

IRRU Briefing

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In this Issue

The Industrial Relations Research Unit (IRRU) publishes this *Briefing* twice a year. It presents summaries of key findings from recent research projects and analysis of significant industrial relations developments. The features aim to inform and contribute to the thinking of practitioners in industrial relations and human resource management.

This issue contains two features reporting findings from research commissioned by the Department of Trade and Industry (DTI). The first summarises the evaluation of the Partnership at Work Fund undertaken by IRRU researchers, and throws important light on the range of partnership practice and arrangements and their spread across sectors and types of organisation. A persistent complaint by UK employers is the burden imposed on them by employment regulations. Small firms are felt to be particularly seriously affected and are the focus of the second such feature. IRRU's continuing emphasis on comparative analysis and the European dimension to employment relations is reflected in the report of key findings from an ESRC-funded study of collective bargaining between decentralisation and Europeanisation. The feature on employment legislation and small firms was originally prepared for the European Industrial Relations Observatory as part of IRRU's contribution as the UK national centre. The same applies to the final article, which examines current debate around the need for a greater regional flexibility in pay setting.

IRRU's research ranges considerably wider than the topics covered in this *Briefing*. Many of our recent papers can be found on IRRU's web site: <http://users.wbs.warwick.ac.uk/group/IRRU> To comment on this *Briefing* or to seek further information on our work, please contact the IRRU Research Secretary at the address on the final page.

Evaluating the Partnership at Work Fund

In the summer of 2001 *Mike Terry* was successful in a bid to undertake an evaluation of the effects of the Department of Trade and Industry's Partnership at Work Fund, established by the government in 1999. An interim report authored jointly with Sue Milsome was submitted to DTI in December of the same year and the Final Report, co-authored with Jill Smith, one year later.

In establishing the Fund, the government signalled, for the first time in nearly two decades, a clear interest in the conduct of employment relations at the workplace, endorsing an approach that emphasised mutuality and reciprocity in relations between employer and employees as most favourable to competitive efficiency and employee security and development. This policy shift may come to be seen as significant as the details of the approach itself. While the approach adopted deliberately avoided a prescriptive definition of partnership, it stressed the importance of effective consultation and a strong employee voice mechanism. Yet it avoided any implication that this could only be provided through the agency of trade unions. Any organisation – employer, trade union, employee group, training agency – could submit an application to the Fund, provided it could demonstrate a partnership commitment and its preparedness to resource the proposed activity, in cash or in time. The Fund provided matching funding up to a maximum of £50,000. Our research was based on the first three

rounds of bidding, involving some 20 successful 'dissemination' projects aimed at communicating information on the partnership approach to key actors, and nearly 90 'workplace' projects. Apart from noting that the most active dissemination agents were the TUC and a small number of large trade unions, this summary concentrates on the latter.

Despite the avowed interest in encouraging the widespread adoption of partnership approaches, successful applications came overwhelmingly from large workplaces with a strong trade union presence; nearly 50 from the public sector and privatised utilities. The remainder came from a range of manufacturing and service sector organisations, with a strong representation from the food and drink sector and an intriguingly high level of interest from the voluntary and charitable sectors. Over 60 of the organisations employed more than 500 employees, and over 50 more than 1000. By contrast only 14 successful applications came from companies with fewer than 100 employees and 17 from non-union firms, mostly small firms. This suggests that such firms were ignorant of the Fund and its possibilities, or that they lacked the resources to make an application, or that they were not attracted by the approach.

In the large unionised organisations bids were divided roughly evenly between large-scale projects designed to foster 'culture change' in industrial relations, and focused activity intended to bring partnership approaches to bear on particular topics – health and safety, bullying and harassment, work-life balance. A number of the latter were found in the public sector where DTI funding facilitated activities for which often no 'in-house' resources were available. In the privatised utilities large-scale projects, often directed at restructuring existing structures and processes, were more common. In many cases DTI support was of symbolic as well as financial significance, adding legitimacy to the joint approach favoured by some, but not all, managers, and reassuring some sceptical union representatives.

Equally interesting were the rarer cases in which funding was used to introduce forms of collective engagement for the first time; examples were found both in private contractors to public services and the voluntary sector. Trade unions were able to obtain a foothold in organisations through advocacy of partnership activity, often focused on much-needed staff training and development. In one or two of the non-union organisations funding was used to initiate or sustain a structure of employee representation, although others experienced problems in establishing an effective employee 'partner'. Such examples raise important questions concerning the centrality of trade unions to effective partnership, in particular given the imminent implementation in the UK of the EU's 2002 employee information and consultation Directive. This might provide a mechanism for the sustainability of partnership in organisations where it is not well-embedded. Several cases in which the initiative had run out of steam suggest problems in moving beyond initial enthusiasm.

Both managers and trade union representatives were generally very positive about the approach and the funding arrangements, and both appeared to benefit, the former from a claimed reduction in IR problems and improvement in performance, the latter through a renewed statement of their organisational importance. Less clear was whether the position of employees in general had improved as a consequence; partnership was conceived primarily as a mechanism of engagement between employer and employee representatives. If partnership comes to be seen as only involving elite groups of managers and employee representatives, working through partnership structures distanced from the daily reality of managers and employees, it is unlikely to constitute an important development, still less to extend into those large areas of employment where unilateral managerial decision remains the dominant approach.

Partnership is now part of the UK industrial relations lexicon, in significant part because of the government's support and advocacy. Our research suggests that so far it largely modifies existing collective arrangements. Its innovatory potential, especially in sectors with no strong collective tradition, remains to be seen although our research contains some hints as to the possibilities. But there is still a considerable task of active dissemination and further support if it is to be seen as marking a step change.

Further reading:

Michael Terry and Jill Smith 'Evaluation of the Partnership at Work Fund' DTI, Employment Relations Research Series No. 17 (2003). Available at <http://www/dti.gov.uk/er/emar>

Collective bargaining between decentralisation and Europeanisation

Jim Arrowsmith, Paul Marginson and Keith Sisson

Collective bargaining is in a state of flux in Europe. Processes and outcomes have been fundamentally affected by closer economic integration, tougher competition, regulatory changes, and new activities, processes and technologies. The impact is particularly strong in large, multinational companies (MNCs). Most MNCs are experiencing a process of *internationalisation* on the one hand, and *decentralisation* on the other, in their industrial relations practice. Internationalisation reflects the integration of national markets, accelerated by Economic and Monetary Union; the growing pace of merger, acquisition and divestment activity; new forms of cross-border business organisation based on product streams rather than national location; the increasingly sophisticated use of international benchmarking and comparisons by management and emergent trade union responses; and the introduction of European Works Councils (EWCs). Decentralisation is a response to the requirements of increased flexibility posed by this changing context, particularly as the activities of firms become more diverse and market conditions change more rapidly.

IRRU's research project on the 'Emerging boundaries of European collective bargaining at sector and enterprise level' has explored this growing cross-border dimension to collective bargaining in a context of continuing decentralisation, particularly from sector to company level, within collective bargaining systems in western Europe. The design of the research is both cross-national and cross-sectoral, focusing on developments in four countries – Belgium, Germany, Italy and the UK – and in two sectors – metalworking and financial services – and in involved intensive field research at sector and (multinational) company levels. At sector level, a comprehensive programme of interviews with senior officials of employers' organisations and trade unions was undertaken in the two sectors, at EU-level and in the four countries. At company level, case studies were undertaken in ten MNCs.

Key findings from the sector- and company-level research include:

- scope for decentralised negotiation at the company level in sector-based systems of multi-employer bargaining is greater than the literature suggests. Increased competition and internationalisation have prompted further evolution of multi-tiered bargaining but, unlike the UK, have not threatened the demise of sector-based arrangements. Evolution of the company relationship to sector arrangements is one of reform rather than revolution;
- although metalworking agreements contain more formal openings for negotiations at company level, metalworking trade unions are able to exercise tighter control over company-level developments than in banking;

- sector-level bargaining arrangements in Belgium, Italy and Germany are responding in different ways to the challenge represented by the emergence of new business activities. Whereas in Belgium and Italy new activities are brought within the scope of sector-level bargaining, in Germany significant ‘agreement free’ space is appearing – a situation which bears some resemblance to the UK;
- decentralisation pressures within the firm are more a feature of metalworking than financial services, reflecting greater product differentiation, intensity of competition and variable demand in metalworking. Recent banking mergers have reinforced centralisation;
- the social partners in financial services engage in formal social dialogue at EU level, whilst employers in metalworking remain resolutely opposed to any formal dialogue;
- cross-border bargaining information exchange and co-operation amongst trade unions is more evident in metalworking than in financial services, and most developed in the cross-border region embracing Belgium, the Netherlands and Germany. This reflects sector and product market characteristics as well as differences in union ambition and expertise;
- reflecting the impetus behind trade union initiatives, cross-border co-operation between employers associations is evident in metalworking, focussing on information exchange and meetings. In financial services, there is little cross-border pressure from the trade union side hence employers and employers’ organisations have seen less need to respond;
- European level framework agreements and joint texts have been concluded by a small number of EWCs in both sectors;
- international benchmarking of labour costs and performance by management is more important within metalworking companies than banks, though such practices are developing within banks’ back-office operations;
- best practice transfer is hampered by national differences in legal regulation and systems of collective bargaining. Companies therefore promote internationalisation of practice whilst leaving space for variation according to local conditions, developing common policy frames and promoting forms of international exchange which facilitate transfer;
- EWCs have a more active role, and trade unions’ activity in exchanging bargaining information across borders is more systematic, in metalworking companies than in banks, because products and production systems are more highly integrated across borders and international union links are longer established.

Overall, the evolution of the company relationship to sector arrangements, where these remain in place, is one of reform rather than revolution. A crucial difference with the UK is the status of sector agreements in many other EU countries as compulsory codes as well as collective contracts. In this context, leading companies elsewhere in the EU do not appear poised to abandon sector-level bargaining; instead they are pressing for changes which increase the scope for variation at company level. These might go further in banking for reasons to do with industry structure and trade union strength. Yet, increased variation within sector agreements brings a trade-off between flexibility and coherence for companies. The dilemma is whether increased scope for company variation outweighs the potential costs of exposure to company-specific demands from trade unions.

A European dimension to collective bargaining remains muted in formal terms. It is more a feature in metalworking, where international comparisons of costs and performance and the potential to move production and investment across borders help construct an international context for domestic negotiations. Only where trade unions and works councils are strongly

organised within national operations, and where their cross-border networks develop to the point at which they are able to credibly pursue common bargaining aims across European countries, is the cross-border dimension likely to become explicit in the shape of European-level agreements.

Further reading: Paul Marginson, Keith Sisson and James Arrowsmith, 'Between decentralization and Europeanization: sectoral bargaining in four countries and two sectors' *European Journal of Industrial Relations*, 2003, Vol 9, No. 2, pp163-87.

The impact of employment legislation on small firms

Paul Edwards, Monder Ram [De Montfort] and John Black [freelance]

It is widely argued that employment legislation raises firms' labour costs and adds to their administrative burdens. The effects on small firms may be particularly acute for reasons including their limited administrative resources and their economic vulnerability. There are also potential positive effects, for example if regulations stimulate improved disciplinary procedures or a better work-life balance. The debate on these matters in the UK has sharpened with a range of recent laws governing minimum wages, working time, parental leave, and trade union recognition. A recent study commissioned and published by the Department of Trade and Industry, set out to provide a detailed qualitative picture of the impact of employment legislation on the employment decisions and practices of small firms.

Three main factors affecting how law shapes practice were identified. First, the nature of laws varies. Some laws, for example on the National Minimum Wage (NMW), have universal coverage, whereas others (eg on unfair dismissal) come into play only when a firm takes a specific action. It was also expected that longer-established laws, for example on maternity leave (introduced in 1975), would be more embedded in practice than recent legislation, such as the 1999 NMW. Finally, laws in relation to collective rather than individual matters, mainly on trade union recognition and strikes, were predicted to have little purchase among small firms.

Second, the market context may affect firms' ease of response. The greater the financial and competitive pressure that firms face, the more difficult it will be for them to absorb any costs of regulation. By contrast, firms in stronger positions may be able not only to absorb costs but also to use the law as a stimulus to modernisation.

Third, adjustment processes within firms were expected to cushion the impact of the law. For example the 'informality' of small firms could mean that maternity leave and issues related to the work-life balance are handled through face-to-face arrangements rather than requiring formal administrative systems.

The study also distinguished three forms of effect. These were: direct effects (where behaviour changes because of a legal requirement); indirect effects (where the law acts to encourage a new practice, for example closer recording of hours of work by the existence of the 1998 Working Time Regulations (WTR)); and 'affinity effects' (where there is no specific link between law and practice, but the two are moving in parallel directions).

Three sectors were covered. A sector with long hours of work - management consultancy - was included. Care homes (ie for elderly people and similar groups) were chosen because of their need to provide round-the-clock service, so that working hours are an important theme, albeit in a different business context. In manufacturing, two subsectors were chosen: food manufacture, for its relatively low pay; and the locks industry, as a traditional sector facing international competition. In each sector, six firms were identified. Eight of the firms had

fewer than 20 employees; the remaining 10 employed between 20 and 50 people. Overall, 101 interviews were conducted with managers and workers.

Experience of laws on trade union recognition and strikes was not reported in the firms examined. With regard to laws governing individual rights, older ones on maternity leave were largely taken for granted. Few firms reported direct experience, and where there was such experience the issue was handled informally. No experience of parental leave, which was introduced in 1999 was reported. Some firms had experience of cases going to employment tribunals. This tended to encourage a formalisation and 'proceduralisation' of the handling of discipline.

The WTR had few effects. Most firms had working hours schedules that meant that the main provisions of the Regulations governing maximum hours of work and night work did not apply. Where the Regulations applied, their introduction had not been controversial, and no significant record-keeping costs were reported. The NMW had a direct effect in one firm, which decided that administering the NMW in respect of its home-workers would be difficult, and the workers concerned were brought into the factory. There were significant indirect effects in the care homes, as discussed below.

Turning to market context and adjustment, the care homes examined in the research were facing funding pressures. Regulations on standards of patient care and staff training imposed additional pressures. With rises in wages in other sectors as a result of the NMW, several homes faced substantial recruitment and retention problems. The main adjustment mechanism was the working of long hours by managers.

In manufacturing firms, labour supply issues were not significant. Some of the firms were moving towards higher value-added products. In such contexts, the negative aspects of legislation could be absorbed. Positive effects were rare and mainly of an 'affinity' kind. For example, one firm was changing its policy on work-life issues; legislation here was characterised as a 'wake-up call'. Among the consultancies, several had chosen consciously to avoid a 'high-pressure' approach. This meant that pressures to work long hours were limited.

On costs of regulatory compliance, there was no evidence that managerial decision-making was constrained by the existence of regulations. The main effects were largely of an administrative nature and, given the limited overall effects of regulation, they were felt to be small. Firms found it hard to produce concrete estimates of these costs, since they did not engage in the necessary detailed accounting.

The benefits of regulation were identified mainly by firms adopting a strategy of producing higher-value goods or services, and were mainly seen in terms of encouragement, for example the 'wake-up call' cited above. In addition, a broader 'affinity' effect can be identified, in that regulations were consistent with the ways in which some firms were moving. Examples include a firm which felt that a flexible approach to family needs brought it business benefits.

The study concludes that there is no single effect of law on small firms as a group, since individual laws differ and their effect is shaped by market conditions and adjustment processes within firms. It suggests an approach to law that is sensitive to context: sectors most likely to suffer negative effects could be identified and possibly given special attention, while situations where the law might encourage modernisation could also be targeted for action.

Further reading:

The original feature is available from the European Industrial Relations Observatory on-line:
<http://www.eiro.eurofound.eu.int/2003/10/feature/uk0310105f.html>

‘The impact of employment legislation on small firms: a case study analysis’ Paul Edwards, Monder Ram and John Black, DTI, Employment Relations Research Series No. 20 (2003)
Available at <http://www/dti.gov.uk/er/emar>

Regional pay proposals: rationale and evidence

Paul Marginson

The Government’s budget statement on 9 April 2003 contained a commitment to introduce measures to ensure that pay systems in the public services become more responsive to differences in labour market conditions between the UK’s regions. In particular, the pay review bodies which determine levels of pay for 40 per cent of the public service workforce would have a new remit to take into account regional and local factors. To augment the economic data available to negotiators and review bodies, the Government also announced plans to publish regional inflation figures. Supporting its proposals, the Government cited evidence from its 2002 review of the public sector labour market which showed that wages in the public sector vary far less across and within regions than those in the private sector. The review concluded that the problem lay with national pay bargaining and review body arrangements.

The Government’s intentions were re-stated, and the underlying rationale became clearer, with the publication of the assessments of the five economic tests for joining the Euro on 9 June 2003. The detailed assessment underpinning the test on flexibility (one of the five) indicates Government thinking on the issue. First, it cites evidence that regions in the UK in which wages have grown fastest are those with low unemployment, from which it concluded that relative wage flexibility between regions has already contributed to a narrowing of regional unemployment rates. Second, the UK’s ‘decentralised and unco-ordinated wage bargaining system’ is commended because of its ‘ability to adjust to industry, sector and regional conditions’. By implication, national pay bargaining and review-body based pay systems are an impediment to further regional wage flexibility. Hence the assessment proposed policy measures to increase wage flexibility in the public sector.

Data on regional wage relativities produced from the official Labour Force Survey by economists David Blanchflower and Andrew Oswald, show that regional pay variations focus on London and the south-east of England as compared to the rest of Great Britain. Earnings for private sector workers are 54 per cent higher in central London than in the Tyne and Wear region of north-east England, which is taken as a benchmark. Other significant differentials are evident with outer London (24 per cent) and the rest of the south-east region (13 per cent). However, in no other region do private sector earnings differ by more than 5 per cent from Tyne and Wear.

To some degree, the regional wage differentials evident in London and the south-east have already led to new forms of locational compensation within national pay systems in the public services. London weighting allowances are of long-standing, but have recently been enhanced in parts of the public sector. Teachers, police and NHS staff have a growing and complex array of cost of living, regional weighting and recruitment and retention supplements to their pay packets which focus on London, other areas of the south-east and increasingly extend to parts of the south.

Yet evidence from the private sector suggests that the Government's implicit model of a system of pay determination which is overwhelmingly local, and therefore acutely sensitive to inter- and intra-regional variations in labour market conditions, is rather wide of the mark. Findings from the 1998 Workplace Employee Relations Survey show that those private sector employees whose pay is set by collective bargaining at local level are outnumbered by those whose pay is set centrally within large multi-site organisations by a ratio of 3:2. And the trend since 1990, for both negotiated and unilaterally determined pay, has been towards greater centralisation within organisations.

A recent review of regional pay variations within the private sector, identifies three main ways in which employers have adapted these national pay structures to local and regional pressures ('Regional Pay' IDS Report, No. 872, January 2003). The first is through allowances or pay premia for defined geographical areas, usually tiered between inner London, outer London and the rest of the south-east, within a national structure. The second is a system of three to six geographic pay zones (of which inner and outer London and the rest of the south-east are usually three), in which locations are grouped according to cost and recruitment and retention pressures. The third is scope for variation within national pay grades according to recruitment and retention considerations for specific occupations or localities. Crucially, decisions on the level of pay variation and on which locations are placed in which areas or zones, or are eligible for variations, remain in the hands of central management. IDS also conclude that developments on recruitment and retention allowances in the public services bear a remarkable resemblance to private sector practice.

Crucially, the substantial number of private sector employers which retain national pay bargaining or fixing arrangements have sound reasons for doing so. These relate to the fact that they are undertaking similar activities in many different locations, as in retail, banking and hospitality, and/or to the national nature of the labour market for particular occupations. Whilst pay setting in important parts of the private sector is decentralised, the underlying logic is one of the disaggregation of large businesses into smaller profit-accountable business streams and units, and not primarily one of geography. A striking indication of the problems that employers can face should they break-up national pay bargaining arrangements when such business and market considerations point to the contrary comes from the railways. Here the train operating companies continue to face a series of comparability claims, resulting in a classic pattern of leapfrogging settlements. One of the main unions has called for a return to national bargaining to bring order back into pay setting arrangements. The key issue is how far a degree of public service regional pay flexibility can be secured without undermining the continuing benefits that derive from national arrangements.

Further reading:

The original feature is available from the European Industrial Relations Observatory on-line:

<http://www.eiro.euroworld.eu.int/2003/06/feature/uk0306110f.html>

High-level employee consultation roundtable held at Warwick

At the request of the DTI, IRRU organised and hosted one of twelve regional roundtable discussions as part of the Government's consultation on its draft regulations to implement the EU's 2002 directive on employee information and consultation in the UK. The forum, held on November 3rd at Warwick, was attended by employment relations minister, Gerry Sutcliffe, MP. It brought together 25 leading employers, trade union officials, employment lawyers and academics from the West Midlands to express their views on the draft UK

regulations. Mr Sutcliffe said: “The information and consultation Directive is an important landmark in employment relations in this country. Consultations carried out last year enabled a range of stakeholders to comment on the issues raised by the Directive, which proved very helpful in preparing the legislation. The government is now keen to hear about how the proposed Regulations will work in practice. Round-tables, like this one at Warwick University, are an excellent opportunity for people to comment.”

About IRRU

IRRU embraces the research activities of the industrial relations community in Warwick University’s Business School (WBS). There are currently seventeen academic staff. Our work combines long-term fundamental research and short-term commissioned projects. In all cases, we maintain the independence and integrity of the work, which have been the hallmark of IRRU since its establishment in 1970. We aim thereby to improve the quality of data and analysis available to industrial relations policy-making by government, employers and trade unions. Current research projects include collective bargaining between decentralisation and Europeanisation; inward investment’s impact on employment practice in central eastern Europe; transnational trade union organisation; equality, diversity and trade unions; stakeholder involvement in managing diversity; practice in the employment of disabled people; employee consultation practice in the UK; flexible working time arrangements; and the organisational roots of productivity.

IRRU publishes textbooks on industrial relations and human resource management. The most recent are Paul Edwards, ed., *Industrial Relations: Theory and Practice* 2nd Edn (Oxford, Blackwell), published early in 2003, and Helen Newell and Harry Scarbrough, eds, *HRM: A Case Study Approach* (Basingstoke, Macmillan), published in 2002. The new edition of *Industrial Relations* completely revises the 1995 edition, whilst continuing to provide a comprehensive treatment of the subject which blends description and analysis. *HRM: A Case Study Approach* applies analytical perspectives to concrete cases, by drawing on several IRRU research projects.

IRRU is the UK National Centre for the European Industrial Relations Observatory (EIRO). EIRO collects, analyses and disseminates high-quality and up-to-date information on industrial relations developments in Europe. IRRU provides a range of inputs including regular *features* which analyse current developments in policy and practice, *in briefs* which report key UK developments and contributions to *comparative studies* which provide a cross-country perspective of a particular topic. EIRO’s database, including IRRU’s input, is publicly accessible on-line at: <http://www.eiro.eurofound.eu.int>

FURTHER INFORMATION

Information on our current research programme and projects, and on recent papers and publications, is available from IRRU’s website: <http://users.wbs.warwick.ac.uk/group/IRRU>

Alternatively, please contact Val Jephcott, IRRU Research Secretary, Warwick Business School, University of Warwick, Coventry, CV4 7AL; email irruvj@wbs.warwick.ac.uk; phone +44 (0)24 7652 4268

IRRU Staff Members

Jim Arrowsmith
Paul Edwards

Ardha Danieli
Anne-marie Greene

Linda Dickens
Mark Hall

Ewart Keep
Paul Marginson
Valeria Pulignano
Mike Terry

* Emeritus Professor

Sonia Liff
Guglielmo Meardi
Sylvia Rohlfer
Martyn Wright

Caroline Lloyd
Jane Parker
Keith Sisson*

Doctoral Students

Maurizio Atzeni
Deborah Dean
Enda Hannon
Aristea Koukiadaki
Miriam Quintana
Joseph Vazquez

Peter Butler
Chris Edger
Annette Hayden
Sandra MacDonald
Sylvia Rohlfer
Peter Wheeler

Heather Connolly
Godwin Erap
Aline Hoffmann
Torsten Müller
Andrew Sparks