment?

2. From what history and tradition have industrial relations at the site developed?

* Previous experience with unions, collective bargaining, and information and consultation?

B) COLLECTIVE BARGAINING

1. Does any collective bargaining take place at this level?

* How many bargaining units? Which union(s)?

2. Is this the level at which terms and conditions are decided, or are agreements at this level supplementary to more centralised agreements?

2. How is management organised to bargain?

* Role of personnel department?
* Role of head quarters or other higher levels?

3. To what extent does the unit face problems associated with multi-unionism (e.g. fragmentation, competition, demarcation disputes, etc.)?

4. How frequently does collective bargaining take place, and what is the scope of issues under discussion?

C) COMMUNICATION AND PARTICIPATION

1. Information and consultation:

* What mechanisms? (Indirect, formal, informal, direct)?
  - J.C.C? Newsletters? Meetings? Email? Etc.
* How frequently and with whom?
* Which issues? To what scope and depth?
* Is it a management priority?

2. What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
* What degree of delegation to the shopfloor?
* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

3. What are the three biggest issues facing personnel at the site?

D. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation? 'Lean production'?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Personnel's role?
* Union and/or workforce disposition?
* How long for agreement? Which level? *Quid pro quo?* Results?

INTERVIEW GUIDE - ABB-UK

INTERVIEW 6: INDUSTRIAL RELATIONS AND HRM - OPERATIONAL LEVEL

SOURCE: OPERATIONS/MANUFACTURING MANAGER

Duration: ± 60 minutes

A) OPERATIONAL BACKGROUND

1. Size: T/O, workers (BC/WC)?

2. Product market:

    * Degree of internationalisation? Competitive pressures? Customer pressures?

3. Business unit's competitive strategy:

    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?
    * Degree of automation? Role of technology in production process?

4. Role of personnel at the site? Importance of training?

B) SHOPFLOOR PARTICIPATION

1. What mechanisms to encourage employee involvement and participation:

    * Teams/groups/modules?
    * Quality circles/problem solving groups?
        - What degree of delegation to the shopfloor?
    * Financial participation schemes (e.g. profit sharing, share option schemes etc.)

2. Teams/Groups

* % plant? Differences between areas?
* Size? Autonomy?
* Speaker/leader (#, role, payment)?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

   * Internal/external? Which indicators?
   * Used in negotiations?

2. Recent performance improvement programmes?

   * Multi-skilling? New work organisation? 'Lean production'?
   * Shift patterns? Machine running time?
   * Cost cutting? 'Atypical' workers? Outsourcing?
   * Personnel's role?
   * Union and/or workforce disposition?
   * How long for agreement? Which level? *Quid pro quo?* Results?

INTERVIEW GUIDE - ABB-UK

INTERVIEW 7: INDUSTRIAL RELATIONS AND HRM - OPERATIONAL LEVEL

SOURCE: LINE MANAGER

Duration: ± 60 minutes (ideally with tour of the shopfloor)

A) OPERATIONAL BACKGROUND

1. Number of shopfloor workers (B.C/W.C)?

2. To what extent is the production process automated?

3. How many grades of worker? What is the skill level and function of each?

B) SHOPFLOOR PARTICIPATION

1 What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
  - What degree of delegation to the shopfloor?

2. Teams/Groups

* % plant? Differences between areas?
* Size? Autonomy?
* Speaker/leader (#, role, payment)?

3. What communication mechanisms exist, at shopfloor level, between management and workers/worker representatives?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Union and/or workforce disposition?

INTERVIEW GUIDE - ABB-UK

INTERVIEW 8: INDUSTRIAL RELATIONS AND HRM - OPERATIONAL LEVEL

SOURCE: SHOP STEWARD

Duration: ± 90 minutes.

A) UNION STRUCTURE AND ORGANISATION

1. Which unions are represented at the site, and what type of worker does each represent?

2. What is the total union density at the site? What is the density for your union?

3. Briefly, what is the structure of the union at the site, and how does that fit into the external union structure?

4. What resources does the company make available to the union? What resources does the central union provide?

5. What is the union's main role/function at the site?

B) COLLECTIVE BARGAINING

1. Does the union engage in collective bargaining with management?

    * In which bargaining unit(s)?
    * Frequency? Scope?
    * Is this the main round of bargaining, or supplementary to more centralised bargaining?
    * How is the union organised to bargain? Input/influence from external union?

C) COMMUNICATION AND PARTICIPATION

1. Information and consultation:

* What mechanisms? (Indirect, formal, informal, direct)?
    - J.C.C? Newsletters? Meetings? Email? Etc.
* How frequently?
* Which issues? To what scope and depth?
* Is it a management priority?

2. What role does the union play in the formal machinery for information and consultation?

3. What role does the union play in informal mechanisms for information and consultation?

4. What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
    - What degree of delegation to the shopfloor?
* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

5. What was (and is) the union position on these initiatives?

* Do these initiatives represent a challenge to the traditional roles and activities of the union?
* Was (is) there an attempt to block these initiatives?
* Is there any co-ordination with the roles and activities of the new bodies, and those of the union?
* Is there any attempt to incorporate the structure and leadership of the new bodies into the union?

D. PERFORMANCE IMPROVEMENT

1. Is the union aware of productivity comparisons with other sites:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation? 'Lean production'?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Union position?
    - Was (is) there an attempt to block these initiatives
    - How long to reach agreement? *Quid pro quo?* Results?

E) UNION CO-ORDINATION

1. What links do you have with workforce representatives at other ABB sites:

* within your division?
* within the UK?
* within Europe?

2. How strong are your links to the external union?

3. What relations do you have with other unions at the site?

4. What pressures do you face within your own union in reconciling the competing demands of the various grades of workers and craftsmen at the site?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 1: POSITION ON EU 'SOCIAL DIMENSION'

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) THE 'EU PROJECT'

1. To what extent does ABB Britain formulate policies/positions, and engage in the debate surrounding the 'EU project'?

    * Single market? EMU? 'Social dimension'?

2. To what extent are these policies/positions fed into the policies of ABB Europe?

3. What is the company's policy/position on:

    * Single market? EMU? Closer political integration?

B) THE 'SOCIAL DIMENSION'

1. Through which channels does the company seek to remain updated on developments in the 'social dimension'?

    * Corporate head office? Employers' Associations? Lawyers and consultants? Publications? Membership of interest group?

2. Through which channels does the company seek to influence these developments?

3. What is the company's position on the role and importance of the 'social dimension'?

4. Which levels and departments have most influence in formulating this position, and others relating to EU social policy legislation?

C) THE 'SOCIAL DIALOGUE'

1. What is the company's position on the role and importance of the 'social dialogue' at inter-professional Community level?

2. What is the position on the role and importance of the sectoral 'social dialogue'?

D) SPECIFIC LEGISLATION

1. EWC Directive

    * What position did the company take during the formulation stage of the legislation?
    * Has it changed at all since the formation of ABB's EWC?

2. What is the company's position on the following issues?

    * Proposals for legislation on National Information and Consultation?
    * Proposals for Participation to accompany a European Company Statute?
    * The working Time Directive?
    * The Part Time Work Directive, and proposals on other forms of Atypical Work?

3. What changes to existing industrial relations structures and practices has the formation of an ABB EWC induced?

4. What impact have the Working Time Directive and Part-Time Work Directive had on the company's industrial relations?

5. What impact would you anticipate from a Directive on National Information and Consultation?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 2: INDUSTRIAL RELATIONS AND HRM

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) CONTEXTUAL FACTORS

1. Industry features

    * Degree of internationalisation? Competitive pressures? Customer pressures?

2. Competitive strategy

    * Degree of globalisation?
    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?

3. Corporate structure

    * Basis of divisionalisation (geographic or product line or both)?
    * Extent of centralisation/decentralisation?
    * How many layers between business unit and head quarters?
    * Regulatory role of centre: direct intervention or monitoring key indicators or setting broad parameters?
        - Does this differ by issue?
    * What degree of operational relatedness or integration exists between business units?

4. Personnel function

    * Is there a personnel director on the company's main board?
    * To what extent does the personnel director:
        - organise regular meetings of personnel managers?

- become involved in productivity/performance improvement programmes?
- become involved in strategies for corporate change?
- have a dedicated training and development budget?
- engage in discussions on the firm's scope of activities and 'mission' (e.g. acquisition/divestment decisions)?
- influence budget and control activities?

* Size and structure of personnel department?

B) INSTITUTIONS AT SUPRA-FIRM LEVEL

1. To which Employers' Association and/or trade federation(s) does the company belong?

* Role/Actions? Influence and importance?

2. With which union do they bargain?

* What type of presence does the union have within the company?
* What is the union's role/function within the company?
* What formal rights does the union have within the company?
* What degree of informal influence; how important is the union within the company?
* What links with, and control over, its members does the union have?

3. What, if any, role does the company play in sectoral bargaining?

C) AT FIRM LEVEL

1. Mechanisms for employee representation:

* Konzern/Gesamtbetriebsrat and Wirtschaftsausschuss:
- Functions/actions? Duties and obligations? Rights and powers?
- Influence and importance?
- Links with workforce? Links with union?
- Disposition to change

* Other?

2. Participation on supervisory board:

* How many employee representatives? How many union representatives?
* How are they elected? What are their links to the workforce?
* Duties and rights? Influence and importance?

3. Negotiations at the company and works level:

* Emphasis at company or works level?
* What role does head quarters play in these negotiations?
* What role for the personnel department?
* Frequency and scope of negotiations?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 3: INDUSTRIAL RELATIONS AND HRM

SOURCE: SENIOR COMPANY PERSONNEL MANAGEMENT

Duration: ± 60 minutes.

A) CULTURAL CONTEXT

1. Is there a discernible 'corporate culture' or management philosophy/style at ABB Germany?

2. From what history and traditions have industrial relations and HRM at ABB Germany developed?

B) FIRM-LEVEL PRACTICES

1. Information and consultation:

    * What mechanisms? (Indirect, formal, informal, indirect)?
        - Konzern/GesamtBetriebsrat? Wirtschaftsausschuss? Newsletters? Meetings? Email? Etc.
    * How frequently and with whom?
    * Which issues? To what scope and depth?
    * Is it a company priority?

2. Training:

    * % Facharbeiter? No. of apprentices?
    * Other major training schemes?
        - internal/externally run?
        - objectives?
        - relative priority?

3. What mechanisms to encourage employee involvement and participation:

    * Teams/groups/modules?

* Quality circles/problem solving groups?
* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

4. What are the three biggest issues facing the corporate personnel department?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Personnel's role?
* Union and/or workforce disposition?
* How long for agreement? Which level? *Quid pro quo?* Results?

D) INTERMEDIATE LEVEL

1. Does the company engage in regional/multi-establishment practices such as information and consultation, etc.

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 4: INDUSTRIAL RELATIONS AND HRM - BUSINESS UNIT LEVEL

SOURCE: BUSINESS UNIT MANAGER AND/OR HR SPECIALIST

Duration: ± 60 minutes.

A) INDUSTRY FACTORS

1. Size of establishment (workforce and turnover)?

2. Product market:

    * Degree of internationalisation? Competitive pressures? Customer pressures?

3. Business unit's competitive strategy:

    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?
    * Degree of automation? Role of technology in production process?

4. Role of centre:

    * Direct intervention/monitor key indicators/set parameters?
    * Degree of business unit autonomy?

B) ROLE OF PERSONNEL

1. What is the unit manager's disposition towards the personnel function? Is personnel represented on the plant's senior management team?

2. To what extent does personnel:

* become involved in productivity/performance improvement programmes?
* become involved in strategies for corporate change?
* have a dedicated training and development budget?
* influence budget and control activities?
* have input into, and influence over, business strategy?

3. Workforce training:

* % Facharbeiter? No. of apprentices?
* Other major training schemes?
    - internal/externally run?
    - objectives?
    - relative priority?

4. Size and structure of personnel department?

C) EMPLOYEE REPRESENTATION

1. Betriebsrat:

* Composition? Internal organisation?
* What are its rights and duties?
* What influence does the union have over the Betriebsrat?
* What is the body's disposition towards change?
* What is its importance/influence at the site?
* What resources are made available to the body?

2. Vertrauenskörper:

* What level of union membership at the site?
* How well organised is the union at the site?
* What connections to the Betriebsrat and external union?
* How important/influential is the union at the site?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 5: INDUSTRIAL RELATIONS AND HRM - BUSINESS UNIT LEVEL

SOURCE: BUSINESS UNIT MANAGER AND/OR HR SPECIALIST

Duration: ± 60 minutes.

A) CULTURAL AND HISTORICAL CONTEXT

1. Is there a distinctive 'culture' or management philosophy/style at the establishment?

2. From what history and tradition has HRM at the unit developed?

    * Previous experience with Betriebsrat, negotiations, and union?

B) SITE-LEVEL NEGOTIATIONS

1. Negotiations at site level:

    * With whom? How often? Over which issues?

2. How does bargaining at this level fit in with the company-level agreements, and what is the relative importance of the two?

3. How is management organised to bargain?

    * Role of personnel department?
    * Role of head quarters or other higher levels?

4. What role does the trade union play in bargaining at this level?

C) COMMUNICATION AND PARTICIPATION

1. Information and consultation:

* What mechanisms? (Indirect, formal, informal, direct)?
    - Betriebsrat? Newsletters? Meetings? Email? Etc.
* How frequently and with whom?
* Which issues? To what scope and depth?
* Is it a management priority?

2. What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
* What degree of delegation to the shopfloor?
* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

3. What are the three biggest issues facing personnel at the site?

D. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation? 'Lean production'?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Personnel's role?
* Betriebsrat and/or workforce disposition?
* How long for agreement? Which level? *Quid pro quo?* Results?

INTERVIEW GUIDE - ABB-GERMANY

INTERVIEW 6: INDUSTRIAL RELATIONS AND HRM - OPERATIONAL LEVEL

SOURCE: OPERATIONS/MANUFACTURING MANAGER

Duration: ± 60 minutes

A) OPERATIONAL BACKGROUND

1. Size: T/O, workers (BC/WC)?

2. Product market:

    * Degree of internationalisation? Competitive pressures? Customer pressures?

3. Business unit's competitive strategy:

    * Competition on cost? Product quality? Lead times? Service? Product technology? Etc.
    * Capacity utilisation? Demand trends? Employment trends?
    * Degree of automation? Role of technology in production process?

4. Role of personnel at the site? Importance of training?

B) SHOPFLOOR PARTICIPATION

1. What mechanisms to encourage employee involvement and participation:

    * Teams/groups/modules?
    * Quality circles/problem solving groups?
        - What degree of delegation to the shopfloor?
    * Financial participation schemes (e.g. profit sharing, share option schemes etc.)

2. Teams/Groups

* % plant? Differences between areas?
* Size? Autonomy?
* Speaker/leader (#, role, payment)?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation? 'Lean production'?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Personnel's role?
* Union and/or workforce disposition?
* How long for agreement? Which level? *Quid pro quo?* Results?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 7: INDUSTRIAL RELATIONS INSTITUTIONS AND HRM PRACTICES - OPERATIONAL LEVEL

SOURCE: LINE MANAGER

Duration: ± 60 minutes (ideally with tour of the shopfloor)

A) OPERATIONAL BACKGROUND

1. Number of shopfloor workers (B.C/W.C)?

2. To what extent is the production process automated?

3. How many grades of worker? What is the skill level and function of each?

B) SHOPFLOOR PARTICIPATION

1 What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
  - What degree of delegation to the shopfloor?

2. Teams/Groups

* % plant? Differences between areas?
* Size? Autonomy?
* Speaker/leader (#, role, payment)?

3. What communication mechanisms exist, at shopfloor level, between management and workers/worker representatives?

C. PERFORMANCE IMPROVEMENT

1. Productivity comparisons:

* Internal/external? Which indicators?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Union and/or workforce disposition?

INTERVIEW GUIDE - ABB GERMANY

INTERVIEW 8: INDUSTRIAL RELATIONS INSTITUTIONS - BUSINESS UNIT LEVEL

SOURCE: MEMBER OF BETRIEBSRAT

Duration: ± 90 minutes.

A) INTERNAL STRUCTURE AND ORGANISATION

1. How many workers at the site?

2. How many members on the Betriebsrat? How many from each type of worker?

3. How is the Betriebsrat structured internally?

    * What links to the Konzern/Gesamtbetriebsrat?

4. What resources are made available to the Betriebsrat for its functioning?

B) VERTRAUENSKÖRPER

1. What is the union density at the site?

2. How well developed is the union structure at the site?

3. What connections exist between the Betriebsrat and Vertrauenskörper?

4. How strong is the influence of the union at the site?

C) CO-DETERMINATION AND NEGOTIATIONS

1. Which are your most valuable co-determination rights?

2. How frequently do you have negotiations with management?

* How do negotiations at this level fit in with those at company level?
* How is the Betriebsrat organised to negotiate?
* Input/influence from Konzern/Gesamtbetriebsrat and union?

D) COMMUNICATION AND PARTICIPATION

1. Information and consultation:

* How frequently do you meet formally with management?
* To what depth are you informed and consulted?
* What mechanisms besides formal meetings with management?
    - Newsletters? Informal meetings? Email? Etc.
* To what extent does management communicate directly with the workforce?
* Is communication a management priority?

2. What mechanisms to encourage employee involvement and participation:

* Teams/groups/modules?
* Quality circles/problem solving groups?
    - What degree of delegation to the shopfloor?
* Financial participation schemes (e.g. profit sharing, share option schemes etc.)

3. What was (and is) the Betriebsrat position on these initiatives?

* Do these initiatives represent a challenge to the traditional roles and activities of the Betriebsrat?
* Was (is) there an attempt to block these initiatives?
* Is there any co-ordination with the roles and activities of the new bodies, and those of the Betriebsrat?
* Is there any attempt to incorporate the structure and leadership of the new bodies into the Betriebsrat?

E. PERFORMANCE IMPROVEMENT

1. Is the Betriebsrat aware of productivity comparisons with other sites:

* Internal/external? Which indicators?
* Used in negotiations?

2. Recent performance improvement programmes?

* Multi-skilling? New work organisation? 'Lean production'?
* Shift patterns? Machine running time?
* Cost cutting? 'Atypical' workers? Outsourcing?
* Betriebsrat position?
    - Was (is) there an attempt to block these initiatives
    - How long to reach agreement? *Quid pro quo?* Results?

APPENDIX C. AN EXPANDING 'SOCIAL DIMENSION'

Unlike flexibility, the debate over the 'social dimension' is not a new one. In fact, it predates the establishment of the original European Economic Community (EEC). In the run-up to the 1957 Treaty of Rome founding the EEC, two studies addressed the question of whether explicit social measures would be required in the forthcoming Treaty. Both the 'Spaak Report' and the report by a committee of ILO experts were adamant in their rejection of the need for such measures, the consensus being that closer economic co-operation would be the driving force behind integration, and very few social issues were expected to arise at Community level which could not better be dealt with by member states. Firstly, the ILO report (ILO, 1956, p115) rejected outright the claim that social standards would be threatened by the establishment of a single market:

> *"International competition in a common market would not prevent particular countries from raising workers' living standards and there is no sound reason to think that freer international markets would hamper in any way the further improvement of workers' living standards, as productivity rises, through higher wages or improved social benefits and working conditions."* (Cited in Davies, 1992, p321).

Secondly, according to the report, co-ordination of social standards could, if necessary, be undertaken by member states on their own initiative:

> *"we have assumed that as a general rule countries will wish to shape and carry out their social and economic policies in accordance with their national needs and preferences and that they will have recourse to international co-ordination or 'harmonisation' only if there is a clear need for such action."* (Ibid.).

The result of these unequivocal rejections of Community competence in social and labour regulation was a very limited base for social policy in the Treaty of Rome. In response to French concerns, specific reference was made to equal pay between men and women, and the maintenance of paid holidays. Furthermore, Article 117 committed member states to the improvement of working conditions and the standard of living of workers, but the Treaty evaded the central issue of whether this should be left to the market or whether Community intervention would be necessary, providing no legal base from which any of these social objectives could be pursued (Hall, 1994). The only social aspects

which do receive any degree of attention in the original Treaty are those pertaining to the realisation of the single internal market: free movement of workers (Articles 48-51) and the right of establishment (Articles 52-58).

Commentators favourably disposed to European-level social intervention are virtually unanimous in condemning this institutional weakness, the absence of a specific legal base in the founding Treaty, as one of the principal causes of the limited progress which has been made in EU social policy over the last four decades (Teague and Grahl, 1992; Teague, 1991, 1993, and 1994; Davies, 1992; Streeck, 1993; Bercusson, 1995; Szyszczak, 1995). Advances, certainly until the end of the 1980s, have been cyclic and patchy, dependent largely on economic and political developments at member state level[1].

The re-launch of the single market project under the Commission presidency of Jacques Delors, through the Single European Act (SEA), resulted in the re-emergence of serious consideration for a 'social space' to accompany the economic entity which was being created, and each subsequent Treaty revision has seen gains for the social dimension. Predictably, the principal thrust of the SEA (signed in 1986 and entering into force on 1 July 1987) was economic in nature: to confirm the objective of completing the single European market by 1992. But it also modified EU decision making by associating the European Parliament more closely (through the co-operation procedure[2]), and extending the application of qualified majority voting. The significance to social policy was that issues pertaining to the health and safety of workers was brought under qualified majority voting by Article 118a, and official recognition was given to the growing importance of the so-called 'social dialogue':

> *"The Commission shall endeavour to develop the dialogue between management and labour at European level which could, if the two sides consider it desirable, lead to relations based on agreement."* (Article 118b).

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[1] For discussions on the social dimension's historical phases of development, see Wise and Gibb (1993); Nielson and Szyszczak (1991); Mosley (1990); and Gospel (1992).

[2] For detailed descriptions of the functioning of the EU's institutions and its decision-making processes, see CEC (1995a); Guéguen (1996); and Jacobs et al. (1992).

Although it was nothing more than a declaration, and although it left the institutional weakness of the social dimension unchanged, the 'Social Charter' (*Community Charter of the Fundamental Social Rights of Workers*) was something of a political breakthrough for those wishing to see the EU move away from a purely 'negative' approach to integration (the removal of existing barriers), and seeking more 'positive' social measures through the development of common institutions and co-ordinated policies. The declaration was adopted by 11 of the 12 heads of government (the UK excluding itself) at the Strasbourg Council meeting in December 1989, and provided for a core of fundamental workers' rights, notably the right to an equitable wage to sustain a decent standard of living, the right of association, the right for trade unions and employers' associations to negotiate collective agreements, and the right to strike[3]. As Davies (1992, p339) notes, the implication was that:

> *"The Community should broaden the scope of its interest in social policy, probably to the point where no labour law topic was excluded a priori, and the Community's interest should be to see that certain results or situations obtained throughout the member states."*

The great weakness of the Social Charter, from the perspective of those seeking a more radical social dimension, was that its provisions were not legally binding (Muhr, 1990). For those concerned about the economic implications of extensive EU social legislation, however, the Social Charter was a disturbing indication of things to come (Addison and Siebert, 1991 and 1992). In fact, responses to the Social Charter provide an indication of the extent to which the debate over the social dimension has become polarised: this same Social Charter has been referred to as both *"a non-binding wish-list full of loopholes ... not worth the paper on which it was printed"* (Silvia, 1991, p639), and *"the most sweeping international experiment in social engineering ever undertaken by democratically elected governments"* (Steil, 1994, p15).

Be that as it may, the Social Charter is generally regarded as something of a milestone in the social dimension. The next major breakthrough came with the revisions to the Treaty agreed by the European Summit at Maastricht on 9 and 10 December, 1991. In the preamble to the Social

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[3] For more details on the Social Charter, see Wedderburn (1990).

Policy Protocol (Protocol 14) of the Treaty on European Union (TEU), 11 of the member states suggested that they wished to continue along the path laid out in the Social Chapter and, to this end, they annexed an Agreement to the TEU giving them recourse to the institutions, procedures and mechanisms of the Treaty. Article 2(1) of the Protocol, however, contained the UK's notorious 'opt-out' from the arrangements described in the Agreement. Along with a general expansion (in Article 1) of Community competence in the field of social policy, the most significant advance made by the Agreement is the extension of the scope for qualified majority voting to five new areas: improvement of the working environment to protect workers' health and safety; working conditions; the information and consultation of workers; equality between men and women with regard to labour market opportunities and treatment at work; and the integration of persons excluded from the labour market[4]. Furthermore, the social dimension was again strengthened and an element of negotiation introduced, in the form of a provision for law-making by agreement between the European-level 'social partners' (UNICE, ETUC, and CEEP). The social partners had, in October of that year, concluded an agreement recommending that the Treaty should provide for the conclusion and extension into law of Community-level agreements between them; this was included, virtually in its entirety, in the Social Policy Agreement (which subsequently came to be referred to as the 'Social Chapter', even though it was in fact not a Chapter in the Treaty, but an Annex).

Interpretations of the relevance and importance of the TEU again vary widely from extreme pessimism at the lack of progress made (Streeck, 1993; Keller, 1995; Wedderburn, 1997) to deep concern at the potentially detrimental economic consequences of the regulation that would follow in the wake of such bold institutional advances (Addison and Siebert, 1994). Most analyses, however, suggest that, in spite of a number of shortcomings which would detract from the overall value of the Social

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[4] The following issues, however, remained subject to unanimity: social security and social protection of workers; protection of workers where their employment contract is terminated; representation and collective defence of the interests of workers and employers, including co-determination; conditions of employment for third country nationals; and financial contributions for promotion of employment and job-creation. Article 2(6) excludes three sensitive areas from Community competence altogether: pay, the right of association, and the right to strike or impose lockouts.

Policy Protocol and its annexed Agreement (principally the UK's opt-out), the advances were modest yet significant, both legally and politically (Bercusson, 1994; Hall, 1994; NESC, 1996; Teague, 1993).

The Treaty amendments agreed at the European Council summit meeting in Amsterdam on 17 June 1997 took the EU social dimension another step forward. A new paragraph is added to the preamble to the draft 'Treaty on the European Community' (TEC), confirming the Union's attachment to fundamental social rights as expressed in the Council of Europe's 1961 'European Social Charter', and the 1989 'Community Charter of the Fundamental Social Rights of Workers'. Of these two charters, the latter was already alluded to in the TEU, but reference to the 'European Social Charter' (which contains numerous social rights such as the right to fair remuneration, the right to bargain collectively, the right to strike, and workers' rights to take part in the determination and improvement of working conditions) is an innovation. Furthermore, by repeating the reference to the two charters in the body of the TEC (in Article 136), their legal status is considerably enhanced: the entire catalogue of fundamental social rights becomes a binding goal for the Community and its member states, and the ECJ is placed in a position to monitor the Community's and member states' social policy in light of these fundamental rights (Weiss, 1998). These simple references to the two social charters could, in future, be of immense significance:

> *"the reference to the European Social Charter - at least in principle - is to be seen as confirmation of the welfare state model ... Fundamental social rights as a point of orientation are an important benchmark for the future way of the Community"* (Ibid., p115).

Of even more immediate importance, the TEU's Social Policy Agreement is further extended and brought into the main body of the Treaty as an integral and binding part, forming a *bona fide* Social Chapter under Title XI (Social Policy, Education, Vocational Training and Youth). This creates a single set of provisions for all member states, and marks the end of the UK's 'opt-out' from the Social Policy Agreement, a situation which had widely been viewed as a major obstacle to the full use of the social policy innovations introduced at Maastricht. It also provides a legal base for social policy in the Treaty - something for which proponents of the social dimension have been campaigning for four decades. The list of issues to be subject to qualified majority voting

is the same as for the TEU's Social Policy Agreement, but a number of other areas are recognised in which the Commission will encourage member states to co-ordinate their actions. These include labour law and working conditions, training, social security, and rights of association and collective bargaining. A whole Title on Employment (Title VI) is added to the Treaty, providing Community-level institutions with a significant co-ordinating role in member state employment policies. The principle of gender equality is strengthened and 'mainstreamed', meaning that consideration of the topic will be included into all policy objectives of the Community; positive action to redress gender imbalances is validated. A number of other measures are also introduced strengthening the Commission's powers to take action against discrimination. The European Parliament, traditionally a very strong advocate of a stronger social dimension, is given enhanced decision-making power through extension of the co-decision procedure to almost all aspects of the social dimension.

Although it is very early to make predictions on the likely impact of the changes introduced in Amsterdam, the consensus view among commentators is that they represent another modest but significant strengthening of the social dimension (Barnard, 1997; EIRR, 1997g; Weber, 1997a). While the emphasis has moved somewhat from employment rights to employment policy, the extent of the legal and institutional base for the social dimension is significantly more substantial than even ten years ago; in comparison to social provisions in the original Treaty of Rome, the advances are positively momentous. In addition to these all-important Treaty changes, the growing body of Community social policy legislation (constituting the *acquis communautaire*) has provided the European Court of Justice with an opportunity to further extend the social rights of European citizens through its famously creative interpretations of EU legislation (Jeffreys, 1997; Davies, 1995)[5]. In all, despite the criticisms from many corners (particularly labour and its sympathisers) about the frailty of the EU social dimension, it had,

[5] Another important (albeit indirect) factor providing momentum to the social dimension is the extent to which a growing sense of solidarity is being induced within the European labour movement. The EWC Directive is cited as a specific example of a legislative measure which is stimulating unionists from across Europe to network with each other and work more closely together, all at management expense (Hall, 1992; Ramsay, 1997; Weston and Lucio, 1997; Buschak, 1996; Hoffmann, 1997 and 1998).

by late 1997, developed into a fairly considerable component of the whole EU project, significantly more advanced than the original architects of the Community had envisaged, and with all the potential to grow further still[6].

[6] For an optimistic analysis of the social innovations contained within the TEC, and their potential enabling effects on the future of the social dimension, see Weiss (1998).

APPENDIX D. POLITICAL RESPONSE TO THE SOCIAL DIMENSION IN GERMANY AND THE UK

Member state perceptions of what is the most appropriate 'style' and content of EU labour law is largely conditioned by domestic regulatory traditions, and the extent to which proposals are compatible with existing national industrial relations frameworks (Hall, 1994). That British and German governments have historically viewed the EU project from different perspectives is no revelation (Lippert et al., 1993), and there is perhaps no aspect of the EU in which their positions have been more divergent than with regards the social dimension. Founded, as it is, on a similar philosophy to that which underpins the German 'social market economy', the social dimension has never been regarded with much suspicion by the German government[1], even during almost two decades of Christian Democrat rule in the 1980s and 1990s (Wise and Gibb, 1993). In fact, Germany was one of the strongest supporters of the 1989 'Social Charter' and, when the prospects of a Social Chapter being included in the TEU appeared doomed by British intransigence, it was the Germans (in collaboration with the Dutch Presidency) who engineered the eleventh-hour innovation of annexing a Social Policy Agreement to the Treaty, thereby allowing the other 11 member states to take the social dimension forward without the retrograde British (Hall, 1994). To at least some extent, German support for the social dimension has been founded on a concern that competitive pressure from other EU member state with less developed social arrangements might endanger the German industrial relations system. From this perspective, upward harmonisation of social standards within the EU has been in the interests of a German government intent on preserving the country's 'social market economy' (Story and Schwartz, 1990).

By contrast, since 1979, successive Conservative Governments in the UK have been a constant brake on the social dimension[2]. Not only was

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[1] In fact, chancellor Willy Brandt was one of the most vocal early proponents of a European social dimension (Hall, 1994; Teague, 1994).

[2] The new Labour Government's refusal to countenance legislation on National Information and Consultation suggests that they are not going to be much more of a force for EU social policy legislation than were their predecessors.

Britain the only member state to oppose the 'Social Charter' (Silvia, 1991), but they also refused to accept the inclusion of a Social Chapter into the TEU, and insisted on an 'opt-out' of the arrangements subsequently agreed to by the 11 other member states. One of the primary breakthroughs sought from the TEU was, in fact, an extension of qualified majority voting into social policy and labour law areas so as to overcome the inevitable blocking vote of Margaret Thatcher (who had earned herself the derogatory title of "Mrs No" in EU circles) in the Council of Ministers. Perhaps the best indication of the disparity between British and German positions on EU social policy legislation is provided by their respective responses to the employee participation component of the European Company Statute. Both countries have vehemently opposed all the most recent proposals for Participation Directives, but for completely different reasons. For the British, the envisaged arrangements have invariably been unacceptably high, while for the Germans they have been woefully inadequate, to the extent that they have been perceived as a direct threat to co-determination[3].

[3] The UK government's almost obsessive opposition to the Working Time Directive, and the virtual indifference with which this particular piece of legislation was greeted by German politicians (Von Prondzynski, 1994), is another indication of the extent to which political parties in these two countries differ in the positions on EU labour legislation.

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