Social Implications of EMU

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1. Introduction

1.1 Objectives and methodology

This report deals with the industrial relations implications of Economic and Monetary Union (EMU) in the UK. Like the cross-national project of which it is a part, it focuses on the following issues:

- the practicalities involved in introducing the Euro;
- the implications of EMU for the processes of industrial relations (the pressures EMU is likely to generate for the greater 'Europeanisation' of industrial relations and the challenges it poses to national systems of industrial relations);
- the implications of EMU in terms of the main outcomes of these processes, i.e. pay and employment; and
- the wider considerations relating to the impact of EMU on restructuring and dominant forms of business organisation.

The research design follows the guidelines agreed by the project's research group in May 1999 and comprises three elements:

- a review of recent debates and relevant literature
- sector level interviews and analysis of documentation
- enterprise level interviews and analysis of documentation

The three sectors in which the interviews and analysis of documentation have been undertaken are also those decided by the project's research group in May 1999, i.e. automotive, banking and road haulage. In the case of the road haulage sector, it was necessary to adopt a slightly different approach to the conduct of the interviews from the other two sectors. Bearing in mind that there has been very little research of any kind in the road haulage sector, it also seemed sensible to adopt a different framework for presenting the results. Further details of the conduct of interviews and the approach are given at the beginning of each of the sector studies.

The remainder of this chapter gives brief details of the UK's economic and political context before describing the main contours of British industrial relations. The chapter which follows reports on the debate taking place within the main political parties, business and trade unions, together with the proceedings of the Employment Sub-committee of the House of Commons Committee on Education and Employment, which is the richest source of insights into some of the key issues. Chapters three, four and five deal respectively with the sector analyses in automotive, banking and road haulage. Chapter six highlights the main findings, including consideration of the differences and similarities across and within the three sectors, any evident explanations for inter-sector and/or inter-company differences and an assessment of likely future developments

1.2 Context and contours of British industrial relations

Economic and political context

Like other EU member states, the UK economy has been subjected to intensifying international competition in recent years. There have also been two major recessions, in the early 1980s and early 1990s, which had particularly wide-ranging effects. Overall, the labour force in the UK had grown to almost 27 million by 1997 which amounted to almost 71 per cent of the population aged between 15 and 64 - total population of the UK was approximately 59 million. As well as declining levels of unemployment, changes in the patterns of employment have been especially marked.

They include:

- a continuing shift in the distribution of employment away from manufacturing to services - by 1997 the share of employment in industry accounted for only just over a quarter of all employment, compared with 30 per cent a decade earlier
- a significant increase in the proportion of women in the labour force – almost 64 per cent of the women of working age were in employment in 1997 compared to 55 per cent in 1985
- a particularly marked increase in part-time employment - in 1997 one in four of all jobs and more than two in five of female jobs were part-time (CEC, 1999: 164).

These developments reflect the fact that manufacturing has been rooted in mature industries, such as iron and steel, engineering and shipbuilding, and clothing and textiles, where competition is especially sensitive to price. Traditional methods of working, and relatively low levels of investment and technology, have meant comparatively poor performance; while inferior training provisions, for both management and workforce, have made it difficult to shift to quality production. Other important considerations include the nature of institutional share holding (mainly pension funds and investment trusts) and the ease with which take-overs can be mounted; the combined result, it has been argued (see, for example, the review in Bach and Sisson, 2000), is considerable pressure on British companies to emphasise short-term profitability at the expense of long-term asset management.

Politically, the UK was governed by four consecutive Conservative governments between 1979 and 1997 involving a fundamental rejection of the labour market policies that had dominated the approach of governments since World War 2. As well as passing a number of acts designed to limit the powers of trade unions, Conservative Governments sought to deregulate the labour market in pursuit of an ‘enterprise’ economy. They also actively promoted a vision of their preferred industrial relations system, which put the emphasis on ‘the role and importance of the individual employee’; traditional arrangements, based on collective bargaining and collective agreements, were seen as ‘increasingly inappropriate’ (Employment Department, 1992). Attitudes to Europe were also ambivalent. There was support for the Single European market, but hostility to further developments in the social dimension reflected in the opt-out the UK secured from the Maastrict social policy protocol.

The return of a Labour Government with a massive majority at the election in May 1997 has created a very different climate. While the Government has been anxious to maintain business support, it has nonetheless committed itself to its famed ‘third way’ combining flexibility and fairness. It signed the EU ‘social chapter’, which the previous Conservative Governments had rejected and agreed to its incorporation into the Treaty of Amsterdam in 1997. As well as introducing EU legislation, it has also honoured its election commitments to introduce a National Minimum Wage and provisions for trade union recognition. The Labour Government has also expressed strong support for the principle of partnership, although it has been wary of what it regards as corporatist-type arrangements involving the social partners at national level. As will be explained in more detail later, it is committed in principle to joining the Euro, subject to a referendum in the course of the next Parliament, but has set stern tests for deciding when it should join.

The peculiarities of UK industrial relations

In the UK, as in the other EU member states, the 1980s and 1990s have been a period of turmoil in industrial relations. New ideas and new practices abounded. Terms such as 'Total Quality Management' (TQM), 'lean production', 'flexible organisation', 'empowerment' and so on, have become part of the every-day language of industrial relations as has 'Human Resource Management' (HRM). Many of the distinctive features of UK industrial relations needed to understand the reaction to EMU remain, however.

A 'voluntarist' system of industrial relations. Notwithstanding the welter of Employment Acts in the 1980s, there is little direct legal regulation of industrial relations in the UK compared to other EU countries. Unlike in these countries, there is no statutory provision for trade union recognition at the national level or other forms of employee workplace representation such as works councils. Collective agreements are deemed to be 'gentlemen's agreements' binding in honour only rather than legally enforceable contracts. Training is regarded as the responsibility of individual employers and employees and there is comparatively little state involvement.

A highly complex pattern of representation. The UK not only has a large number of trade unions (in 1998 there were 224 listed and 23 unlisted trade unions according to the Certification Office of Trade Unions and Employers' Associations). Many trade unions and, in particular, the larger ones, such as the Transport and General Workers' Union, have members in a wide range of occupations and sectors. Other unions, such as the Amalgamated Engineering and Electrical Union, focus on particular occupations which are common to virtually every sector. The number of unions, such as UNIFI (in banking, insurance and finance) restricting their activities to particular sectors is very small. The result is that it is not unusual for there to be half a dozen unions represented in the same organisation.

The UK also has a large number of employers' organisations (in 1998 there were 106 listed and 101 unlisted employers' organisations according to the Certification Office of Trade Unions and Employers' Associations). Membership is much lower than in other EU countries, however, and is also fragmented. There is no employers' organisation in some sectors. Significantly, this includes banking which is one of the case studies of the report.

A decentralised structure of collective bargaining. Unlike most other EU member states, multi-employer bargaining at sector level is no longer the predominant pattern in Britain. Indeed, multi-employer agreements are mainly confined to the public sector and industries such as printing where there are a large number of small competitive forms. In engineering and banking, multi-employer agreements were terminated in the 1980s. Also decentralisation to individual business units is a near-universal trend in the large multi-establishment enterprises that dominate employment in the UK. Very often it is the individual workplace that is the bargaining unit. Only in organisations with integrated operations - for example, the auto manufacturers and the banks - are negotiations at multi-establishment level.

Not only therefore do British management and trade unions lack the institutional framework to establish and develop standards for entire sectors, but the UK is also without the 'dual' system of industrial relations characteristic of most other European countries. There is no clear-cut distinction between collective bargaining and the role which trade unions play outside the workplace in other countries and the joint consultation and employee-based systems of representation which take place inside the workplace. In the great majority of cases where trade unions are recognised, management deal direct with lay trade union representatives or shop stewards and there is little distinction between the processes of joint regulation, joint consultation and communications.

From collectivism to individualism? The conjuncture of a political and economic context exceptionally hostile to trade unions has had significant implications for industrial relations. The most fundamental change has been the decline in joint regulation by collective bargaining. According to the First Findings of the 1998 Workplace Employee Relations Survey (WERS) (Cully et al., 1998: 28), the proportion of workplaces recognizing trade unions had fallen from 66 per cent in 1984 to 53 per cent in 1990; between 1990 and 1998 it fell a further eight points to 45 per cent; aggregate trade union density was around 36 per cent. Meanwhile, the proportion of workplaces with no union members increased from 27 per cent in 1984 to 36 per cent in 1990, to 47 per cent in 1998. In the words of the authors of the First Findings (Cully et al., 1998: 28), ‘This signals, clearly, a transformation in the landscape of British employment relations, particularly when contrasted with the relative stability and continuity that has characterised the system for much of the post-war period’.

1.3 The social partner organisations

It will also be helpful to have details of the main social partner organisations, at both national and sector levels, to which reference will be made in later chapters.

Confederation of British Industry
The CBI is recognised by the UK government and trade unions as the main spokesperson of British business. Membership is made up of about 150 sectoral employers’ organisations together with individual companies, covering every sector and industry. Altogether some 240,000 companies are involved. The CBI represents 80 of the largest 100 companies measured by capitalisation, and almost 75 per cent of the top 1,000.

The CBI has never had a collective bargaining role with trade unions or government. It nonetheless exercises considerable influence in social affairs through: (i) relaying the views of employers to government and the public at large; (ii) representatives on public bodies, such as the Health and Safety Commission; and (iii) its internal advisory services, which include the collection and dissemination of pay data.

Engineering Employers’ Federation
The EEF is the dominant employers’ organisation in the engineering industry and is widely acknowledged as such by government, trade unions and other interest groups. It is a national federation of 15 local associations which are registered as employers’ associations in their own right and which enjoy considerable autonomy. Membership covers every sector of the engineering industry and includes some 5,000 companies and 700,000 employees.

In 1990 the EEF ceased to negotiate national agreements on pay and conditions following the breakdown of negotiations over hours and so its collective bargaining role has declined substantially in recent years. The EEF and its local associations nonetheless exercise considerable influence on social affairs through: (i) its representative role; (ii) its internal advisory service; (iii) its involvement in education and training activities; and (iv) its organisation of the Engineering Industry Pension Scheme launched in 1987.

The Road Haulage Association

The RHA is the national trade and employers' association for the hire-or-reward sector of the road haulage industry and claims a membership of around 10,000 throughout the UK with a total road strength of 100,000 vehicles. Members include most of the large road haulage operators, but three-quarters of its members are very small with 10 vehicles or less. The RHA, which has four regional offices, has a limited role in collective bargaining. Its puts particular emphasis on its representational role and the provision of advice, guidance and practical services to its members.

Trades Union Congress

The TUC is the principal trade union federation in the UK, and is accepted as such both nationally and internationally. As at the end of 1998 the 76 unions affiliated to the TUC had a total membership of 6.74 million. The eighteen TUC affiliated unions with over 100,000 members each have automatic representation on the General Council of the TUC and represented the great bulk of TUC affiliated membership.

The TUC does not engage in collective bargaining with either the CBI or other employers' organisations. Its key roles include: (i) representing the views of affiliated unions to government; (ii) representing employee interests on public bodies, such as the Health and Safety Commission and the Advisory Conciliation and Arbitration Service; (iii) assisting unions in disputes; (iv) regulating relations between unions; (v) promoting inter-union co-operation through sectoral committees, whose activities include the consideration of broad collective bargaining objectives; and (vi) providing services and advice to affiliated unions, including research and education.

Amalgamated Engineering and Electrical Union

The AEEU was formed by the merger of the Amalgamated Engineering Union and the Electrical, Electronic, Telecommunication and Plumbing Union. It operates as two sections, although negotiations are currently underway to establish a single rule book whereby the operation of the two sections may be integrated. Historically, the component unions of the AEEU were craft organisations with membership restricted according to skill. For some time, however, both unions had extended their recruitment bases to other areas to include some semi-skilled, unskilled and white-collar workers, especially in the engineering sector. Thus the AEEU is one of the two main unions in the automotive sector considered later. In 1998 membership of the AEEU stood at 720,296 according to the Certification Office of Trade Unions and Employers' Associations.

Transport and General Workers' Union

The TGWU is a general union that recruits throughout the economy and from among all occupations. It was formed in 1922 and is the UK's second largest union. It is open to all types of workers and in some industries has achieved almost industrial organisation (eg. agriculture, oil refining, docks and flour milling) as well as a substantial presence in others such as engineering. The TGWU is organised into geographical regions and industrial sectors (Manufacturing, Services, Food & Agriculture and Transport). The regions are primarily responsible for the administration of the union, including the distribution of benefits and services. The formulation of industrial policy and the conduct of bargaining is the responsibility of the sectors. One of these is the road haulage sector, where the T&G is the largest union. In 1997 membership stood at 881,357 according to the Certification Office of Trade Unions and Employers' Associations.

UNIFI

This union, which recruits in the banking, insurance and finance sectors, is the result of a three-way merger in May 1999. This brought together the TUC-affiliated Banking, Insurance and Finance Union and what were essentially the staff associations from two of the main clearing banks: NatWest and Barclays. Altogether it organises primarily clerical and administrative grades throughout the financial sector including banks, insurance companies, building societies, finance houses and credit card companies. Membership is reckoned to be around 200,000 which, the union claims, makes it the largest specialist finance union in Europe. At the end of 1997, BIFU membership was 112,972 according to the Certification Office of Trade Unions and Employers' Associations.

Manufacturing, Science and Finance Union

MSF was formed in 1988 by the merger of the Association of Supervisory, Technical and Managerial Staff and the Technical, Administrative and Supervisory Section of the then Amalgamated Union of Engineering Workers. The majority of MSF members are white-collar workers employed in manufacturing industries and, in particular, in engineering. However, a substantial number of white-collar members are also recruited from within finance, including Midland bank, which is one of the case studies. MSF is organised into 14 regions for administrative and organisational work and in 1997 membership stood at 416,000 according to the Certification Office of Trade Unions and Employers' Associations.

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2. EMU and industrial relations ... the debate intensifies

Our task in this chapter is to review the debate over the UK's relationship to Europe in general and its membership of the Euro in particular. There have been few significant scientific contributions since the publication of the European Foundations' select bibliographic review early in 1999. Yet, during the course of the year the policy debate has been on going, and if anything intensified. Most recently, it has dominated debates at the conferences of the main political parties and the TUC in September/October of this year.

The Employment Sub-committee of the House of Commons Committee on Education and Employment has also been receiving high profile evidence on the employment implications of EU membership. The detailed questioning before the Sub-committee has provided some of the most powerful insights in people's thinking about EMU, the Euro and their implications on employment in particular. In the words of its chairman,

> We, as the Employment Sub-committee, embarked on this study because in the absence of our control over our currency and rates of interest then the employment market acts as the big buffer and we just wonder what the employment consequences of joining the single currency would be (Pare 52, Wednesday 30 June).

It is around business, employer and trade union perspectives, as reflected in these public statements, debates and hearings, that the chapter is therefore primarily organised.

2.1 The view from the conference platform

The official position of the Labour Government was mapped out in 1997 and has been restated on several occasions including, most recently, at the Labour Party conference in September 1999. It is that the Government is in favour of membership in principle and is committed to hold a referendum early in the next Parliament, which would start in 2002 at the latest. The key question determining UK entry would be whether, in the words of the Chancellor of the Exchequer to a special TUC conference on the subject in May 1999, it would bring 'clear and unambiguous economic benefits'. To that end, the Government proposes to apply tests in five economic areas:

- sustainable convergence
- flexibility to cope with change
- the effect on inward investment
- the effect on UK financial services industry; and
- whether joining would benefit employment, which the Chancellor described as 'the most practical question'.

There has nonetheless been considerable debate and speculation about the position of the Prime Minister and the Chancellor, along with the rest of the government, in recent months. The Prime Minister has always known that the government faces an up-hill battle to win a referendum in any event, given the hostility of the majority of the electorate as expressed in numerous opinion polls and the strength of the anti-Euro media. The latter embraces The Daily Mail as well as the papers in the Rupert Murdoch (notably The Times and The Sun) and the Conrad Black (The Daily Telegraph and The Sunday Telegraph) empires. Developments in the first half of the year, however, have made the task even more difficult. Especially important have been the decline in the value of the Euro, the corruption scandals involving the European Commission and the extremely disappointing European election results.

The relatively good showing of the UK economy, which brings the Chancellor of the Exchequer in to the equation, has also been a consideration. He has earned considerable plaudits, both nationally and internationally, for his contribution and he and the Treasury are reputedly reluctant to commit themselves to giving up control to the European Central Bank until they are absolutely certain the timing is right.

Speculation was especially rife at the conference, where the Prime minister faced criticism from strong supporters of Euro entry, such as John Edmonds of the GMB union, for not giving a stronger lead. Robin Cook, the Foreign Secretary, and Peter Mandelson, former trade minister and adviser to the Prime Minister, made powerful speeches in favour of Euro membership. Both called for a campaign to highlight the benefits of the Euro on the basis that it was likely that the Chancellor's economic conditions would be met. For his part, the Chancellor's address to the conference studiously avoided any reference to the Euro. It was reported that he was 'furious' at the pro-Euro speeches of Mandelson and Cook, believing that the argument for the UK to play a greater role in the EU had to be won before a vigorous case for Euro entry could be made. The Prime Minister's speech stated that 'the single currency is, of course, a decision that must be dependent on the economic conditions, and on the consent of the British people in a referendum'. He also added, however, that 'if we believe our destiny is with Europe, then let us leave behind the muddling through, the hesitation, the halfheartedness which has characterised British relations with Europe for forty years'.

Significantly, too, the Prhne Minister also finally agreed, reportedly after months of 'negotiation', to join with pro-Euro Conservatives such as Kenneth Clarke and Michael Heseltine, and the Liberal Party leader Charles Kennedy, in launching the 'Britain in Europe' campaign on 14 October. Although this is being presented as a cross-party attempt to combat the growing tide of Euro-scepticism, it is seen by most commentators as the opening salvo in a campaign to promote British membership of the Euro in advance of the promised referendum in the next Parliament. Indeed, at the launch conference the Prime Minister stated that "all the issues of principle have now been resolved" as far as Britain's participation in the Euro was concerned.

The Liberal Party conference in September was also characterised by uncertainty, reflecting their relatively poor showing in the European elections and the fact that a recent poll reckoned around one third of Liberal voters were opposed. (M. White. 1999. 'Party squabbles over a single currency', The Guardian 22 October.). An amendment which would have dropped the party's support for the remaining EU member states, and applicant members, to commit themselves to joining the Euro as soon as practicable was overwhelmingly rejected. In the light of their poor performance at the Euro elections, however, a succession of speakers warned of the dangers of not taking voters' views into account.

The issue of Europe also dominated proceedings at the Conservative Party Conference in early October, but for different reasons. The official position remains that the party supports Britain being in Europe but not run by Europe and is opposed to Euro membership for the life of the next Parliament. Most commentators nonetheless see the conference as signalling a significant further shift to a much harder line. The leadership has committed itself to seeking to re-negotiate the terms of EU entry and to establish scope for the UK to take a 'cafeteria' approach to membership based on rights to opt-out of directives perceived not to be consistent with UK interests. Even the former Conservative Party leader and Prime Minister, John Major, has argued that this is tantamount to accepting a position of taking Britain out of the KU. (W. Macaskill and N. Watt. 1999. Heseltine's pro-union strike'. The Guardian 4 October).

2.2 Business perspectives

The CBI does not hold its annual conference until November. It nonetheless reaffirmed its position in a policy statement issued in July 1999 following an extensive consultation exercise.

> The CBI is in favour in principle of UK entry into European economic and monetary union once key conditions for success are in place. The CBI's present policy is not committed to a specific entry date. It will continue to review with its members over the forthcoming years the issue of the appropriate conditions and date of entry.
>
> UK membership of EMU has the potential to deliver significant benefits to the UK economy. In particular it would:
>
> - Enable British companies to participate fully in a more complete and competitive single market.
> - Remove from the UK economy the harmful impact of exchange rate volatility versus the Euro.
>
> A commitment to UK membership of EMU would also reinforce the UK government's ability to play a full and leading role in Europe, arguing for the reforms needed to ensure full realisation of EMU's potential.
>
> There remain however key conditions which need to be achieved to ensure the economic success of the EMU project and to minimise the risks. These are:
>
> - Further progress towards sound fiscal conditions in all major Euro-zone countries.
> - A shift in labour market policies in Eurozone countries towards more flexibility rather than more intervention.
>
> In addition the timing of British entry will need to be determined in the light of reasonable cyclical convergence between the UK and other EU economies, and would need to be at an appropriate exchange rate. This exchange rate could only be decided nearer the date of entry.
>
> Given these considerations, the UK government should maintain its in principle commitment to British membership of EMU, and should:
>
> - Work within the EU to urge progress on the policies needed to ensure EMU's success, specifically in the areas of sound fiscal policy and continued product and labour market liberalisation.
> - Continue with the practical preparations needed to ensure that entry can follow swiftly once a decision in a referendum is made.
> - Review regularly whether the conditions for UK entry are favourable.

- Encourage an informed debate about all aspects of UK membership of the EMU.

In the press release, of which the statement forms a part, the CBI emphasises that the CBI's existing policy on UK membership of EMU was agreed by the CBI's National Council in July 1997. It supported the principle of UK membership of EMU "under the right conditions", and urged the Government to work to ensure the attainment of the conditions needed for EMU's success. This policy was adopted following an extensive consultation process through CBI councils in March-July 1997 and against the background of the survey of CBI and British Chambers of Commerce (BCC) member opinion conducted by MORI in November 1996. The press release goes on:

> The CBI has now completed a second major consultation exercise involving again both our representative councils and a survey of membership opinion. The committee consultation process has involved debates and votes in each of:
>
> - The 13 Regional Councils
> - Our central councils and policy committees, including the Small and Medium Enterprise Council, the National Manufacturing Council, the Economic Affairs Committee, the Europe Committee, and the President's Committee.
>
> Votes in these councils and committees revealed very strong support for British membership of EMU, with:
>
> - 78% supporting either entry by a specific date or entry in principle
> - 19% preferring a 'Wait and See' approach and
> - 2% voting to rule out EMU either till at least 2007 or forever.
>
> 50% of those consulted were in favour of committing to a specific entry date either prior to 2002 or between 2002 and 2005. The pattern of opinion was very similar as between regional and central bodies.
>
> The survey of wider membership opinion has also revealed majority support for membership of the Euro, but less overwhelmingly. The survey covered both direct members of the CBI and indirect members represented through trade associations in CBI membership. The results were:
>
> - Supporters of EMU entry (52%) significantly
> - Outnumbered?
> - … clear opponents (16%).
> - But there is a large slice of members who prefer a neutral 'wait and see' approach (31 %).
>
> A significant block of members but not a majority (30%), wish the in-principle commitment to entry to be accompanied by a clear commitment to entry within five years.
>
> These survey results are fairly similar to the November 1996 results, when opinion divided:

- 49% yes
- 42% keep options 9pen / wait and see
- 7% no.

> The overall response rate was a bit lower than in November 1996 (26% versus 32%) although the response rate among CBI direct members was exactly the same (31 %).
>
> Given the results of both the consultation and the survey, the CBI National Council has decided that existing policy stance, agreed in July 1997, should be reaffirmed and updated, but not significantly changed. CBI Press Release, 20 July, 1999.

The other main business pressure group in the UK is the Institute of Directors (IOD). Unlike the CBI, whose membership is institutionally based, the IOD's members are individuals. In they main, they come from small and medium sized enterprises. The IOD and its members have been largely sceptical about the UK joining the Euro, reflecting the fact that most of their members come from companies that primarily sell their goods and services in the UK. Arguably, therefore, they might be thought to have more to fear from EMIJ than their more-internationally-focused colleagues from CBI affiliated companies.

Reflecting such differences in the position amongst business, business leaders are prominent in campaigning platforms both for and against EMU and the single currency. The chair of the cross-party 'Britain in Europe' campaign launched in October is Lord Marshall, who is chairman of British Airways. Lord Marsh, a former Labour cabinet Minister, chairs the anti-EMU 'Business for Sterling' campaign.

Representatives of the two platforms, Lord Marshall from 'Britain in Europe' and Mr Rodney Leach of 'Business for Sterling' groups appeared together before the Employment Sub-committee of the House of Commons Committee on Education and Employment in June 1999 and the minutes of the meeting give us valuable insights into the issues on which opinion is dividing. As well as the issues of control of monetary policy and sovereignty, one of the most immediately relevant is the difference in views on investment opportunities. This emerges in the following interchange in response to the question why they believe the United Kingdom has been so successful in recent years in attracting foreign inward investment, far more successful than other European Union countries?

> *(Lord Marshall)* I think we have been successful in attracting inward investment because we have a much greater degree of labour market flexibility in this country than has been apparent in at least some of the Euro zone countries ... Also, we have been seen as a very useful entry point into the single market. I think there is no doubt that the English language which is seen as the second language in almost every other country around the world is very helpful in that context. I think also we have been very good in the efforts made by the Invest in Britain Bureau and various other of the inward investment agencies for this country. What is particularly concerning now is the extent to which those foreign investors and more so the prospective foreign investors are raising the questions about our position over the single currency. I happen to travel extensively and I do a lot of public speaking around the world and in the last few months I have been speaking several times in the United States at various events ... and I was two weeks ago

doing similar in Australia. The first issue that was on the minds of many of those people there was our position over EMU and the Euro. It was made very clear to me by a number of business leaders who either have investments here today or are thinking about investments in Europe that if they get a clear indication that we definitely are not going in then they will in some cases absolutely not invest in this country, in other cases they will have serious doubts of the wisdom of investing in this country.

(Mr. Leach) It is obviously very difficult to deal with anecdote. I know correspondingly anecdotes of people who say they invest in Britain because we have the flexibility and freedom to have a vital economy and they would be less enthusiastic if we did anything which brought us really into some of the problems, one must not overstate them, that the continental economies have had ... I think if you deal with fact, apart from a very brief period, Britain has not been in the monetary union or the predecessor to the monetary union ... Through much of that period, Britain has had great reservations and in some cases rather more than great reservations about entering. It has not had any effect on external investment here at all. It is rather plain that the Germans and the French who have invested in this country are not doing so in order to be inside the zone. It is also clear that, when you do have a problem and there is the question of whether, let us say, a motor plant in the Midlands should be supported ‘or not, and you talk to say the German, manufacturer, BMW in a recent case, the alternative proves not to be another part .of the European Union but It proves to be Alabama or Poland ... I think that therefore the evidence over what is now a very long period of time would go in the direction of saying that the reason we get foreign investment is all the original reasons that Lord Marshall gave which I entirely approve of. I think they are right, we have good labour relations, low tax, which I am sure he would have mentioned but did not happen to mention but all Lord Marshall’s points I think are absolutely right. It is a user friendly country ... Britain has become a very user friendly country and that is something it is hard to put your finger on but when I talk to people abroad-and I also travel a great deal abroad, and run a very large multi-national company-that comes up very often.

Other differences relate to their expectation about the future development of the EU social dimension and the likelihood of tax harmonisation. This emerged in their responses to a question about whether, if convergence to some extent is achieved, it can be maintained, and indeed political harmony sustained, only if employment laws and employment costs are broadly similar between the Euro zone counties. In that case, asked a member of the Committee, is it not inevitable that with the most flexible labour markets within the European Union at the moment, if the UK were to go into the Euro zone, would not the probability be that UK labour costs would have to increase?

(Lord Marshall) I certainly do not subscribe to that view at all. I believe very strongly that the issue of let us say, wage bargaining as an example must be maintained on a localised basis. That is the basis on which it has been handled over the years and we have the example today of where Germany in fact is moving now from centralised bargaining to localised bargaining, so I do not think there is any serious danger of an effort to try and level out wages and fringe benefits, etcetera, throughout the European Union.

... I think one also has to bear in mind that the Social Chapter has really got virtually nothing to do with the Euro. The Social Chapter is there because we are part of the single market.

(*Mr Leach*) One must remember that EMU does stand for Economic and Monetary Union and one must remember that the phrases “level playing field” and “unfair social and fiscal competition” are quite current concepts within Europe and that with the advent of Euro land the external account for Euro land of course shrinks because exports to each other are no longer exports, they are internal, and therefore there may be an illusion that it is less necessary to be competitive with the outside world. There are many moves in the way Lord Marshall has said, I would agree with that, but I think the closer you get to integration the more the level playing field argument will run, the more the tax harmonisation argument will run. It was at the Head of the Austrian Presidency, who had it as item one on their agenda, and it was high on the last Presidency’s agenda. These fears can clearly be overstated and there is clearly not going to be overall tax harmonisation but a move in that direction ...

(*Lord Marshall*) Can I just add, Chairman, as we have moved on to tax harmonisation, that I do not buy into the view that tax harmonisation is going to take place throughout the Euro zone. We have a veto in this context. I believe the Government would apply a veto if such were proposed. We also need to bear in mind that when you net out tax, and in particular corporation tax on businesses, in fact it is lower in a number of other European countries than it is in this country when you take into account all of Me that are permitted, so we are not perhaps quite the shining example that sometimes we are set up to be.

The two representatives were also asked why, given that there has been quite a bit of evidence that SMEs stand to gain through ease of exchange rates from entry, small and medium-sized businesses are most opposed in the opinion polls.

(*Mr Leach*) Of course, a lot of small and medium-sized enterprises do not do business abroad really at all and therefore they see themselves incurring the costs perhaps ... I think a lot of small and medium sized enterprises are self-reliant, self-made people. Some of the fears of isolation, being left out, that sort of thing, that seem to play a part m the overall picture of describing the dangers if we do not go in, they do not share because they are used to standing on their own two feet. I think there is a variety of reasons why your description of the situation is an accurate one and I think those are perhaps two of the reasons.

(*Lord Marshall*) I do not disagree with that ... there are a lot of small and medium sized enterprises who are in favour of our going forward and in fact through the CBI I should say that we hear more demands from the SME sector for going in early and not waiting than we do from the larger sector. I understand particularly when you get to the Federation of Small Businesses, which is the micro businesses, that it is very difficult for them to see what the benefits are and the status quo is always much easier to accept, but I think over time, given the fact that we are going to have quite a bit of time, we are going to have to convince these people that it is going to be in their interests. Even though they may not

> directly made win Europe, they may be trading with others who are Lading with countries of e Euro zone, and even if they are not doing that because we believe that the growth and the success of is county in the long-term fixture lies as member of EMU, let alone the single market, that they are going to benefit from He peripheral effects of a very successful economy for the future.

Unusually, the Employment Sub-committee has also focused on the impact of EMU, and the UK's non-participation in the single currency, at company level. Thus, in July 1999, the Sub-Committee heard evidence from senior management representatives of two of Britain's leading manufacturers - Unilever (Mr Richard Greenhalgh, Chairman, and Mr Michael Samuel, UK National Finance Director) and Vauxhall Motors (Mr Bruce Warman, Director of Personnel). Although in very different markets, the two companies share a number of common characteristics relevant to their approach to the single currency. Unilever is an Anglo-Dutch conglomerate directly employing 17,500 people in the UK out of a European total of around 75,000. The UK hosts 21 of a total of 110 European plants, manufacturing food and personal and domestic hygiene products. Vauxhall is the UK subsidiary of the car giant General Motors (GM), and employs around 10,500 workers at two manufacturing sites, out of a total European workforce of 86,000. Both companies are therefore part of much larger multinational firms that approach Europe as a single region in terms of manufacturing capacity as well as markets. This means that they have to compete within their corporate groups for investment funds.

Both companies were invited to begin by informing the committee about the preparations and changes their companies are putting into place to prepare for the EMU.

> (*Mr Greenhalgh*) We are preparing in a number of ways. For example, if you take our investors as stakeholders, we will report as Unilever from 2000 m Euros. In this country we will obviously continue to report also in sterling but the basis of our reporting will be in Euros. We are encouraging our suppliers in the United Kingdom to invoice in Euros. We have also put out two newsletters to our employees to brief them on the Euro and to give them an indication in the United Kingdom as to what it might look like in the future because we have already got some experience in the Netherlands where we are now showing payslips in Dutch guilders and in Euros. In terms of investors, in terms of our suppliers and in terms of our employees we are taking steps.
>
> (*Mr Samuel*) One of the key things we have done this year is to move over towards invoicing our sister companies for shipments in Euros which very much now exposes our United Kingdom companies to the Euro in a way in which they have not been exposed before. This is on internal shipments. That for us is a key change, and all our internal reporting next year will switch over to the Euro as the internal reporting currency for our company.
>
> Question: So you are effectively in the Euro? (*Mr Greenhalgh*) We are ready.
>
> (*Mr Warmart*) Our approach is not quite so radical internally, but perhaps externally we have taken similar action. Our currency of common transaction in General Motors is the dollar and we still use that for international consolidations. We have not switched to a Euro financial consolidating currency base in Europe. All accounting systems have been prepared to handle the Euro botl1 in Europe

> and in the United Kingdom. Our approach has been in the United Kingdom to be prepared to deal with the Euro and to inform both our customers, our retailers or dealers, about the Triplications of He Euro, and also our employees. I have brought with me for your interest brochures that we have prepared for our retailers and also for our customers. If they wish to buy cars in Euros they can do so at our dealers but we do not advertise it strongly. It is available as an option. We also communicate win our employees through our company newspaper and so on an ad hoc basis on He Euro, what it means and what is happening. We have not changed within He United Kingdom any of our accounting systems, only He availability to deal In the Euro.

Both companies argued that being outside the Euro-zone has had a number of increasingly serious implications for the UK operations because they are part of closely integrated European companies which are looking to reduce the number of production sites and/or capacity. Each of the parent corporations has a well-developed internal market within which constituent companies must bid for investment funds. Outside of the Euro-zone, the UK subsidiaries carry additional transaction cost burdens in terms of currency exchange and hedging against risk and, although some of this can be mitigated by internal currency cash flows, currency uncertainty remains an unwelcome additional factor in investment decisions. In addition, they are also faced with base rates twice of the Euro-zone (5 per cent).

In the light of this, the companies were asked about Me factors hey would use to decide where to situate their investment.

> (*Mr Greenhalgh*) ... First of all, I think it is quite unlikely ... that we go into a greenfield site in our case. The first thing to say is that in the United Kingdom with our 21 sites we are likely to be looking at those sites and either expanding them, maintaining them or contracting them. I am not sure I can answer your regional question. We are where we are in that sense and we have, as I say, deodorants in Leeds and frozen food in Grimsby and so on. We then come to the point that there is a new product or something like that, growth in a particular product area. Where should that be sited? The things that we take account of are these. Of course the size of the surrounding market will be important and therefore the United Kingdom does have an advantage there in that 20 per cent of our sales are in this country. The proximity to other markets and the distribution costs will be another factor, depending on the product. With deodorants it is hardly a factor; with margarine it is. Then we come to efficiencies, including particularly labour productivity, and I will ask my colleague later to comment on the tax angle. If we looked at the labour productivity ... we are very competitive in this country. I cannot believe that the other countries of Europe will not accelerate Heir process of making their markets more flexible. I will give you a few examples of flexible working. A factory working anything between four and six days per week, according to requirements, averages 40 hours across the year as a whole. It has flexible annual working time for part-timers in a seasonal business, full time at peak periods, parttime at others, and nil in low season. It has a quick response to market needs and has zero hours contracts, people being called into work as and when required. That factory is in Germany, not in the United Kingdom. It is our ice cream factory. My belief is that, going forward five to 10 years, maybe less, the flexibility which is already happening in Germany (let

alone in the Netherlands where it is already happening), will be similar to that in the United Kingdom.

(*Mr Warman*) ... When we make investment decisions and product allocation decisions on a shorter term time frame we look at a variety of factors. We look at cost primarily, quality and trends in bow those figures, not just where they are but how things are moving. I want to come back to costs because I think that is a very important issue. We look at union relationships and labour flexibility, having stable union relationships, have there been any disputes, what is the flexibility of the workforce in terms of shift patterns? We look at the education level of the workforce, the need to gain market access, the fact that we produce in one country and sell in another. We look at government support as well because like Unilever I do not think we will be building a new car plant in the United Kingdom but we do need' to maintain the plants we have got. Unless we continue to invest in our plants big money, they will die, and so government support is important to us. I think you are very familiar with the motor industry and government support and car companies. We say we do not get as much as anyone else but that is just our plug. We look at planning stability and robustness. There is a whole range of factors. If I go back to cost, in a sense cost is the buffer that absorbs the other varying factors. In. the United Kingdom we have certain advantages and disadvantages. Geographically we have a disadvantage. We are on the periphery of Europe and transport links are not very good. That makes us a less attractive place to expand. In a country like Germany In the centre, it is well positioned. The education and training level of our workforce could be better. It is not disastrous but it could be better. We are doing a lot, a lot of initiatives have been under way for a while with this Government and the previous Government. With time perhaps that will correct that. We have to deal with those issues. Germany has a lead on us in those two areas. Because of that they can afford to pay their people more. They have got certain disadvantages. They have very high social costs. They are trying to change things but at the moment they are still on the high list on flexibility.

Those issues all get factored in. In the end the wage rate accommodates that plus local tax rates and local cost of living factors. If we can maintain a relatively low tax economy and try and overcome some of these disadvantages, it will be attractive to the United Kingdom. One point I would make is that we need to maintain a flexible labour market and keep those things which give us an advantage in the labour market and not throw them away. I am not making a plea to overturn a lot of recent legislation or to exploit He workforce. I could not be further from that. We have got excellent relationships with our workforce and with the unions and we treat them responsibly and we give them a very good package of benefits and they are fully aware of what is going on in the business. As a country we have to be very aware of not throwing away the advantage we have. I do not believe for example that the minimum wage as set is going to cause us a competitive problem. I would be worried if it started to ratchet up a lot. I am a little bit concerned about working time regulations but they have been adjusted and we can live with those and that is okay. I am somewhat concerned about the direction that the Commission has been heading in recent years with DGV. I think we need to be aware about what is coming that way but I thing is a sign that the direction may be changing. These are all factors that are taken into consideration.

> Certainly when we go to Europe and champion investment in the United Kingdom, we point out very strongly the strong points of investing in this country and that includes some of the things I have just mentioned.

2.3 Trade union perspectives

In May 1999 the TUC held a major conference to discuss the UK's potential participation in the European single currency where trade union representatives expressed divergent views (Hall, 1999). The clearest divide emerged between public and private sector unions, with the fortner fearing that the convergence and stability criteria associated with the Euro would have an adverse effect on public sector employment levels and terms and conditions. However, other union representatives who broadly supported Euro entry also expressed reservations concerning the sterling rate at entry, the level of accountability of the European Central Bank (ECB) and the lack of employment issues in the ECB remit. The TUC General Secretary John Monlcs shared some of these concerns, but he stressed the economic benefits for the UK of joining the single currency, and argued that it would strengthen the influence of the 'European social model' on UK industrial relations.

In its recent report *Preparing for the Euro* published in January 1999, the TUC notes that with the conclusion of two (now three) framework agreements between the EU social partners, and the conclusion of the first agreements at European sector-level, "European collective bargaining is now underway" (pi 1). It notes also that the focus of such European collective bargaining so far has been on working conditions rather than on pay. Here the TUC report alludes to the possible difficulties posed by the differing bargaining structures found in different European countries.

On pay, the TUC expects cross-border regions to be the first to see the impact of the wage transparency, and the enhanced potential for wage comparisons, which the Euro heralds. In this context, the TUC suggests that the conclusions of the declaration of Doorn (DE9810278F) "may point the way to wider trade union approaches in the Eurozone" (pl2). Wage developments, however, will be shaped also by differences in levels and the rate of increase of productivity in the different countries and regions of the EEA. Multinational companies are a further likely focus for cross-border wage comparisons in the light of wage transparency. According to the TUC, a recent survey of MNCs found that some envisaged the prospect of pan-European negotiations developing (p11).

To the extent that forms of pan-European bargaining amongst the countries in the Euro-zone do develop, British unions have expressed fears that they could become victims of low pay as UK employers try take advantage of the UK's 'opt-out' from the first wave of EMU by holding down wages (*People Management* 15 October 1998). However, speaking to *People Management* Phil Wyatt, an official of the GMB union, argued that "the single currency will come to us [the UK] much quicker than pan-European bargaining and there will be a gradual move for negotiations and claims to converge around best practice" (lSth October 1998).

In its 1999 Report to the September 1999 Congress, the TUC General Council emphasised that it viewed the debate on EMU as part of the general approach on European employment and social policy. Under the banner *Partners at Work*, Europe was one of the five conference themes at the Congress. This stance was reflected in a successful composite motion on Europe proposed at the Congress in September by the GMB general union with the support of the AEEU manufacturing union and the print and media union, GPMU. The carefully worded motion firmly located the EMU debate within the context of welcomed developments in

European social and employment policy. It accepted concerns about the exchange rate and the ECB, and insisted that 'if the UK enters the single currency, this must be accompanied by a full commitment to the development of a European social dimension and social policy'. However, it also made the case that 'the UK should take a positive and inclusive approach towards Europe', with the union movement taking a lead in educating trade union members and the public in general about the implications of EMU. With the single currency recognised as an integral dimension of the European project, the motion implicitly called for a less cautious position on the Euro by its statement that 'Congress rejects isolation and calls upon the Government to promote full UK participation in EU political and economic processes'.

In introducing the debate on the motion, the TUC General Secretary John Monks urged Congress to support the General Council Report and the motion. He outlined the benefits which had come from various social and employment initiatives at EU level and argued that 'the more we have put in, the more we have got out - from working time to TUPE to parental leave, to part-time workers' rights, European Works Councils and so on'. He pointed out that 'the Euro is now a fact in eleven countries - no longer an idea - and it is increasingly a fact in the UK, whether we sign up or not'. The UK had often missed out by adopting a wait and see policy on Europe, from the very inception of the EU as a Coal and Steel Community in 1950 up to the Social Chapter in the 1980s: 'waiting has been an often tried and tested British policy. In waiting we have often missed the boat... an indefinite abstention from the Euro risks history repeating itself… waiting is not a cost-free option'. Instead, Mr Monks stated that he wanted 'Congress to help create the conditions which will encourage the Government to go forward... my message to this Congress and beyond is that the more positive you are on Europe, the more influence you wield... we are not talking about entry into the Euro tomorrow or the day after, but we are pointing towards a policy of active rather than passive convergence'.

However, Mr Monks acknowledged the doubts of some unions, particularly those in the public sector, which make up a large part of the membership of the TUC. '... To the public sector workers who worry about the Maastricht convergence criteria, I say if you get the chance take a look at the excellent quality of much of Europe's public services and their welfare states. Have a look at their transport, their education and their health services and have a look at their generous benefits and the terms and conditions for public servants. By our standards, they are mostly very good'.

In the debate that followed, Mr John Edmonds, for the GMB, asserted that 'we cannot stay outside the single currency and remain at the centre of the Euro decision making'. He restated the claimed economic benefits of joining and maintained that the future of the whole European project was now staked on the success of the single currency. It was time for the union movement to strengthen its purpose concerning Euro entry, if not make a firm commitment to early entry, as part of 'accepting our European obligations, making the most of our European opportunities and, at long last, becoming fully committed members of the European Union'. In seconding the motion, Sir Ken Jackson for the AEEU urged Britain 'to play a full and active part in the European Union'. He said that 'we need to start the fight back to persuade Britain that our place is in Europe and in the single currency. We believe in the single currency... our future lies in the single currency... we know that the single currency is our lifeline, it is our future'. Likewise, for the GPMU, Mr Tony Dubbins argued that the creation of the Euro prospectively strengthened the 'social partnership' model of the EU against 'unregulated Norm American casino capitalism'. 'The GPMU supports the UK introduction of the Euro', he said, whilst noting that 'joining the Euro without implementing wholeheartedly the social provisions would be a betrayal of our members' interests'.

Speaking for the public sector union UNISON, which is the TUC's largest affiliate, Ms Rita Donaghy opposed what she perceived to be the spurious connection between social Europe and EMU and argued that joining the Euro risked cuts in public expenditure. The union abstained in the vote, as it did not want to appear antiEuropean. The union's position was against early UK entry' although not necessarily against entry per se: 'we are a pro-European union waiting for real assurances on jobs and public services'.

Mr Bill Morris, for the general union TGWU, also opposed the motion. 'My union was the first to declare that Europe was the only card game in town. Today, I reaffirm that the T&G's card remains firmly on the European table, but we will not be bluffed and we will not be bounced into the Euro'. He reminded delegates of the experience of the ERM, when Britain 'went in too early and too high ... a blow from which our manufacturing industry has never recovered'. With the implications for public sector expenditure also uncertain, Mr Morris did not want to 'see thousands of jobs sacrificed on the altar of the single currency'. Both manufacturing and public sector employment was the key test: 'When the referendum comes, if the conditions of jobs is right we will say "yes, yes, yes", but today on Composite 9 the T&G says "no, no, no"'.

2.4 Recent academic contributions

There have been three academic contributions worth mentioning following the preparation of the European Foundation's select bibliographic review. The first, by Cressey (1998) is primarily concerned with trade union reactions and covers much the same ground as a previous section in this report. In particular, he is keen to emphasise some of the concerns of trade unions about impact on employment. Overall, his conclusion is that 'the situation in the UK leaves us with more questions than answers (Cressey, 1998; 195). The situation here is more uncertain than in most other EU countries, there is less preparation and there is less critical thinking as a result'.

The second input is from a team of economists from the Centre for Economic Policy Research led by Bean (1999). The study is not particularly concerned with the impact of EMU on the UK, let alone its industrial relations processes. It is nonetheless concerned with the interaction between economic integration and social policy in general terms. It recognises that will have effect especially in the lower productivity countries, which might lead to regime competition. It concludes that 'continued integration will accentuate the pressure both to reform, and for greater coordination/harmonisation in social policy. Consequently EU-level policies, though not particularly binding at present, may become a more significant factor in future (xvi).

In their discussions with Professors Charles Bean and Richard Jackman from the Centre for Economic Performance, the House of Commons' Employment Subcommittee touched on several industrial relations issues, including arrangements for collective bargaining. Asked what they thought the benefits were of the UK's increasingly decentralised wage bargaining structure and whether it is one they thought should see adopted elsewhere in whether the over recent times Professor Jackman responded as follows:

> It is certainly true institutionally that the wage bargaining system has become increasingly decentralised and that has been associated with a greater degree of variation of wages across workers than in the past in this country or what is

common in Continental Europe. So it is certainly the case that we have a system of wage bargaining which is decentralised both in its institutional form and in its final effect. I think it is difficult to avoid the conclusion that that has been a major factor in enabling the unemployment rate in Britain to fall to about half what it was on average during the 1980s and about half what it is in other large European countries and the reason for that is that there is a lot of economic activity which workers are prepared to do which employers are prepared to pay for but which would not be profitable if wage levels were set according to being co-ordinated with what is being paid to other workers in other places or in other jobs or in other sectors. So I think it is certainly instrumental in bringing down unemployment. I think it is the expansion of demand which leads to a reduction in unemployment, but it is this flexibility of wages which has removed the constraints on the supply side to a reduction in unemployment. Whether other countries should have it, in my judgement the big economies of Continental Europe, France, Germany and Italy, Spain, would benefit from adopting similar policies. The small countries that I mentioned earlier seem able to manage very well with a coordinated system as maybe they are small enough that there can be a degree of flexibility and adjustment within that system and nobody could say that Austria or the Netherlands have not been able to cope well with the last ten years or so despite having a co-ordinated wage setting system, but I do not think that co-ordination can effectively bring about the appropriate wage relativities for workers in different sectors with different skills, with different working conditions and so on and, therefore, where one has a big economy it seems to me that decentralised wage setting is a necessary element in achieving full employment.

(*Professor Bean*) I think it is worth remembering there are different ways of skinning a cat. So you may have different labour market models but they may yield similar outcomes in terms of how quickly the economy adjusts to particular sorts of shock. One of the arguments is that a properly working centralised bargaining system, because it internalises all the spill-overs between people, can end up producing very similar outcomes to a perfectly functioning competitive market and where things go wrong is if you are somewhere in the middle between those two. Different models may thus produce similar sorts of outcomes. However, in the case of centralisation I think experience suggests that those sorts of models are good when there is a shock that is affecting everybody pretty much equally within the economy. Something like the oil price shock might be a good example and those economies reacted and adjusted quite quickly there. They are much less good at dealing with things like the consequence of biased technical change-the demand for skilled workers rising relative to that for less skilled workers-because they are less good at coping with a required change in wage differentials between those groups of workers. What is also true is that in big economies it is much easier for groups to free ride. I think that is why we see that when people have tried to centralise bargaining systems In countries like the UK they have not tended to be terribly durable or worked as efficiently as they have in the Scandinavian countries, Austria, Portugal and so forth.

The third contribution comes from several members of the team responsible for this report and was written in parallel with the European Foundation's select bibliographic review (Sisson et al., 1999a; l999b). This argues that there are strong grounds for suggesting that the industrial relations implications of EMU for the UK will be similar, regardless of membership of the single currency. An especially important consideration is that, as an extremely open economy, the UK is both home and host to a larger number of MNCs than any other EU member country. Significantly, of the 1400 or so MNCs that will be required to have a EWC, around two-thirds (885 according to the latest figures from the TUC reported in EWCB, 1998: 4) have operations in the UK. Whatever else happens, therefore, MNCs are likely to be a significant conduit through which information and ideas will flow from Europe into the UK and vice versa. In the circumstances, it is very difficult to envisage that the UK will be immune to industrial relations developments in the EMU countries or the implications of the greater transparency of pay and costs that EMU brings.

A second consideration is that the UK is not going to be able to escape the pressure for restructuring that EMU is likely to generate. Indeed, being one of the relatively low par-low productivity economies (see Table 1) and having one of the loosest set of arrangements governing mergers, take-overs and closures, there is an argument for suggesting that the pressure in the UK is likely to be greater than in most other countries. Evidently, it likely to be even greater still if the UK stays out and manufacturers have to bear the brunt of continuing exchange rate costs.

Table 1: *Labour productivity and labour costs in the euro-zone, 1997*

	Productivity [1] %	Costs [2] %	Jobless rated [3] %
Austria	90.9	89.5	4.4
Belgium	97.6	107.6	9.2
Finland	81.4	93.8	14.0
France	95.3	95.6	12.4
Germany	92.9	95.3	9.7
West	100.0	100.0	100.0
East	60.4	74.4	15.7
Ireland	69.5	71.8	10.2
Italy	85.3	79.9	12.1
Netherlands	85.4	94.4	5.2
Portugal	34.5	37.4	6.8
Spain	62.0	66.9	20.8
UK*	71.7	68.0	7.1

* Using actual central rate for sterling

[1] Nominal GDP per person employed as % of western Germany

[2] Gross compensation per employee as % of western Germany

[3] standardised OECD rates with Kiel Institute calculations for eastern and western Germany

Source*: Siebert. Kiel Institute of World Economics, quoted in Norman, 1998; Cressey, 1998.*

A third consideration is that the tight controls on public expenditure that EMU brings are also likely to be as much a feature of the UK as they are for other countries. Indeed, as with restructuring, such controls have been in operation for a number of years with the change between Conservative and Labour administrations in 1997 making little difference in this respect.

A fourth consideration is that, having signed up to the social chapter, the UK will, in any event, be affected by on-going developments in the social dimension which are likely to be heavily influenced by the course that EMU takes. This is above all true if EMU leads to a deepening of the political as well as economic dimension as is expected. Conceivably, it would be possible to differentiate between EU member countries on the basis of their membership of EMU, but it seems extremely unlikely. Drawing the boundaries would be difficult in practice and EMU member states are hardly likely to take kindly to what they may see as an attempt to undermine the level playing field that they are likely to want to establish.

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3. The automotive sector – coercive comparisons begin to bite

The automotive sector is already a highly internationalised sector, with production of cars in western Europe being integrated across countries by many of the major manufacturers well before the completion of the EU's single market at the start of 1993. Investment decisions by the multinational companies concerned have long been mobile between sites in different European countries, dependent to some considerable extent on comparisons of the relative performance of sites. Labour factors have featured strongly in these comparisons. As the next section shows, these developments have in turn brought pressure on the major components manufacturers to internationalise their production systems. As host to substantial operations of seven of the major multinational motor manufacturers, and as an important base (as well as host) for automotive components suppliers, the UK industry is closely bound-up with these European-wide developments. The impact of EMU is likely to accelerate and intensify these internationalisation processes. One result, as discussed below, will probably be further restructuring as the economies of scale deriving from deepening internationalisation exacerbate the excess capacity that already exists in the industry. The potential impact on employment in the UK is amply illustrated below. A second consequence, in the face of intensified management comparisons of working and employment practice across sites, could be growing use of cross-border comparisons by trade union representatives in local and company-level bargaining.

The research on the automotive sector comprises an overview of developments in industrial relations developments in the sector, set within the economic context of automotive manufacture in the UK, and three company case studies. The overview is based on interviews with key actors in the sector, including the Head of Employment Affairs at the Engineering Employers' Federation (EEF) and the National Officer for Motor Manufacturing and the International Affairs Officer of the Amalgamated Engineering and Electrical Union (AEEU). It also draws on reports in the specialist economic and industrial relations press, and from the AEEU and Transport and General Workers' Union (TGWU).

The three company case studies are Vauxhall Motors, which is the UK subsidiary of US-based General Motors; Peugeot Motor Company, the UK manufacturing and commercial arm of the French-based PSA group and; the UK subsidiary of US-based Cummins Engines. The case studies were selected so as to provide instances of both the automobile manufacture (Vauxhall and Peugeot) and automotive components (Cummins Engines) parts of the sector. None of the case studies represent a UK-owned company: in the case of the automobile manufacture this is hardly surprising, since there are no longer any indigenous manufacturers of any size. Although there are still major UK-based players in components manufacture, north American-based companies have a major presence in the UK.

The research at Vauxhall is based on interviews with the Personnel Director of the company and with the convenor of one of the two manual unions at the Ellesmere Port plant on Merseyside, who is also a member of the parent company's European Works Council (EWC). At the time of the research, and as reported in Chapter 2, the company was one of two which were invited to give evidence to the House of Commons Employment Sub-committee on the employment implications of EMU, and this session was also attended. Company and union documents were also made available and consulted, as well as those available through the general and specialist press.

The research on Peugeot is primarily based on interviews with the Personnel and Industrial Relations Director of Peugeot Motor Company and the convenor for the Transport and General Workers' Union (TGWU), the largest of the two trade unions representing manual workers, at the major manufacturing complex at Ryton, near Coventry. The convenor is also a member of the parent group's EWC. Documentary sources, including group annual reports, the company's website and specialist industrial relations publications, have also been drawn upon.

The information for Cummins was primarily gathered from two in-depth interviews. One of these was with the HR Director of Cummins Central Region, which covers the European operations as well as those in the Middle East and Africa. The other interview was with a representative from the MSF based in a plant in the north-east of England. These data were supplemented with information gathered from the company's Annual Report and from its website.

3.1 The automotive sector: context and developments

3.1.1 Economic and industrial relations context

Economic context

Two features of the automotive industry distinguish it from others. First, as the market is mature there is only limited scope for growth. Indeed, the major manufacturers are characterised by over-capacity - estimated at levels of up to thirty per cent in Europe (CEC, 1997) - and competitive pressures are particularly fierce. Second, the industry is highly internationalised: competition is conducted very much on an international basis and production is dominated by multinational companies which possess highly internationally integrated production chains. The extent to which the industry is 'saturated' and 'global' explains many of the distinctive features of the car manufacturers, their suppliers and their relationships with dealers and other after-sales service providers, which are considered in turn.

The Final Manufacturers: Output of vehicles in the UK looks to be broadly stable, having increased slightly over the past five years but with forecasts suggesting a slight reduction in the next two years. In 1998 production of cars in Britain stood at 1,748,258 while output of commercial vehicles reached 227,379. The table shows that Britain was the seventh biggest producer of vehicles last year.

Table 3.1: *International Production of Vehicles, 1998 (thousands)*

Country	Cars	CVs	Total
USA	5,547	6,452	11,999
Japan	8,056	1,994	10,050
Germany	5,348	379	5,727
France	2,582	341	2,923
Spain	2,216	610	2,826
UK	1,748	227	1,975
Korea	1,625	329	1,954
Brazil	1,244	329	1,573
Italy	1,295	267	1,562
India	433	103	536
Sweden	339	105	444

Source: SMMT

Employment in vehicle manufacturing (which includes all types of vehicle and not just cars) stood at 219,000 at the end of the first half of 1999, slightly below the level twelve months previously. But reflecting the opening of a major operation by Toyota and expansion by Honda this level is somewhat higher than the 173,000 employed in 1995.

The strength of the competitive pressures to reduce costs have led to a high degree of internal restructuring within the large car manufacturers in recent years, much of which has been about integrating their international operations. One aspect of this has been the move towards creating highly integrated production processes in which plants operate to similar requirements. The increasing homogeneity of production across borders has created scope for the multinationals in the sector to share new technologies and practices across their operations. Accordingly, the manufacturers have restructured their operations so as to facilitate a co-ordinated approach to production. For instance, Ford has recently brought together its luxury brands into a new division called the 'Premier Automotive Group' which includes Jaguar, Aston Martin, - both of which are based in the UK - Lincoln and Volvo.

The pressures to reduce costs have also led to threats of plant closures. The most notable recent incidence of this in the UK has been the crisis surrounding Rover's plant at Longbridge, which is owned by BMW. In October 1998, faced with estimated losses at its Rover subsidiary of approaching £1,000 million over 1998 and 1999, BMW announced a freeze on all new investment at the Longbridge plant (one of Rover's two large-scale car manufacturing facilities). The announcement, which potentially sounded the death-knell for the plant and put 14,000 jobs at risk together with an estimated further 50,000 at the plant's suppliers, triggered a crisis only resolved in the spring of 1999 following boardroom upheavals at BMW, the removal of Rover's senior management, agreement by the workforce to a radical package of industrial relations change – which included movement towards a shorter working week, offset by the introduction of flexible working time arrangements, changes to working practices and voluntary redundancies and other cost savings – and an injection of £150m of public funds by the Government. The last two of these were integral to securing a renewed commitment from BMW to new investment at Longbridge to underpin the production of new models (TGWU, 1999).

Reductions in employment levels have been a feature of most of the motor manufacturers over the last two decades. The context of uncertainty over the future of plants and over job security has enabled firms to bring pressure to bear on workforces and their representatives to accept only moderate pay increases and the introduction of new working practices. Thus there is considerable evidence that managements compare the performance of sites across borders according to their performance in terms of costs and quality and tie these comparisons to investment decisions.

The context of over-capacity and severe cost pressures has led to a series of mergers, acquisitions, joint ventures and strategic alliances, many of which have been international. Those affecting companies with operations in the UK include BMW's 1994 take-over of the Rover group, Ford's acquisition of Jaguar and, most recently, the acquisition by Renault of a 37% stake in Nissan, whose main European manufacturing operation is located in the UK. These combinations are invariably about cutting costs; the rationale for the Renault-Nissan deal, for instance, was that costs had to be reduced at Nissan following losses in six of the last seven years. The significance of these international tie-ups, of which there are likely to be more in the near future, is partly that there are fewer manufacturers with each of these being larger and more globally spread. But the significance also relates to the implications for the automotive components manufacturers.

Component Manufacturers: The twin pressures to cut costs and achieve internationalisation have had severe repercussions for suppliers in the automotive industry. Since a considerable proportion of the costs of the final manufacturers are made up of bought-in components it is inevitable that the cost pressures have led to attempts to reduce the prices paid to suppliers. The Renault-Nissan tie-up provides a good illustration since one-third of the promised cost savings are due to be derived from dealing with a smaller number of suppliers and demanding lower prices from them, challenging the buyer-supplier linkages that have been a key feature of the *keiretsu*.

A particular twist to these pressures on suppliers to deliver costs savings comes from the exchange rate risk arising from the UK's non-participation in the €. BMW recently confirmed at a meeting with the ten largest suppliers to its UK-based Rover subsidiary, that Rover's suppliers would have to switch to euro-dominated contracts by the end of 1999. However, the contracts will be based on a sterling rate to the Deutsche Mark of between 2.60 and 2.70, as compared with the current rate of around 3.00 D-Mark (Griffiths, 1999). In other words, suppliers are being asked to 'share the pain' of the upward movement of the £ sterling against the € as BMW grapples to bring down Rover's cost base. The result could be a shift in sourcing to plants (quite possibly owned by the same suppliers) within the euro-zone.

As well as suppliers being under ever greater pressure to reduce costs they are also under pressure to internationalise themselves. Many final producers have moved towards dealing with the same components manufacturers in different countries and demand an increasingly similar component across their operations. In many cases this has involved orders being placed with the HQ of the supplier who subsequently distributes the orders amongst their plants. Thus many automotive components multinationals, such as British-based GKN, have sought to standardise the nature of production across borders in much the same way as the final producers.

A second consequence of the pressure from customers to internationalise is that many suppliers have sought to increase their own international scope through engaging in mergers and acquisitions, a recent example of which is TRW's take-over of UK-based Lucas-Varity for nearly $7 billion. The rationale for this tie-up was that while TRW possessed expertise in steering and suspension Lucas-Varity specialised in brakes, enabling the newly merged firm to offer complete systems - or ‘modules’ - for the front of their vehicles. This reflects the preference from the final producers to deal with a smaller number of suppliers, each of which provides a range of components comprising a system rather than buying a series of individual components.

A further consequence of the twin pressures on costs and to internationalise is that the manufacture of some basic pieces of componentry which go to make up a system is being moved outside of the EEA. In some instances this is to the economies of central Europe, but in other instances manufacture of such basic products as castings is being moved offshore, for example to China.

Detailed figures on employment in automotive components are not available, but it is estimated that around 1 million people are employed in this part of the sector.

Relations with dealers and after-market: The operations downstream from the final manufacturers within the automotive industry are also influenced by a changing environment. The network of dealerships, though formally independent, are in fact under considerable control from the manufacturers, particularly in relation to the prices they charge. In Europe, for the last decade and a half car producers have enjoyed an exemption from EU competition policy rules, allowing them to sell only through their own dealerships, a system which has enabled them to charge significantly different prices in different countries. The European Commission looks set to end this exemption in 2002, meaning that independent dealerships and new developments such as on-line dealing could challenge the existing pricing structure. The scope for consumers to shop around across Europe for lower prices will be greater when the € reduces the transaction costs of so doing and increases the transparency of prices.

One response of the manufacturers to the challenges of the shake-up in pricing and distribution has been to seek to offer a range of after-sales services themselves. Ford appears to have been in the vanguard in this respect, offering an increasing range of after-sales services, increasing its involvement in the activities throughout the life-cycle of the vehicle. Thus Ford has acquired KwikFit in the UK, a repair firm which has recently expanded into Europe; it has bolstered its own insurance services and expanded Ford Credit, a finance provider; and recently it has acquired a recycling firm in Florida. At the same time, Ford has indicated that it intends to make increased use of subcontracting in manufacturing, outsourcing assembly functions for the first time. The company’s new plant in Brazil is seen as the model that other plants will gradually follow. Thus the large manufacturers look set to increase their influence throughout a further part of the industry.

Industrial relations context

The dominant employers’ organisation covering the automotive sector is the Engineering Employers’ Federation (EEF), which is profiled in Chapter 1. Three main trade unions organise in the sector: the Amalgamated Engineering and Electrical Union (AEEU) and the Transport and General Workers’ Union (TGWU), both of which primarily organise amongst manual workers – although both also have staff sections organising white-collar workers in the industry – and; the Manufacturing, Science and Finance trade union (MSF), which organises supervisors and technical staff. Each of these unions is profiled in Chapter 1. According to the official Labour Force Survey, union membership density in the motor vehicle manufacturing part of the sector was 58 per cent, and in components 43 per cent, in 1998.

Up until the late 1980s, minimum rates of pay, shift and overtime premia and working hours in engineering were settled through national level negotiations between the EEF and the Confederation of Shipbuilding and Engineering Unions (CSEU), which embraced the three main unions in the automotive sector as well as other unions. A two-tier national system of pay bargaining prevailed under which national minimum rates were ‘topped up’ through local bargaining. In practice, actual levels of pay and conditions were increasingly determined in local negotiations. This was particularly so amongst the major motor manufacturers and components suppliers, where Ford with its company agreement had never been covered by the national arrangements for the industry whilst other companies, including Rover and Lucas, had withdrawn from national bargaining during the course of the 1980s. In 1990, the EEF withdrew from the national negotiating arrangements altogether following the breakdown of negotiations over working time. Subsequently, collective bargaining in the industry has been on a single-employer basis, either at company-level covering all sites or at establishment level on a site-by-site basis.

Reflecting the integrated nature of their operations, the motor manufacturers all have company-level bargaining of pay and major conditions, although Ford’s luxury car business – Jaguar – bargains separately from the mainstream Ford operation. At Rover, Jaguar, Peugeot and Vauxhall there are separate negotiations covering, respectively, manual workers and staff, whilst Ford has a single negotiation covering both groups of staff. In contrast, the automotive components part of the sector is characterised by site-level negotiating arrangements – and also by a growing minority of sites where no unions are recognised and where therefore there is no collective bargaining. This decentralised structure is said to be related to the nature of the component supply companies: different business units produce different products and the logic of integration across sites is less evident.

A noticeable development amongst the motor manufacturers in recent years has been a shift to two- or three- year agreements, which typically embody productivity-enhancing changes to working practices, including introduction of flexible working time arrangements at Rover, Peugeot and Vauxhall, in exchange for relatively high, ‘top of the range’ increases in pay.

Following the abolition of the national bargaining arrangements in 1990, there is no formal dialogue between the EEF and the trade unions. Contact is of an informal nature and with individual trade unions in the sector, not through the CSEU. There is an informal dialogue roughly once a year with each main union. The focus is on broad policy issues, such as the state of the industry; the level of sterling; interest rates etc (but to date not explicitly the euro). According to the EEF arrangements are likely to continue as such: “Its a useful avenue for exploring issues.” EEF members are reluctant to move in the direction of a more formal, structured dialogue with the trade unions at national level. Even so, there have been more frequent contacts between the two sides since the change of Government in 1997, and it is increasingly common for there to be reciprocal invitations from unions and the EEF to speak on platforms.

Perspectives on the Euro

The EEF has no formal position on UK entry into the single currency. The views of EEF members differ, with a noticeable difference between large, multinational companies – who tend to favour early entry – and small companies, who tend to be more hostile. The positions of the main unions was summarised in Ch 2’s consideration of trade union perspectives. Both the AEEU and MSF favour early entry into the €; a view underpinned by the recognition of the extent to which union members in manufacturing industry in general, and the automotive sector in particular, rely on inward investment - either directly or indirectly - for their jobs. There is a concern that inward investors may re-think their position if UK entry appears to be in doubt or delayed. The TGWU, whilst favouring entry, argues that it should occur only when the economic conditions specified by the Government have been met.

3.1.2 Implications for industrial relations processes

Since there is no industry-level collective bargaining structure covering the automotive sector, with collective bargaining arrangements being enterprise-based, any Europeanisation of the processes and outcomes of industrial relations in the UK is likely to be more evident at the level of the large multinational companies which dominate both motor manufacture and component supply.

Collection of data on labour-related aspects of performance by the international corporate or business headquarters of multinational companies in the sector is widespread. Arrowsmith and Sisson (1999) report from their survey that such international benchmarking of employee performance is reasonably common in the UK engineering sector, and especially amongst the more internationally-integrated MNCs. Research on particular companies has shown that the motor manufacturers' operations in the UK are engaged in internal competition for both current production and future investment with operations in other EEA countries (and increasingly also in central Europe) (Mueller and Purcell, 1992; Martinez-Lucio and Weston, 1994). Inter-plant comparisons of data on labour costs and productivity are used by international management to exert pressure on local management and the workforce at the different plants, and to extract concessions in working and employment practices in local negotiations with workforces as the price for securing current allocations of production and future investment. Press reports suggest that such 'coercive comparisons' are regularly used by the large automotive manufacturing MNCs operating in the UK - BMW, Ford, Vauxhall (General Motors) and Peugeot - in negotiations aimed at securing productivity-enhancing concessions in working and employment practice in return for commitment to future investment in the UK operations.

The EEF representative sees such comparisons as being driven not so much by EMU as by business imperatives which are driving the restructuring and rationalisation of the sector that comes with European integration. EMU will "facilitate, rather than drive" the process under which companies are increasingly organising their plants on a European basis.

On the part of the unions, there is some evidence that comparisons of working conditions are being deployed in company- and site-level negotiations in the major motor manufacturers. This is particularly so for working time, where union claims in the 1995-96 bargaining round for shorter working time in the UK operations of Ford and General Motors were based on explicit comparisons with company practice in other European countries. At Rover, agreement in early 1999 to move from a 37- to a 35-hour week by late 2001 was based on union comparisons with BMW's plants in Germany. At Peugeot, following the conclusion of an agreement implementing the French 35-hour week law covering all of the parent PSA group's French plants, unions are entering negotiations with management in late October on a reduction in the current 39-hour week.

Both the officials at the EEF and the AEEU argued that comparisons on working time were easier to draw than on pay, where despite the greater transparency potentially afforded by the € the picture remains confounded by the different premia and plus payments characteristic of the payments system in different countries. Even so, the AEEU found that plant representatives were beginning to ask what particular job grades were earning at sites belonging to the same MNC in other countries. Underlining the increasingly global nature of the industry, the comparisons on which union claims are based can reach beyond Europe. The current union claim at Ford draws on the UAW agreement with the north American parent for retirement on two-thirds final salary after 30 years service to justify an improvement in pension provision for the UK workforce.

The AEEU sees EWCs as a useful forum for the cross-fertilisation of ideas: “In the bigger companies its possible that people will get information exchange going.” But difficulties for unions were also underlined: the representatives basis of EWCs does not fit with union structures. Unions had yet to resolve how and whether lay union representatives on EWCs should report to the union. Moreover, there is no national system of information and consultation underneath EWCs. The AEEU is pressing companies to create national systems, and “there are moves in some companies”.

Recent events at Rover were underpinned by unparalleled cross-border co-operation between the three main UK unions and their German counterpart, IG-Metall. Whilst the EWC was not the focus for the co-ordinated initiatives developed between the British and German unions “During the recent crisis over the future over the future of the Rover plant at Longbridge the links formed between British and German representatives on the BMW EWC were crucial” according to the AEEU’s International Affairs officer (AEEU, 1999: p5). The UK unions had resisted proposals for cost savings from Rover management in the autumn of 1998. “Important contacts with the BMW works council” (TGWU, 1999: p8) led to the development of an alternative package involving a trade-off between future pay and working hours. Bound up with the package was a move to a flexible working hours arrangements, around a corridor of normal working hours, and a two-step reduction in the normal working week to 35 hours. The AEEU’s national automotive officer said that the package “took a leaf out of the German book, but gave Rover greater scope”. Crucially, also, the German union representatives, and especially the chair of the BMW works council (and also of the EWC) who is vice-chair of the BMW supervisory board, mobilised their powers under co-determination legislation in support of the UK unions. When executive chairman Bernd Pischetsrieder was forced out in the spring of 1999, the appointment of his rival and second-in-command (who was widely held to favour closure of Longbridge) was blocked by the IG-Metall representatives on the supervisory board, and the installation of a compromise candidate secured. This ensured a reprieve for the plant and opened the way for discussions with the UK government over grant aid.

The three main unions in the sector support the initiative taken by the European Metalworkers’ Federation (EMF) to develop forms of bargaining co-ordination across countries between affiliated unions. Part of this initiative is the creation of bi- and multi-lateral collective bargaining networks involving unions from neighbouring countries and regions. As a first step, the AEEU met with the Lower Saxony regional organisation of IG-Metall in May 1999. Both delegations matched officials responsible for, and union representatives from, plants from the same companies (including those owned by VW) in Britain and Lower Saxony. As a result of the meeting, exchange of information on current agreements and on the progress of claims is being intensified and observers from either country will be invited to attend meetings which formulate and develop major pay claims. Further meetings are likely to follow. In the view of the AEEU official involved, the initiative is “relatively small scale, but it wasn’t there before”. Moreover, meshing the different bargaining systems of the two countries remained a considerable obstacle to greater co-ordination, although ameliorated in this instance by the fact that VW has a company agreement. The emphasis in this early stage is on exchange of information, rather than co-ordination as such. The AEEU official saw the latter as being more likely to start elsewhere, within the former ‘Deutsche mark zone’. It is a process that “is coming from the dynamics of the internal market as much as the euro”.

According to the EEF, the company- and site-level bargaining that now characterises the sector, and the absence of collective bargaining altogether at some sites, mean that the impact of any pressures for bargaining co-ordination in the UK is likely to be extremely diffuse and “a long-way off, except for the large MNCs”. The latter are more likely to become caught up in the process of bargaining co-ordination. There was no indication at present of EWCs being used as a focus for such co-ordination. The EEF has participated in discussions in WEM (the West European Metalworking employers’ association) about the implications of the EMF’s bargaining co-ordination initiative. It was said that the EEF takes a slightly different view on European developments to the rest of WEM. This was for three reasons:

- the UK industry’s decentralised bargaining arrangements (and the extent of non-bargaining);
- the EEF probably has more MNC members than other federations (a counterbalancing factor). As a proportion of the workforce, more people are working for MNCs in the UK compared to elsewhere, and therefore the UK workforce may be particularly influenced by the behaviour of MNCs;
- the UK is outside the Euro-zone: its not like Belgium, Germany and the Netherlands which have been in a quasi-single currency zone for a period already.

WEM is seen as a useful source of access to information about developments in bargaining and settlement levels in other countries (although providing reciprocal information from the UK is problematic given the absence of a national agreement, a point which was also made by the AEEU in respect of the EMF’s initiative to intensify information exchange).

3.1.3 Implications for pay and employment

Whilst recognising that the € may make comparisons easier and more transparent – “up to now its been easier to hide things away in negotiations” (EEF representative) - the representatives from both the EEF and the AEEU thought that common pay bargaining and common pay outcomes were a long-way off. Pay systems differ across countries, but probably more importantly there are big differences in social security, national insurance and taxation systems which also determine take-home pay. Negotiated pay rates are only one variable in the picture: “Its more difficult than five years ago to counter comparisons, but still pretty easy for companies to justify differences to employees.” (EEF representative). “The employers and MNCs won’t wear comparability on pay – indeed they are pressing for more decentralisation” (AEEU international officer). Only in the event of a common social security, national insurance and taxation regime was common pay bargaining felt to be a possibility by representatives of both employers and trade unions.

In terms of payments systems, there as a view that innovations such as performance-related pay, are tending to be introduced and refined in the UK, and then diffused to other countries. “The French and Germans see themselves as being faced with what they call ‘Anglo-Saxon’ innovations in terms of payments systems” (AEEU international officer).

As reported earlier, it was felt that comparisons were easier on working time. In the words of the AEEU national officer, “working time is a good shared objective – time has the same value in all countries”. The EEF recognised the more immediate potential for comparisons representative too, but also drew attention to “a fundamental difference of view between the Germans and French, and the British”. The former saw it as a means of creating job opportunities, the latter to as a means to generate more income and leisure time.

According to the EEF representative, the reference points in the pay claims made by the unions are still primarily national. “If you look at the current Ford claim, the justifications for some of the changes will be European linked but the principal driver will be what’s happening in the UK (particularly the other major manufacturers). In sum, not many companies are looking at pay on an international basis, whereas on a national basis there is quite a lot of detailed comparison.” Consistent with this view, Arrowsmith and Sisson (1999) report from their survey that international comparisons of pay and working time in engineering are relatively marginal influences on pay settlements amongst companies in the sector. Of considerably greater significance is the use of international comparisons of overall labour costs, in the context of negotiations over both pay and working time. Arrowsmith and Sisson suggest that changes in numbers employed and in work organisation, secured through parallel negotiations over working and employment practices, are the means by which management bring overall labour costs into line with those of international competitors in the sector.

Even so, there are signs of some pay negotiations in the industry developing a European dimension. The AEEU reported that although the UK is not part of the euro-zone, national and local negotiators are finding themselves confronted by the ‘strong pound’ argument in negotiations. The most explicit instance is the 1998 three-year collective agreement covering pay, employment security and working practices at Vauxhall, which is described in the case study, where pay increases in the later years are tied to the level of the £ - D-Mark exchange rate.

In terms of employment, the internal market in the EEA was seen by the AEEU to be intensifying pressure in two ways. First, cases of new investment, such as Toyota’s decision to build a second manufacturing operation in Europe, involving regime competition between countries (and regions) over location. Second, are the threats to close particular operations involving parts of or whole sites, unless the workforce agrees to various changes in working and employment practice.

3.2 GM Vauxhall Motors

GM Vauxhall Motors is a particularly interesting case study for the industrial relations and employment implications of the euro in the UK for a number of reasons. Firstly, the company’s senior management and some of its trade union leaders have been amongst the most vocal supporters of the euro in the UK business community. Secondly, the 1998 pay agreement was unique in that it linked part of the settlement to the euro/sterling exchange rate. Thirdly, as part of an integrated multinational car company, Vauxhall is heavily influenced by developments within its sister plants in other European countries, including those already in the euro-zone.

3.2.1 Economic and industrial relations context

General Motors Europe (GME) manufactures through the Vauxhall brand in the United Kingdom and Opel in the rest of Europe, as well as Saab Automobile AB in Sweden. It has a network of fourteen assembly plants and seven powertrain plants in five euro-zone countries and in several non-participating companies - Germany (Eisenach, Bochum, Ruesselsheim, Kaiserslautern), UK (Ellesmere Port, Luton; IBC Vehicles; Aftersales), Belgium, Spain, Poland, Austria, Hungary, Portugal and Turkey as well as in Sweden with Saab. It has a presence in most market segments through its portfolio of Opel/Vauxhall models (the Corsa, Astra, Vectra, Omega, Calibra, Tigra, Fontera and Monteray, plus the Saab 900 and 9000). The company also has a sales and marketing presence in virtually every European company.

At the end of 1997 GME employed 87,700 people, of which 46,000 were in Adam Opel (i.e. Germany), 10,000 in Vauxhall, 9,000 in Opel Spain and 8,000 in each of Opel Belgium and Saab. Around 2,700 were also employed in Opel Austria, 1,700 at IBC Vehicles and 1,000 at Opel Portugal. The second quarter net income of GME was $187 million in 1999, up from $124 million in the second quarter of 1998. In 1998 GME made profits of $419 million, from a loss in 1997 of $17 million. This compares however to a $1.6 billion profit from GM's North American Operations in 1998, even with a month long strike by the UAW.

The European car market is intensely competitive, with Japanese and Korean carmakers joining established GM competitors such as VW and Ford. It is estimated that overcapacity in GME's operations is at the level of 150,000 units per year, which is the size of one of its small plants. The parent company has long been concerned, therefore, to rationalise capacity and improve labour productivity in its European operations.

GME is reputed to be looking to cut its total workforce by some 20 to 30 per cent over the five years from 1998. So far, this strategy has been followed without plant closures. New investment in technology and new processes to improve efficiency, associated with industry wide moves to 'just in time' supply and 'modular assembly', have been introduced to increase productivity and reduce headcount. In June 1999, for example, it was announced that a $435m investment in the vast Ruesselsheim assembly complex would actually lead to 4,000 fewer workers needed.

Vauxhall is the UK subsidiary of GME. The personnel function in Vauxhall is organised into three areas: Human Resources, which mainly focuses on international management training and development, as well as other personnel issues such as recruitment and selection; Industrial Relations, which deals mainly with the pay round and liasing with plant personnel managers; and Administration. The UK plants have formed part of an integrated European operation since 1987, although links between the personnel and IR functions of each of the subsidiary companies have to contend with the realities of internal competition. Each subsidiary company has to present the most attractive case for additional investment within GME's internal market. GME is managed by the European Strategy Board (ESB) which sets the strategic direction for the various operations in Europe and monitors performance. All capital investments above a certain threshold must be approved by the ESB alongside major hiring, vehicle pricing, and allocation of production volumes to assembly plants. Nick Reilly, Managing Director of Vauxhall, is a member of this group as a GME Vice President, providing a direct link to developments at GME level as well as to the other subsidiary companies.

The hourly paid manual workers at both the manufacturing sites are organised by the Transport and General Workers Union (TGWU) and the Amalgamated Engineering and Electrical Union (AEEU). The union presence in both plants is around 55 per cent TGWU and 45 per cent AEEU. The former organises in the press shop, final and general assembly rooms, MCP (Material Production Control) and maintenance staff. The TGWU represents workers in the bodyshop, paintshop and soft trim departments. In addition, the salaried clerical, technical and managerial staff are represented by the Manufacturing, Science and Finance (MSF) union, which has about 1000 members from a possible 1600 staff.

The national focus of industrial relations is the Joint Negotiating Committee (JNC), which meets quarterly and includes representatives of Luton, Ellesmere Port and the Aftersales department. At plant level it is the monthly Joint Plant Committees (JPC) which comprise about eight each of the most senior managers and trade union representatives. For GME as a whole, the 'European Employee Forum' (EuEF) was established around three years ago in line with the EU Works Council directive. It has thirty seats and meets twice a year with a General Forum in November and a Manufacturing Meeting in May, limited to representatives of the manufacturing plants. A small steering committee also meets in advance to establish the agenda, which is centred around information and consultation on issues such as future models, forecast sales, finance, headcount, personnel issues such as health and safety, investment and acquisitions. The trade union representatives also meet between themselves prior to the two EuEF meetings. Likewise, the JNC and JPC structures provide a more formal opportunity for the different unions to liase on an intra- or inter-plant basis.

Manufacturing scheduling policy in GME is concerned with matching production output from its integrated network of plants to an aggregate pool of demand in the western and central European region, which in 1997 amounted to 1.75 million GM units. Each time the need arises to increase or decrease production output, the ESB assesses the cost and quality performance of the various facilities, as well as logistics issues. A change in demand in one country might therefore lead to production changes in another.

To ensure that GME can manage forecast uncertainty within its sales mix, while keeping all plants highly utilised, GME pursues flexibility 'chaining' throughout Europe. This means that for each carline, a plant can produce more than one model, in order to minimise the exposure to large demand swings, as well as facilitate the re-allocation of production in times of surplus production capability, according to profitability and quality criteria. This type of plant is called a 'flex plant', and it should be noted that Vauxhall's plants at Luton and Ellesmere Port are *not* flex plants.

Following the closure of the Bedford Trucks plant at Dunstable in 1986 the company has operated from two factories based at Ellesmere Port in the north west of England, and at Luton, north of London. Approximately 4,200 are employed at Luton, producing around 160,000 Vauxhall Vectras and their equivalents under the Opel or Holden brand for export. Similarly, around 5,200 workers are employed at the Ellesmere Port site, producing around 125,000 of the smaller Astra cars and vans per year. The Ellesmere Port site also manufactures other parts and components for GM, and houses a separate engine plant which is the sole source for GM's six cylinder engine.

A particular pressure for Vauxhall in recent years has been sterling's continued relative strength which has added to the perception of the UK as a high cost country. It was widely reported, for example, that the Vectra model was up to 30 per cent more expensive to produce at Luton than in Germany as a result of productivity differences and the exchange rate. The exchange rate has become increasingly important because Vauxhall's exports have grown in the 1990s. Over half of all output is now exported. Concerns over the exchange rate were also heightened by the ambivalence of the UK government over economic and monetary union (EMU).

Ellesmere Port is now a very modern site following major investment by the company. In 1997 Vauxhall completed a £300 M investment in Ellesmere Port for the new Astra, which was expected to remain in production for at least six years. This followed a £200 M investment in the engine plant in 1992/93, which was secured after a ‘Teamwork Agreement’ covering flexible working in 1990. The engine plant has been very successful and is set to double its production volume over the next eighteen months.

Although the company had also invested £160 M to modernise the Luton plant before production of the Vectra in 1995, this was not enough to guarantee production of its successor model from around the year 2001-2003. It remained an old plant, with the disadvantage of having to operate on four separate floors. And, unlike the northern factory, it was not in a region which qualified for government investment grants.

Fears over the future of the Luton plant prompted a three year agreement in 1998 which related employment security to a commitment from the workforce to continuous improvement to reach what GME defined as ‘world class standards’. This followed similar flexibility agreements in Germany and Belgium. The fear that GME was moving from a three to a two plant strategy for producing the Vectra drove the 1998 agreement at Vauxhall. As part of the deal, Ellesmere Port got a third shift (reflecting high levels of demand for the Astra) and a guarantee that the replacement model would be built at the plant, taking it to around 2010. The company also agreed to safeguard production at Luton for at least 10 years by the introduction of the replacement model of the Vectra around the year 2001. However, Luton has so far not been successful in its bid to capture production of an additional model at the plant.

3.2.2 Practicalities of introducing the euro

According to an internal document, ‘GM and the Euro’ (1999), the significance of the euro in trade and in the money markets means that ‘even for those units outside Euroland, preparations for euro are almost as important as for units in any of the participating companies’ (p2). Every functional area of GME was responsible for examining its strategies in the light of the changes brought about by EMU, supported by a cross-functional EMU programme management team.

The primary focus of GME’s preparation activity was to ensure that all dealers were ‘market ready’ by 1 January 1999 and would be able to transact with their customers in euros during the transition period. More than 3000 dealers from the ‘in countries’ attended workshops and training. Secondly, after making sure that the company’s external face was euro-ready, internal changes to GME’s systems and processes are being introduced gradually throughout the transition period. The guiding principle was the EU policy of ‘no compulsion, no prohibition’, which meant that businesses and individuals would be able to operate in either euros or in their national currency during this period.

This meant that changes have been introduced to enable invoicing in either national currencies or in the euro and, in the longer term, accounting systems for tax declarations and business transactions in the participating states will need to be converted from national currencies to the euro some time between 1999 and 2002. More immediately, the company estimated that at least 10 per cent of software code and up to 80 per cent of software applications will be affected by the introduction of the euro. Accordingly, an IT project team was established to address technical issues such as 'triangulation' (converting two currencies into each other via the euro) and to adapt IT systems to handle decimal places in pricing (in Italy, Spain and Belgium). For technical reasons, this process could not be combined with work already underway to make systems 2000 compliant, which took priority. The focus on remediating company systems for the year 2000 has meant that addressing the technical issues of the euro has been slow, to minimise the investment in existing systems. Also significant is the fact that GME is a US owned company:

> 'GME's implementation of the euro will be evolutionary rather than a 'big bang' scenario. This approach is being taken because GM is a dollar-dominated company and as such the euro will always be a foreign currency. GME therefore lacks the same business imperative as euro-dominated companies to make the change early in the transition period.' (GM and the Euro, p 47)

In Vauxhall the three areas most effected by the introduction of the euro were Purchasing (because of buying parts from suppliers in the euro-zone), Finance (to manage euro currency transactions) and Sales and Marketing (dealing with exports). The technical changes have so far been limited to making provision for dual pricing. This is not insignificant (of Vauxhall's annual £2.2 billion expenditure on components, 61 per cent is purchased from the euro-zone), but no estimate of the administrative or other costs of adapting to the euro have been made. The Personnel function has been much less affected. It has not been involved in special planning or training activity. However, it has been involved in preparing and releasing information to employees and their representatives through the normal company channels. It was also involved in responding to a trade union request at the Joint Negotiating Committee for information about whether employees could be paid in euros, which the unions thought might benefit their members in terms of lower interest rate mortgages, but this was not thought to be practical for Vauxhall.

The more immediate effects of EMU within GME were said to reflect pressures for the harmonisation of accounting rather than employment systems. For example, the contractual credit period in the EU varies between 75 days for Greece and 19 days for Finland. Terms of payment are expected to converge to the European average of 40 days.

3.2.3 Implications for the processes of industrial relations

GME's power over investment decisions has increasingly shaped the agenda of national bargaining in a context of increasing competition and overcapacity. Comparisons of performance, costs, quality and productivity between GME's different plants has long taken place as part of the company's internal information exchange process. This has been used to inform the decisions over resource allocation at the ESB. The company has also long operated informal networks of managers from different plants who are encouraged to visit different sites to learn from 'best practice'.

In recent years, international comparisons have been intensifying independently of the introduction of the euro as part of a drive for rationalisation, efficiency and reduced costs. This has been performed as part of an internal and external benchmarking process called the 'Manufacturing Template'.

The use of international comparisons by GME was particularly successful in the 1998 pay round. The German pay deal (the first in GME's round) extracted major concessions from the unions as they looked to preserve jobs in what remains a relatively high cost operation. This was followed by a similar Belgian agreement which resulted in an increase in the basic working week and the loss of one of the shifts. Both bargaining rounds had been brought forward by management as a result of GME's growing concerns over costs. The failure of the German or Belgian unions to share information on what was happening with their UK colleagues meant that the UK unions were surprised to be suddenly faced with an effective ultimatum of a threat to the Luton plant if similar concessions could not be agreed, and a number of changes to working practices and pay were introduced as a result.

Without further legislation, European wide bargaining in GME is a very remote prospect at present, given continued differences in national regulatory systems, taxes and benefits, costs of living, and differences in plant activity and performance. It has more obvious attractions to the trade unions than the company, especially in a context of restructuring and rationalisation, although the lessons of the 1998 pay rounds shows that effective international trade union collaboration remains more at the level of idea than practice. It is also possible that national company agreements will be increasingly influenced by the terms of agreements elsewhere in GME, following the precedent of the 1998 pay round, as the company seeks to manage the process of restructuring through the use of 'coercive comparisons'. This process is likely to become more pronounced as the euro becomes established and comparisons between plants becomes more straightforward, at least in principle. The price transparency introduced by the euro is also expected to increase the competition between different plants for GME investment.

The implications of this for the details of terms and conditions are as yet uncertain, however, given the continued complexity in making comparisons of productivity and unit labour costs between plants. Even with the euro, it will be difficult to make meaningful comparisons which adequately take into account differences in skills, working practices and employment between plants with different facilities and circumstances (technology, layout), especially if they are engaged in the production of vehicles subject to different levels of demand, design and construction complexity. Even an ostensibly simple measure such as hours or costs per vehicle has to take into account many different variables relating to throughput and capital utilisation rates.

It is probable, therefore, that both the unions and the company will seek to make greater use of 'coercive comparisons' in the light of the common currency, but the effect on employment levels, terms and conditions will be determined largely by other factors. The trade union agenda is likely to become more international in character, aided by the mechanism of the EuEF, but this is more directly a product of GME's efforts to reduce costs and headcount across its operations. For example, in a context of sustained job losses and outsourcing, the unions have been looking to agree that in the event of any plant going into dispute, then others should not work overtime to compensate for potentially lost vehicles.

So far, establishing the EuEF has brought two main benefits for the unions. Firstly, it provides comprehensive information on current issues and developments within GME. This was particularly valuable for delegates from Vauxhall who had nothing like the access to information which the German unions had through their representation on the national Strategy Board. Secondly, it has already been reported to have contributed to building relationships between trade unions in the different countries, despite their problems in 1998. (The failure of communication was explained in terms of national bargaining which was seen as separate from the EuEF. After some expressions of disagreement, prior to the November

1998 Forum, it was resolved to learn from what was seen as an episode of 'divide and rule' to ensure that the lack of information sharing did not happen again). This process had already been underway - the AEEU for example has had strong links with IG Metall and the European Metalworkers Federation for some time - but it gave it a renewed and specifically company focus.

Two examples of international trade union co-operation were given. Firstly, one of the things which has been consistently stressed by GME has been the transfer of 'best practice' between its constituent subsidiaries. The trade union representatives at the EuEF felt that they should do the same, and exchange information on wages and conditions with each other with a view to 'upward harmonisation'. To this end a comprehensive questionnaire is now regularly distributed so that comparisons can be made of remuneration, hours, shifts, volume, headcount etc in the different constituent companies and plants. These may be subsequently used when drawing up pay claims, although given different costs of living, tax and benefit systems, as well as currency factors, the most effective comparisons have so far been over issues such as working time. In Vauxhall, international comparisons were used to help the successful claim to reduce the basic week from 39 hours to 38 in 1995, and to establish 37.5 hours as the basic for the new third shift at Ellesmere Port in 1998. There is also some evidence of 'commonisation' on some fringe issues such as access to company car schemes.

The second example refers to the successful co-ordinated opposition to GME's proposals to extend its 'GM aware line' from the US to its own operations. This is a telephone line for anonymous calls reporting suspicions of employee fraud or other disciplinary offences. The German trade unions became aware of this first and protested at what they referred to as 'secret police' tactics, and this was soon joined by the other unions who demanded a special works council meeting. When this was refused, the unions organised their own cross-national meeting and in the face of this co-ordinated response the plans were dropped.

Finally, within Vauxhall specifically, the backdrop of competition for investment within GME should not be seen entirely in the negative terms of 'coercive comparisons'. According to both management and union sources within Vauxhall, this context has in fact helped to re-shape industrial relations in a constructive way as efforts have been made to reconcile GME's emphases on cost, quality, and labour flexibility to trade union concerns with employment security as well as pay. The 1998 agreement, for example, restated the company's ten year commitment to a policy of no compulsory redundancies. A well trained, committed workforce was seen as a vital means to secure additional GME investment. In the words of Bruce Warman, Personnel Director, 'we feel the benefits of United Kingdom membership of the EMU would be very important for Vauxhall but they remain just one of a number of factors which need to be considered in making investment decisions. Of crucial importance to us in addition is the partnership with our employees to deliver a quality product with maximum efficiency'.

3.2.4 Implications for pay and employment

Notwithstanding the above, GME executives and, especially, senior management at Vauxhall have warned of negative consequences for future investment should the UK continue to remain a non-participant in the euro for some time. The relatively high level of sterling in recent years has added to Vauxhall's concerns. Investment in new plants on the continent has also increased the potential threat to older ones such as Luton, particularly as it is dedicated to building only the bigger model. In terms of employment, the main factor will continue to be the need to rationalise capacity independently of EMU.

In terms of pay, a novel and well publicised element of the 1998 settlement in Vauxhall was a commitment to pay workers an extra 0.5 per cent in year three of the agreement should the rate of sterling fell below DM 2.7 for any two consecutive months between 1 July 2000 and 31 August 2001. This was intended to reinforce the message of internal competitiveness, and was justified on the basis that allied to the introduction of new working practices, such a fall in the value of sterling would sufficiently narrow the costs differential between the Vauxhall and continental Opel plants to allow extra compensation for the UK workforce.

Apart from this, the euro itself is not expected to lead to major changes in wage levels or determining factors. Any trend towards wage convergence would have to overcome national differences in education and skills, local labour markets, taxes and benefits, inflation (and how it is calculated) as well as performance. Differences in social costs in particular will continue to form an important barrier to wage harmonisation in the euro-zone. Any such pressures are expected to be most felt on the periphery of GME's operations in countries such as Portugal. Vauxhall's position in GME wage terms is somewhere in the middle, below Germany but above Spain, and it is not expected that it will be subject to particular pay pressures arising from international comparisons. The euro is likely to facilitate some use of comparisons of pay by both management and unions as a result of currency transparency and the elimination of exchange fluctuations against the DM in the euro-zone, although for internal account consolidation the main currency will continue to be the US dollar.

In terms of criteria for the pay award, it is expected that the rule of thumb in settlements will continue to consist of a 20 per cent performance and 80 per cent cost of living component. Individual performance pay is seen as not feasible within a teamworking system, and especially within an era of relatively low annual settlements, though there may be some move in the future to incentives reflecting corporate performance.

3.3 Peugeot Motor Company

Peugeot Motor Company is the UK manufacturing and commercial operation of the French-based motor manufacturing group, PSA. An interesting feature of this case is that the relatively small UK operation now finds itself part of an integrated European system of production for the manufacture of the various Peugeot models, and increasingly those manufactured under the Citroen marque too, which is predominantly located within the euro-zone.

3.3.1 Economic and industrial relations context

The group: The PSA group is amongst the largest six car manufacturing companies in Europe, with a share of the west European market of between 11 and 12 per cent. This compares with a 17 per cent share for the west European market leader, Volkswagen, and a 12 per cent share for General Motors Europe - the current number two. Its operating margins in 1997 were 1.3 per cent (1.0 per cent in 1996). The group's activities are heavily concentrated in western Europe, and within the EU in France. Its worldwide sales in 1997 amounted to 2.1 million vehicles, which represented an increase of 5 per cent on the previous year. Of this total, western Europe accounted for 84 per cent and the French market for 28 per cent. Its main markets outside of western Europe are in Latin America, where it is expanding its operations, and the Asia-Pacific region. The concentration of production and employment in France is even more marked. World-wide employment in the group is 140,000 of whom 108,000 are employed in France. Of the 32,000 employees outside of France, more than two-thirds are employed elsewhere in western Europe (principally in Spain, Germany and the UK).

PSA sees itself as being one company with two marques: Peugeot and Citroen. Although Peugeot and Citroen have been within the same group for 20 years, the two are only now being brought together (see below). This separation is reflected in the organisation of the group around three divisions: automobile, which is sub-divided into Peugeot and Citroen; mechanical engineering and services (which includes businesses manufacturing motor cycles and components for sale to other manufacturers) and; financial services. The automobile division accounts for 121,000 of the group's 140,000 employees, with 66,000 employed in Peugeot and 47,000 in Citroen (with the remainder in joint automobile operations).

The Ryton plant at Coventry in the UK, which employs 3,300, is one of five major car manufacturing complexes in Peugeot. The others are at Poissy (8,200 employees), Sochaux (18,000 employees), Mulhouse (10,500 employees - all three in France - and Villaverde (5,300 employees) in Spain. In addition there are eight plants manufacturing components, all located in France. Citroen has major car manufacturing operations at Rennes (8,900 employees) and Aulnay (5,200 employees) in France, a plant in Germany and one at Vigo (9,200 employees) in Spain. In addition, it has six sites manufacturing components in France, including the Charlesville transmission plant (7,200 employees). PSA also has a joint venture with FIAT producing people carriers and one with Renault producing transmission systems.

Over the past 18 months, PSA has put in place changes aimed at increasingly integrating the Peugeot and Citroen operations, thereby securing the benefits of economies of scale. The group has adopted three basic platforms for producing cars: small, medium and large. So there is now transversal organisation across the group around these three platforms, as well as the Peugeot / Citroen distinction. The benefits of using a common platform are potentially enormous. Instead of two cars being twice the cost to develop and produce, the cost ratio of a second car built from the same platform should be about 1.1. A fourth platform is, according to the manager interviewed, 'conceptual rather than physical': the platform of co-operation. PSA's policy is to develop strategic areas of co-operation with other manufacturers, for example the joint venture with Fiat, rather than search for a major take-over target.

Overcapacity in the industry is unevenly spread. Currently, PSA has a strong range of models, but three to four years ago there was downtime at a number of PSA plants. The ability of PSA to switch production from one plant to another is 'very, very important' (management interview). Within five months of the August 1998 launch of the new Peugeot 206, the model had been so successful that the group was starting up production at a third plant, Poissy. This involved moving production of the Peugeot 106 from Poissy to a Citroen plant which produces the Saxo from the same platform. Sales of the 106, which were expected to be affected by the new model, have held up. It was said that the potential problem was whether engine production could keep pace with demand.

From 1997, the production facilities of the automobile division have been brought together under a single manufacturing and human resources department with responsibility for managing personnel and industrial relations. Previously the human resources director had reported through the manufacturing director. But a new director for personnel and industrial relations has recently been appointed, and after a tour of the group will take up his post in January 2000. He will become the ninth person on the executive committee which runs the group; this is the first time that personnel and industrial relations has been directly represented at the highest level: 'it raises the significance of personnel' (management interview).

The shifting role of personnel is reflected in changes in the UK company. The UK personnel director used to report to the managing director in the UK, but now reports to the personnel and industrial relations director at group headquarters (a similar change had been made to reporting arrangements for the UK manufacturing director).

The UK company: The Peugeot Motor Company (PMC) is the UK manufacturing and commercial arm of the group. Its turnover in 1998 was £2.39bn. Peugeot's share of the UK market is currently around 8 per cent, with Citroen accounting for a further 3.5 per cent: giving PSA a UK market share of 11.5 per cent (SMMT, 1999). Only Peugeot has production operations in the UK, with output in 1997 and 1998 in the region of 80,000 vehicles which accounts for just under 5 per cent of total UK car production. Some of the UK production is exported to other EU markets, including France. Hence imports, principally from France, account for a sizeable proportion of the group's UK sales. Employment in the UK totals around 5,000, of which 3,300 are employed at the Ryton manufacturing complex. Other sites in the UK are parts (storing and providing parts for both Peugeot and Citroen); a PSA subsidiary (under mechanical engineering and services) manufacturing facia boards and the UK head office. In addition, PMC has approaching 30 directly owned car dealerships.

Ryton currently produces a single model - the Peugeot 206 - in both left-hand and right-hand drive versions. Production at Ryton of the Peugeot 306 ceased in July 1998 (when its allocation was moved to Villaverde) and production of the 206 commenced in August 1998. The 206 has also been built since last August at Mulhouse and, as noted above, production of the 206 has just started at Poissy. Ryton used to build two models, and retains the flexibility to do so.

Productivity has increased markedly in recent years. In 1994, production was 1650 units per week. In 1999, Ryton had just posted a new record of 4000 units per week - with the same number of people as in 1994. The plant had lost 900 people between 1994 and the end of 1998. Employment was now back to 3,300 with the recruitment of 900 to a third shift. The increase in productivity reflected better utilisation of labour, but also the introduction of robots. There were no robots in 1994; after a recent doubling in numbers, 75 per cent of all welds are now done by robot. "Efficiencies are coming from robotisation - what could be achieved from labour intensification is tailing-off" (trade union interview). Moreover, introduction of the third (Friday, Saturday, Sunday) shift has enabled the factory to operate for an extra 29.75 hours per week (3 times 9.75 hour shifts) at no extra investment cost. According to the manager interviewed, this made the plant "very competitive".

Within the UK company, the personnel and industrial relations function is decentralised. The personnel director handles the two-yearly pay negotiations (see below) and is responsible for compensation and benefits, training, health and safety and the central staff payroll. Three personnel managers are responsible, respectively, for manufacturing (based at Ryton); commercial (sales and marketing) and; central staff. The first two report through their respective operational directors. There is a major statement on people in the Company's Charter (mission statement). The manager interviewed underlined that 'there were company policies about people and not personnel policies. All managers owned them.'

Union density amongst the 2,800 production operatives at Ryton is over 95 per cent (there used to be a closed shop). Over two-thirds belong to the TGWU, with the remainder belonging to the AEEU. In the staff areas union density is around 50 per cent, and concentrated amongst the lower grades. ACTSS (part of TGWU) organises clerical staff, whilst supervisors and engineers are organised by MSF. There is a Joint Shop Stewards Committee at Ryton representing production operatives, comprising both AEEU and TGWU stewards.

There are separate negotiations for staff and manual workers. For the manual workers, the Joint Negotiating Committee comprises full-time officers of the two unions and lay representatives. The bargaining unit is PMC, but now that the components plant has become part of another PSA business, only the parts site negotiates with Ryton. Like several other companies in the sector (IRS, 1999), recent agreements at PMC have been of two-years duration. The 1997 agreement saw the introduction of an annual hours arrangement, based around a 39-hour week, of 1755 hours worked over 45 weeks by two-shifts over four days (Monday to Thursday). The agreement also provided for contractual (paid) overtime of up to 200 hours per year to be worked (IRS, 1997). It was said that the agreement was complex and difficult to negotiate, with the workforce being balloted over industrial action at one point. Subsequently it had paved the way for the introduction of the third shift at weekends. The most recent agreement for manual workers, also for 2-years, came into force in January 1999, but was negotiated last May and June (instead of in the autumn) ahead of the launch of the Peugeot 206. The award for staff is usually a “derivation” of that for the manuals.

PSA established a European Committee (European Works Council) in 1996, which meets once a year. Outside of France, representation from the different plants within the group is on a per capita basis. The European Committee has 30 employee representatives from France and 12 drawn from the operations in other countries. The permanent representatives of management are the personnel and industrial relations director and a representative of the owners. Other managers, including the PDG, address the meeting as appropriate. PSA had just agreed to the establishment of a smaller working group of the European Committee (comprising ten representatives) which would meet more often. The TGWU and AEEU convenors at Ryton are both members of the European Committee. In addition, there is a history of exchanges dating back over two decades between trade union representatives at Ryton with their counterparts in the major Peugeot plants in France and Spain which build the same cars. More recently, the TGWU had sponsored meetings with representatives of the French and Spanish union organising at the plants which are ‘directly in competition with us’. ‘The testing time [at the EWC] will be if it comes to plants having to go.’ (union interview).

3.3.2 Introduction of the Euro

In 1996 a project manager was designated to prepare PSA for the introduction of the Euro. Subsequently, working groups of managers from all functions and businesses have been convened to identify necessary changes and draw up an implementation schedule. From January 1st 1999 cash management in Euros was introduced, enabling customers who wished to do so to pay in Euros. At the same time the group also introduced dual accounting and budgeting in both French Francs and Euros. January 1st 2000 is the target date for full conversion to the Euro for the Euro-zone part of the group. The arrival of the Euro in the UK is not the ‘big bang’ that it is in France. The UK budgets are not yet formally in Euros. The company is ‘in a period of slowish transition - even in France they are not ready to say “all Euros”‘ (management interview).

There is no separate budget in the UK for the transition to the Euro, but it will be provided for as and when the need to change machines or programmes arises. Introduction of the Euro is being handled in equivalent fashion to the year 2000 bug. This required older systems to be modified or replaced, and the company was taking the opportunity to introduce new systems. It was time consuming and expensive. Similarly, the company is progressively introducing dual systems for the Euro - and introducing other changes alongside. For instance, finance in the UK is no longer a PMC-specific system- paying bills, raising invoices, treasury, taxation and so on are now all organised on a PSA basis.

Training for finance staff is being progressively increased; PMC would take the lead from French colleagues who are already going through the process. Also, the group have much larger resources than PMC. The parent group is providing a lot of training in the finance and computing areas, which PMC is sending people on.

3.3.3 Implications for the processes of industrial relations

From the UK, management's pay proposals for the biennial negotiation are put forward and discussed at group level. With the change in reporting arrangements (see above), the UK personnel director expects to meet with the group personnel director about once a month, with the exact frequency varying according to developments. Most contact and exchanges between managers at sites in different countries appear to be on the manufacturing side. The UK management believe that they know best how to manage and handle local industrial relations.

However, it is recognised that "emulating France is good politics." (management interview). For example, PMC had implemented a training programme for operatives to learn through a mock-up operation how to build new models. This was a direct transplant from France. Practices are less likely to go from Britain to France. For example, the UK operation had had team briefing over a long period. But this was cut four years ago in favour of more written communications by an incoming manufacturing director (from France) on the grounds that it took up potential production time. 'Now there'd been a major French study into effective production systems, and a key ingredient was found to be team briefing' - so it had just been reintroduced (management interview). It was observed that the group could have learnt from the UK's experience. PSA is, however, interested in Ryton's annualised hours and shift arrangements, particularly in the light of negotiations in France over the introduction of the 35-hour week.

Management comparisons across sites of costs, productivity, quality and the industrial relations record are well established within PSA. "Weekly, monthly, yearly comparisons were already made" well ahead of Economic and Monetary Union (management interview). However, according to management, there is not much comparability pressure from employees, except for the issue of the shorter working week. 'PMC is going to have to talk about the 35-hour week as a result of the French agreement'.

The assessment of the unions is similar. The pay claim is prepared by the research departments of the TGWU and AEEU. The reference points are the other major producers in the UK. 'We don't as such use comparisons with sister plants in Europe' (union interview). According to the union convenor, 'the response of the company in national negotiations is always to make comparisons with sister plants in France'. The trade unions are, however, looking to discuss a shorter working week with the company in the light of developments in France. The understanding with management was that once the French agreement was concluded, negotiations would commence at PMC. At this moment, the unions are waiting to see the details of the French agreement.

According to the union convenor, comparisons with other plants are used more in local negotiations over working and production practices. These comparisons build in factors to reflect plant-specific factors. For Ryton, there is an allowance for the age of the plant. The body shop is becoming robotised, but at Mulhouse for example the body shop is completely robotised. Productivity there is good, but on a visit the convenor had observed that 'people don't seem to be working that hard either'.

The EWC, or more precisely the employee-side pre-meeting, provides an opportunity to exchange information but as yet terms and conditions at the different plants have not been discussed. The recent meeting had, however, proved a useful source of information on aspects of the French 35-hour week negotiations. As noted above, the TGWU has sponsored meetings between shop stewards and officials representing members at Ryton and their French and Spanish counterparts at the major Peugeot car manufacturing plants.

Management see the prospect of a European-level agreement within PSA as something that would only happen in the very long term. In the view of the convenor, the unions probably will start deploying comparisons with similar PSA plants in other countries in national negotiations at some point in the future. A single European negotiation within PSA was foreseeable, but not in the immediate future (and not until the UK is part of the Euro-zone). In principle, it would be no different to the national agreements in the industry which cover plants in very different localities. There is scope for different interpretation and implementation of national agreements at local level, and this would probably occur with any future European-level agreement too.

3.3.4 Impact on pay and employment

The Euro is seen as bringing greater transparency in terms of pay and cost comparisons, but in the view of the manager interviewed 'also confusion in its wake'. PSA document and produce a quarterly analysis of personnel data. On the surface pay comparisons would become easier with the advent of the Euro. But effective comparison was made difficult by the very different pay systems in France and the UK. In comparison with the UK, the French pay system is more fragmented and more complex, with a much greater number of separate premia being paid (eg prime de rentrée, prime de pannier). Alternatively, in any comparison of labour costs social charges on the employer are much higher in France than in the UK.

In terms of pay movements, the gap in inflation rates between the UK and France in the last few years has meant that pay has advanced in the UK more rapidly. The £/FFr exchange rate has not proved a problem: PMC had got the level right in its calculations two to three years ago. This contrasted with the calculations made by some of the other major producers. In fact, basic pay levels at Ryton were now higher than in France, reflecting the effects of the differential inflation rate. But such a comparison was before taking account of all the other elements of remuneration, which are more numerous and of greater significance in the overall package in France. In sum, the "transparency is relative - there are lots of nastys in the wings" (management interview). It was observed that pay equalisation might happen, but only if tax regimes and social charge regimes were equalised. There might be a development towards 80 per cent of the pay package at sites in the different countries being in common. 'A margin for country differences was needed; it was difficult to bring pay packages completely together'.

A particular problem lies in the very different nature of pension provision in the different countries in which the company has its major operations. Of these, only the UK has fully-funded occupational pensions.

Employment developments at the different plants across the group will continue to be crucially shaped by group decisions on where to locate production of new models. Decisions on which site should build these, and receive the accompanying investment, are made on the basis of a site appraisal conducted by the group. PMC had bid for the Peugeot 205 fifteen years ago, but hadn't been allocated it. Instead it had gone to the Villaverde plant. At that time, there was only a single shift at Ryton: 'it was hanging by a thread' (union convenor). In 1998, Ryton had secured production of the Peugeot 206 ahead of Villaverde.

In terms of employment practices, there is intense pressure from PSA to continually find efficiency savings. The annual hours agreement had, as noted earlier, made Ryton 'very competitive' (management interview) in relation to other plants. By facilitating the introduction of the third shift, 'one-third extra production had been secured for only [additional] labour costs.' This was a 'terrific card' to play with PSA management. However, successful implementation of the weekend shift was shaped by local conditions: it probably reflected that extent to which Britain had become a seven-day society. Differences between countries also meant that the employment consequences of efficiency savings have to be handled differently. At Ryton, these can be absorbed by the early retirement programme but, for example, there is no equivalent scope or practice at the plant in Spain.

3.4 Cummins Engines

Cummins Engines presents an interesting case study when investigating the effects of European and Monetary Union (EMU) for employment and industrial relations for two reasons. First, while much of the focus is on the response of European firms, as an American company Cummins offers an opportunity to examine how a multinational based outside Europe is responding to and preparing for EMU. Second, Cummins is a components manufacturer rather than a final producer, allowing an insight into the effects of EMU on firms which sell to other industrial firms rather than final consumers.

3.4.1 Economic and industrial relations context

Cummins' core business is the manufacturing of engines, with these operations split into four related areas: automotive engines for trucks and light commercial vehicles; industrial engines for construction, agricultural and mining equipment; power generating equipment for customers such as hospitals and office towers; and filters for engines and hydraulic systems. The customers are generally manufacturers of heavy vehicles, such as trucks and buses. In addition, the company owns a number of distributors. In total, the group employs around 40,000 people, most of whom work in the automotive section. Of the 6,000 who are employed in Europe, 5,000 of these are in the UK. These are spread across six plants: Darlington which produces heavy-duty engines; Daventry which produces mid-range engines; High Wycombe and Huddersfield which produce components for engines; Ramsgate which produces power generating equipment; and Stamford which produces alternators for power generating equipment. Most of the employees in mainland Europe work at the mid-range engine plant in Mulhouse in France with the rest spread across small sales and parts distribution centres. Currently, the company is about to open a new plant as part of a new joint venture in Turin with Iveco.

The company is primarily structured around its four main lines of business. The four divisions or business units are Automotive, Industrial, Power Generation and Filtration, and these facilitate a common business strategy to be developed for each of the product lines. The automotive section is the biggest of the four business units, making up very nearly half of the company's sales. In addition, there are Area Business Organisations which supplement the four business units by acting as a mechanism to discuss territory-specific issues. The balance between these business units on the one hand and territorial units on the other has shifted in favour of the former in recent years. The business units act as an integrating mechanism between operations performing a similar activity in different countries, serving to 'drive an alignment to a business strategy that is appropriate to the market'.

The headquarters of the company, based in Indiana, USA, assesses the financial performance of each business unit, but also takes a direct administrative role in its operations. Primarily, this influence is exercised through what are known as 'F-systems', which were introduced to try to develop 'a common approach to the way that we manage our business'. One area that was affected by initiatives arising from the F-systems was work organisation, an illustration being the 'Cummins Production System' which had led to the introduction of new practices, such as team-based working throughout the operations. The HR function is organised on a regional basis, so that Cummins Central Region comprises the European operations plus regional offices in Russia and South Africa and some joint ventures. Each manufacturing plant has its own HR manager who reports in to the HR Director of Cummins Central, who in turn reports to the HR Director at corporate level.

The two principal types of engine which the company produces are 'heavy-duty' and 'mid-range'. The production of heavy duty engines is carried out entirely within a plant rather than the process being integrated across sites in different countries, but it is clear that production is transferable across plants and that consequently they are in effect in competition with one another for orders from the centre. Heavy-duty engines are produced in the Darlington plant and in another plant in the Central Region, Izmir in Turkey. However, the primary competition for Darlington is not within the Central Region but with two plants in the USA, one in Indiana and one in North Carolina. The production of mid-range engines is also specific to individual plants but is also transferable across sites. The UK plant for this line of business is based in Daventry, with comparable plants in Mulhouse in France and in Indiana in the USA which compete for new orders with Daventry.

The nature of employee representation varies from plant to plant. Generally, unions are well entrenched in the mature, manufacturing plants. The plant in the north-east of England, for instance, which employs 800 workers, has a recognised union for shop floor workers and another for staff, each of which has close to 100% membership. Negotiations take place at plant level, though reference points are drawn with comparable plants elsewhere in the country. Very recently, the company has established a European Works Council which has yet to meet. The IR climate is relatively stable. The Darlington plant has been free from industrial action in the last few years, pay has risen broadly in line with comparable firms and both the HR Director and the union representative stressed the regular communications between the two.

3.4.2 The practicalities of introducing the Euro

The general picture at Cummins was that only very limited preparations have been done in relation to the effect of the Euro. One area that the firm has examined is the pressure that customers are likely to exert in terms of pricing. Generally, this has not revealed significant demand from customers for Cummins to be dealing in Euros. In part, this probably reflects the fact that EMU is in only its initial phase, but it also reflects factors specific to Cummins. In particular, many of the firms Cummins deals with are outside the euro-zone, either being in European but non-EMU countries such as Britain and Sweden or outside Western Europe altogether, for example in Korea and Russia. Given the profile of Cummins' customers, therefore, there is relatively little pressure for the firm to be preparing for the introduction of the Euro at this stage.

Nonetheless, the firm is monitoring the implications of the Euro and is aware of some of the initiatives that will be necessary in the future. The finance function, in particular, is assuming that it will need to deal in Euros to some extent in the near future, which will entail changes to its computing systems. In relation to HR, the main initiative which is being examined is paying managers in Euros, mainly because such a move would allow managers, especially those based in the UK, to take advantage of lower loan rates. The HR function has also sought to examine how the Euro will affect the transparency of pay across the firm's businesses though, given the concentration of the European operations in Britain, it is unclear as yet what impact this will have.

The union representative did not have clear views on what effect EMU was likely to have on the workforce in Cummins. This is perhaps unsurprising since the company's preparations are at a very early stage. However, he did stress that EMU and its implications is something that has been discussed with managers:

> 'Whenever any of the big hitters come over here from the states, president of the corporation and vice-president, we're always afforded the opportunity to speak to these people. And one of the questions that we asked of the chairman of the corporation was "How do you see EMU affecting Cummins?" And the way Cummins do their transactions, they saw no effect whatsoever. As far as Cummins were concerned they didn't see any significant issues at all'.
> (Union rep)

3.4.3 Implications for the processes of industrial relations

A key issue with the Euro is the potential it affords for greater transparency of pay across borders and the way this can be used by managers and employee representatives in bargaining over pay. At Cummins the degree to which plants are compared with one another in terms of their production costs is of growing importance and the HQ is increasingly tying decisions on which plants receive volume orders, and ultimately which remained in business, according to their position in relation to other plants in terms of costs. For instance, the Darlington plant in the north-east of England produces similar products, mid-range engines, to two plants in the USA. These three plants are systematically compared, with this being communicated to plant managers and employee representatives in the three sites.

For managers these comparisons served two purposes. First, the resulting figures demonstrated which plants were the most efficient, leading to the potential for learning across the organisation. The mechanism that management used to identify the sources of favourable performance were the F systems mentioned above, which were described to me in the following way:

> 'These are done on a self-assessment basis initially but then there is an external audit - external to the entity but internal to the corporation - which is completed

> which says "Well, that's your score", and there are various models of scoring. CPE, Cummins Production Excellence, is when you've got the highest score. And that data then gets shared across countries so that again we're focusing on entities which are successful in different areas. Now the trick in terms of being competitive is, "well, we might be successful in terms of one dimension but what can we do in terms of the others". That's the mechanism for sharing some of the data'. (HR Director)

The F-systems have been the forum for discussion of a number of initiatives, such as the practice of team-based working described above. At the HR level, there were associated corporate initiatives; for example, HR managers have been involved in the attempt to generate 'high performance work cultures'. The HR Director of the Central Region liases with plant managers to co-ordinate a response to corporate initiatives and to justify amendments that are necessary for the practice to operate in the local environment. Examples include the Corporate Diversity Initiative which sought to combat discrimination within the organisation, and the restructuring of the HR function which redefined the responsibilities of HR and line managers.

The second purpose that the cost comparisons served for managers was to shape the expectations of employees and their representatives concerning pay and to generate an acceptance of new working practices. The comparisons that were made did not relate to pay or labour costs specifically but rather to the overall cost performance of plants. This was clearly evident from the interview with the MSF representative, who was asked whether they were made aware of the cost comparisons at the time of pay negotiations or more frequently:

> 'Oh, more frequently. You could virtually say that every day we realise that we are part of a multinational, a multinational which could be under threat, you know. Certainly comparisons are drawn. Cummins has three main mid-range engine plants and it's the mid-range engine that we produce here in Darlington. There's one in a place called Rocky Mountain in North Carolina which is out in the sticks, and there's another one just south of Columbus which is where the company's HQ is, which is not in an industrial belt. And in both of those plants they produce a cheaper product. So we're constantly aware of this comparison between the cost of engines here at Darlington and the cost of engines in North Carolina and Indiana'. (Union rep)

It is also possible that employee representatives could use comparisons of pay between sites in different countries to their own advantage. In particular, they could be used in order to drive 'upward harmonisation': that is, employee representatives could potentially try to negotiate for improvements in pay and other benefits on the basis of what the company was offering in other locations. However, there was no evidence that this was the case. Employee representatives had not been actively pushing for this, and had not established regular contact with their counterparts in other sites. Part of the reason for this was that it was clear that the primary concern of the union representative at the Darlington site was with preserving the future of the plant and the job security of his members.

Therefore, while there were strong pressures on plants to control costs, there was no evidence that this had sparked a process of harmonisation of pay levels, nor was there any evidence that bargaining was being co-ordinated across countries. It is unlikely that EMU will change this situation in the foreseeable future because many of the reference points for comparisons are between the UK and the USA rather than between EMU countries. As noted above, while Cummins has five thousand employees in the UK it has only one thousand in the rest of Europe, severely constraining the impact that EMU has on industrial relations.

Although EMU appears to have little impact on industrial relations at Cummins, another aspect of European integration has had a direct impact. In August of 1999 the company finalised arrangements for the creation of a European Works Council (EWC). Realising that the company was covered by the EWC Directive, management decided to initiate the setting up of an EWC rather than be pressurised at a later stage into doing so. It appeared that at this stage there was no great enthusiasm for a Works Council from managers, who could see little benefit in the operation of an EWC:
'I think that the reality is that it is difficult to find a true added value in the way that the legislation is set up - it's not very fair on business. ... I can't disagree with the philosophy but the way it's been structured - there isn't a natural alignment of the businesses'. (HR Director)

Nor was there great enthusiasm from employee representatives for a EWC to be created. There had been enquiries from trade unions concerning the company's plans over the last couple of years but this had not involved co-ordinated pressure between unions in different countries. Indeed, there was only limited contact between union representatives in the six British sites, and hardly any at the European level. The trade union representative interviewed was not certain if there would be any advantages to him or his union from the operation of the EWC, but speculated that management may use it to further the comparisons of costs between sites.

3.4.4 Implications for pay and employment

In the UK, where most of the European manufacturing takes place, collective bargaining is conducted on a plant-by-plant basis. In the Darlington plant, negotiations have produced small annual increases in pay which normally match or slightly exceed the rate of inflation. Indeed, it is the cost of living and the size of increases in comparable firms which serve as the main influences on negotiations rather than reference points to pay increases in other parts of the company.

There have been two main initiatives which have influenced pay and employment in the company in recent years. The first of these, the move towards greater use of outsourcing, has had a significant impact on employment levels, leading to a substantial contraction in employment levels in most of the manufacturing plants. This is, of course, a trend common to other firms in the automotive industry. In the plant visited the workforce has shrunk from 3,000 fifteen years ago to around 800 today. In part, this is due to increased use of outsourcing, both in ancillary services such as catering and security, and also in production; some parts of the production process, such as the cutting of metal, are now outsourced, leaving the plant to perform assembly functions only. The union representative made it clear that this was true across the company:

> 'Now this isn't just as far as Darlington is concerned, it's the way the corporation has gone. So to all intents and purposes it was a corporate dictat. And of course while all these changes have been taking place the numbers of people employed have reduced dramatically. ... What I firmly anticipate is more of the type of jobs that I represent being outsourced. I know for example that the company are looking all the time at various functions and disciplines that could be done cheaper. That's

> what it's all about in the end, without jeopardising quality. I've got no doubts that there are going to be a lot more jobs outsourced'. (Union Rep).

The second of these initiatives has affected the payment systems of a significant proportion of workers. The number of staff who have an element of their pay determined by an assessment of their performance is growing, encompassing managers and some white collar staff. The HR Director of Cummins Central Region is an enthusiast, saying that 'paying for performance is the way to go really'. The rest of the company was also interested in furthering the prevalence and role of performance-related pay.

Both of these initiatives, outsourcing and performance-related pay, owe little to the specific influence of EMU, however. Rather, they are part of wider corporate initiatives originating in the USA and applied across the firm. The particular effects of EMU on pay and employment are less easy to detect and have probably yet to emerge.

3.5 Wider Considerations

In the sector and company-level interviews, the managers and employer and trade union representatives commented on the possible implications of some wider issues, including the overcapacity that exists in the industry in Europe; the role of taxation and fiscal assistance; UK non-participation in the €; the effects of the price transparency afforded by the €; corporate governance; and the development of a European labour market.

There was a general view that there are still probably too many players in the automotive manufacturing sector in Europe and world-wide. However, the consequences of the current overcapacity in the industry are seen to be difficult to predict. Overcapacity is unevenly spread and the picture can move quickly over time. For instance, whereas at the time of the first meeting of PSA's European Committee (European Works Council) in 1996 there was discussion of the implications of overcapacity for plants within the group, PSA is now in a position where it has a strong range of models, was increasing its market share across Europe and was aiming to increase sales from 2.1 million in 1998 to 2.4 million in the current year. It was said that there are two schools of thought in the industry: one which anticipates only six producers world-wide in the future (recently espoused by the head of Ford) and a second which acknowledges that there will be amalgamations, but doesn't see restructuring as going as far as the first.

In recent years, the rationalisation of the automotive sector has been driven by mergers, acquisitions and strategic alliances, of which the formation of DaimlerChrysler AG and the alliance between Renault and Nissan are but the largest recent examples. The 'global footprint' of Vauxhall's parent GM and its comprehensive brand portfolio mean that pressures for merger or further takeovers are less acute, although the company has recently increased its share in Isuzu Motors to 49 per cent, trebled its stake in Suzuki Motor Corporation, and there have also been rumours of links with BMW. For its part, PSA is pursuing a range of strategic alliances in preference to a major acquisition. These changes in ownership have implications for manufacturing decisions: following Renault's acquisition of a substantial stake in Nissan it is not clear which models might be manufactured at the UK plant in the future.

Of equal, if not greater, importance is likely to be the continuing focus on the internal restructuring of European operations by the major manufacturers. The introduction of the common currency might help facilitate or legitimate some of the choices to be made, including concerning plant closure or winding down, but essentially it will not determine them. At General Motors Europe, this will reflect levels of demand and company strategies over its model mix and site location as well as international comparisons of plant costs and performance: 'As far as the motor industry is concerned, I do not think the impact of the Euro will have a major effect on structures and consolidations... globalisation and excess capacity are driving change in the car industry. I do not believe that the euro itself will instigate anything' (UK Personnel Director).

In automotive components, movement of some operations out of the EU altogether was said to represent an additional dimension to the restructuring going on in this part of the sector. Already component suppliers have located operations producing more basic items in Hungary, the Czech republic and Poland. But this might go further, with such operations being shipped offshore to Asia, and China in particular.

The role of taxation and fiscal assistance in shaping the locational dimension of restructuring was underlined. Company taxation was observed to be an important dimension of regime competition. So too are the grant-aid packages made available by all the member states' Governments. In terms of new investment, there's long been "a lot of shopping around" (AEEU international officer). Now the same was happening over the renewal of existing operations. The years of Conservative Governments were said to have made the UK more attractive as a business location, something which the present Government was clearly aware of.

A further issue concerns whether EMU will affect the investment and location decisions of MNCs operating in the UK. Being largely excluded from the € zone may prove costly to MNCs serving customers who require transactions to be carried out in euros. As noted earlier, the European operations of Cummins are concentrated in Britain and the HR Director stressed that the company thinks it is likely that Britain will enter the € two to three years after the next election.. The company is 'looking at customer demand and requirements': if these require Cummins to deal in euros and if Britain does not join, then management may see advantages in having more production inside the euro-zone. Indeed, recently Cummins has been engaged in a new joint venture in Italy.

Price transparency in the automotive sector is expected to add to competition and pressures on costs. In the UK, complaints at relatively higher car prices are already gathering momentum in the press and amongst consumer organisations. GME has established a workgroup to develop a pricing strategy for Europe recognising the increasing visibility of prices across borders, the price harmonisation that could occur, and the request from multinational fleets for prices in euros with cars sourced from the lowest cost countries. The consequences of price transparency are likely to feed into GME's comparisons across plants and existing pressures on costs. However, in terms of pay, employment and restructuring, the main effect of the introduction of the single currency will be to reinforce changes already underway as a result of growing competitive pressures in European markets.

The impact of the different structures of corporate governance under which the parent groups of the major producers in the UK operate was highlighted. German-based companies operate in a different capital market, and were seen to take a much longer-run view than (had) British-based companies. The latter "always need to show big bangs for their bucks" (AEEU's international officer). The nature of BMW's commitment to Rover was cited as an instance *par excellence*. Alternatively, PSA was described as "still very much a French company with international connections" (UK Personnel Director). The executive committee is entirely made up of French nationals, and there is a considerable concentration of senior managers who have come through 'grandes écoles'. Developing an international cadre of managerial and highly qualified staff represents a considerable challenge for the group. Its emphasis on an analytical approach and extensive documentation of information are distinctively French in style. The UK company appears to have been able (and allowed) to operate outside the French 'code' to some considerable extent. How far this will remain so, in the face of current initiatives to further integrate the group was, however, unclear.

The inclusion of two case studies of north American companies, raises the issue of how MNCs headquartered outside Europe respond to EMU in particular and the wider processes of European integration more generally. In large, integrated MNCs which have considerable operations spread across a range of European countries, such as GM Europe, the result may well be a further strengthening of the role of European regional headquarters in relation to the corporate parent. However, amongst MNCs such as Cummins, in which operations are concentrated in one European country, such a development appears less likely.

A European labour market was not seen as a realistic prospect, except for senior managers and top class specialists for whom the market is global rather than European. Increasingly, it was noted, graduates will want European experience, but not long-term postings in other countries.

In conclusion, the strength of competitive pressures combined with the highly internationalised nature of the sector have given rise to significant restructuring and changing strategies amongst the large multinational firms operating in the UK. The impact on employees has been marked, most notably through reduction in levels of employment and in the international comparisons of plant performance in negotiations over pay and over the introduction of new working practices. In automotive manufacture, industrial relations structures remain by and large intact; unions are generally well entrenched in automotive plants, retaining high levels of membership and the formal right to negotiate with management. This forms the basis from which unions are developing forms of information exchange and co-operation on bargaining matters with their counterparts in other EU countries. The use of international comparisons in bargaining claims, whilst not yet widespread in the sector, is more evident than a few years ago and especially so on working time. The more decentralised industrial relations arrangements which characterise the components part of the sector mean that such developments are less evident here. Yet in the face of substantial cross-country differences in fiscal and welfare systems, common European pay bargaining is seen by both employers and trade unions to be a somewhat distant prospect.

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4. The finance sector - domestic considerations dominant

In examining the effects of European integration in general and EMU in particular, the financial sector is one in which a significant impact might be expected. The sector is, of course, directly affected by the creation of the single currency and the emergence of a new 'Euro' capital market. Moreover, the prospect of further integration in Europe challenges the organisation and structure of an industry which until recently has been primarily national in character. To complicate matters, however, the current and future changes that EMU brings come on top of a number of other developments which have brought about rapid changes in the structure of the sector in the UK. As well as the deregulation of the sector, which dates back to the 1980s, these include substantial technical change, the erosion of 'mutual' ownership and a wave of mergers and acquisitions. Although there is much talk about the emergence of genuinely pan-European financial organisations, for the moment, these domestic considerations are the dominant concerns above all in UK retail banks.

As well as the publications cited at the end, our information on the financial sector comes from two main sources. One is the interviews in the three enterprises. In the case of the Midland Bank, our respondents were the Head of Employee Relations and the Senior Manager, EMU Planning. The employee representative was the Joint President of UNIFI, who is currently on secondment from Midland. In the case of L&G, respondents were the Group Personnel Manager and the Head of Remuneration. The employee representative was the Manufacturing, Science and Finance (MSF) Union section secretary at L&G. In the case of NatWest Group, respondents were the HR Director and the Head of Employee Relations. The employee representative was the National Secretary of UNIFI responsible for the NatWest Group. The other source is the European Officer of UNFI who shared with us the fruits of the work and thinking she has been doing on the impact of EMU on the sector as a whole.

4.1 Economic and industrial relations context

4.1.1 Economic context

An indication of the significance of the finance sector in the UK is provide by OECD Labour Market Statistics, 1998. Defined as 'financing, insurance, real estate and business services', the finance sector employed 16,179,000 people in total throughout EU. Of this figure, the UK was reckoned to account for no fewer than 3,804,000, which is almost one quarter (23.5 per cent) of the total.

The nature and extent of change in the sector in recent years has been unparalleled in its history. Key developments include substantial technical change, the erosion of 'mutual' ownership and a wave of mergers and acquisitions. Coming on top of the deregulation of the sector in the 1980s, they have had significant implications for both the processes of industrial relations and their outcomes. UNIFI (1999a) reckons that the finance sector has lost 130,000 jobs since 1990

New technology. *In the words of UNIFI researchers reviewing the way ahead for the finance sector,*

> It is hard to overstate the impact that technology has had and is going to have on employment. There has already been a shift from the branch networks of banks and the door to door sales force of insurance companies to call centres and centralised departments. The introduction of ATMs and point of sale technology has also had an impact on cash handling jobs and on the numbers of customers that go into bank branches. This will be exacerbated by the introduction of smart cards that can be used instead of cash. Manual processing roles have also been automated reducing the number of jobs in these areas. The effects of technology have not been limited to lower grade jobs. Applications for loans, mortgages and other products are now credit scored through computers reducing the need for managers.
>
> No part of the finance sector has been untouched by technology and the pace of change as a result of technological developments is showing signs of speeding up rather than slowing down (UNIFI, 1999b: 4)

Coupled with deregulation, new technology has made it possible for new entrants, such as supermarkets, to break into the sector as well as enabling existing players to take major initiatives. For example, the growth in telephone and on-line services have led to significant changes in the way that banks in particular are organised and in the way that they relate to their customers. A decade ago Midland launched an offshoot, First Direct, which was the first telephone-only bank in the UK, offering round-the-clock banking services provided from a tele-centre in Leeds. The other high street banks now all offer routine banking services, such as arranging direct debits, by telephone, dealing with these inquiries from call centres rather than from a particular branch. It is now commonplace for other financial services, such as pensions and insurance, to be provided over the telephone; companies such as Virgin Direct operate exclusively in this manner. It has been estimated that 390,000 people work in call centres in the UK, a substantial proportion of which is in the financial sector. Significantly, too, the technology makes it possible to choose fresh locations for operations where pay is lower and government grants are available. UNIFI (1999a: 5) maintains that London and the South East have suffered at the expense of Leeds, Glasgow and Sunderland, with the percentage of banking employees dropping from around 50 per to 40 per cent in and around the capital.

It seems likely that internet banking will become more popular in the near future, perhaps checking the growth of tele-banking. Egg, the direct banking arm of Prudential, is currently opening more than 1,000 accounts every day on its on-line service. It has estimated that the cost of an internet transaction is one-tenth of that of a telephone transaction. Barclays has also attracted a large number of customers to its on-line banking service launched in April 1999; currently it is opening 10,000 accounts of this nature a week.

The cost advantages of telephone and internet banking has led many banks to close branches. Barclays recently announced plans to close up to fifty branches by the end of 1999, while Bank of Scotland's proposed take-over of Natwest is predicated on plans to cut costs by closing large branches in favour of more use of call centres complemented with much smaller branches in shopping centres and supermarkets. Abbey National, which plans to close 700 branch counters, appears to be trying to persuade its customers to make greater use of the services available on cash machines and the telephone, in part by charging £5 for paying bills at its branches.

'*Demutualisation'*. Over the last few years the status of many of the UK's financial organisations has changed from being 'mutuals', in which all account holders had a share in ownership, to becoming PLCs floated on the stock market. This 'demutualisation' has taken place in most of the large building societies - Abbey National, the Halifax and the Woolwich, for instance, have all converted into becoming banks. Advocates of the change argue that a stock market quotation enables firms to raise capital more easily, while at the same time providing significant windfall payments to account holders. Detractors, however, argue that the pressure to provide a return to shareholders means that customers will receive a less favorable service and, further, that the instability of ownership in quoted firms increases the exposure to take-over and makes it difficult to pursue a long-term approach to investment. These arguments against demutualisation have been forcefully advanced by senior management at the Nationwide Building Society, who claim that the continued mutual status of the groups means they are able to offer a narrower gap between saving and lending rates than their demutualised counterparts.

Mutual ownership is also under threat in other parts of the financial sector, particularly in life insurance, where some of the major insurance companies such as Norwich Union have gone the same way as the building societies. Exposure to take-over has also increased. In recent years, the mutual life insurance groups Scottish Amicable and Clerical Medical have been taken over by Prudential and the Halifax respectively. The largest demutualisation so far in this area was announced in June 1999; the £7 billion take-over of Scottish Widows by Lloyds TSB ended 184 years of mutual status. This deal has generated speculation that other mutual life insurers such as Equitable Life would become take-over targets for other large British financial services groups, as well as some from continental Europe such as Allianz of Germany and Generali of Italy.

Mergers and acquisitions. The take-overs of mutual groups have been part of a wider process of corporate restructuring. As in most European countries, there has been a wave of mergers and acquisitions in both banking and insurance. In banking, Midland has been taken over by HSBC, TSB by Lloyds, the Leeds Permanent by Halifax and, as will be described in more detail later, the Bank of Scotland is fighting for control of NatWest. In insurance, Sun Alliance and Royal Insurance have merged as have Commercial Union and General Accident to form CGU. Prudential has taken over Scottish Amicable.

A common result of many of these tie-ups has been redundancies as the merged firms seek to cut costs through removing duplicated services. For instance, the extent of these has been a major issue in the proposed merger between NatWest and Legal &General leading to the threatened takeover of the former by the Bank of Scotland. Put simply, while the city accepts the logic of the so-called 'bancassurance' concept in which banks expand into life assurance, it nonetheless much prefers bank-to-bank mergers that produce immediate cost savings to the benefit of shareholders. The proposed merger between NatWest and Legal & General offered little more than £100 million in cost savings. The take-over by the Bank of Scotland promised almost ten times that amount, which would have accounted for more than 20,000 jobs.

In retail banking, this merger activity has been primarily national rather than cross-border in nature. The European Central Bank has argued that this is because of fiscal, regulatory and cultural differences in banking between European countries. The market for mortgages, for instance, is strongly shaped by national regulations, subsidies and administrative procedures that differ across countries. Consequently, cross-border mergers in retail banking are impeded by the difficulty of generating standardised products internationally.

Internationalisation. These barriers to cross-border merger activity are less pronounced in other areas of the financial sector. In investment banking, markets are not regulated to the same extent as in retail banking and, consequently, the development of standardised services is more feasible. The big German banks have been actively expanding their international presence in this area in recent years. For instance, in 1995 Dresdner Bank bought the UK investment bank Kleinwort Benson while in 1998 Deutsche Bank, having some years earlier acquired the British merchant bank Morgan Grenfell, announced the take-over of Bankers Trust of the USA. The Deutsche-Bankers Trust tie-up led to 5,500 jobs being lost.

In insurance, too, a growing number of companies are developing an international presence. This is particularly the case in Europe where a small number of large insurers have established a genuinely pan-European set of operations. This has been facilitated by the EU Insurance Directive, passed in 1994, which deregulated domestic markets and facilitated the entry into new markets of foreign firms. Companies from other EU member countries, such as Allianz, Fatis and UAP/AXA, have already made significant in-roads into the UK market through acquisitions.

The process of Economic and Monetary Union looks set to facilitate the emergence of more pan-European groups. One incentive for financial firms to expand their reach across Europe is to make savings on cross-border payments through harmonising the nature of payment systems, while the greater ease of take-over within the euro-zone will increase the opportunities for firms wishing to expand through acquisition to root out cost savings from markets they perceive to be inefficient. If UK experience is anything to go by, however, for the foreseeable future these are likely to pale into insignificance compared to the savings from bank-to-bank mergers within national boundaries.

4.1.2 Industrial relations context

Historically, like most other sectors in the UK, the formal system of industrial relations in banking was characterised by multi-employer bargaining between the London Federation of Clearing Banks and the Banking Insurance and Finance Union, which was the main union. Notwithstanding the preface ‘London’, the agreements set basic rates of pay and conditions of employment across the country and had a significant influence on pay and conditions in the finance sector generally. Elsewhere, where there was collective bargaining, it tended to involve either the independent unions and/or staff associations. Most of the building societies which subsequently demutualised and adopted plc status were in this category.

Along with many other sectors, multi-employer bargaining collapsed in the mid-1980s as individual companies sought to develop organisation-based systems of employment that they felt was suited to their particular circumstances. In a first phase, there was a move from sector to company bargaining an immediate casualty of which was the employers’ organisation in the sector. In a second, company bargaining gave way to business level bargaining. Rather than having a single agreement covering all Midland or NatWest employees, in other words, there was one agreement for the retail bank and depending on the strength of trade union membership, separate agreements for other businesses in the group.

A third phase saw a significant shift in the focus of the bargaining. In the great majority of cases, the main concern had been with setting standard rates of pay and fixed increments related to years of service. In the late 1980s and early 1990s, however, increasingly driven by the desire to change the culture of the organisation, many companies introduced individual performance related pay systems. Under these arrangements bargaining between management and unions shifted to the size of the increase in the overall annual paybill, with managers having the responsibility for determining individual pay levels in the light of performance appraisal.

Underpinning these developments were significant changes in relationships. Historically, most of the large financial organisations were characterised by a very paternalist approach. Employment in the banks in particular was very secure and employment was effectively for life. The levels of pay and benefits, such as cheap mortgages, were also much prized. Conflict was extremely rare. Although union membership was reasonably high, there was nothing like the levels of local trade union organisation or awareness of the automotive sector, reflecting the standard rates of pay and benefits and individual career opportunities. Competition between BIFU and the staff associations was also a source of weakness rather than strength.

The late 1980s/early 1990s saw very different relationships develop reflecting the dramatic changes in the economic context identified earlier. Piece by piece, the elements of the traditional system were dismantled as management felt itself under pressure to adopt a more commercial and hardheaded approach. Conflict in the sector increased reflecting the changes in pay systems and the growing insecurity. Although not bold enough to withdraw recognition, management in several cases tended to take a very 'macho' position in their dealings with their trade unions, taking advantage of restructuring to force through individual performance related pay, for example. For their part, the trade unions and staff associations found it increasingly difficult to maintain membership and organisation, let alone extend them to call centres and some of the newer businesses. Thus, although BIFU's membership continued to grow throughout the 1980s, from 141,000 to 170,000, it fell significantly in the 1990s to 106,000 in 1998 (BIFU: 1998).

In the second half of the 1990s, following a number of disputes, growing evidence of poor employee morale and rising complaints from customers, there were major re-appraisals very often leading to new HR/IR appointments and a re-think of management's approach. For example, on the occasion of the recent three-year pay and partnership deal, Norman Haslam, the new group employee relations director recruited by Barclays from British Aerospace, is quoted (Walsh, 1999: 13) as saying:

- Barclays has had quite an adversarial relationship with the unions and there was a tendency to ignore them in the hope that they would go away;
- But the dispute changed that. It was clearly time to work with the unions to establish an approach based on partnership. Negotiations over the pay system provided an opportunity to do this;
- Partnership does not mean an end to redundancies, but it does mean that they will be handled better.

In the meantime, there have also been significant developments on the trade union side. As already indicated, for many years representation had been fragmented. As well as the TUC-affiliated Banking Insurance and Finance Union, several of the larger banks had their own staff associations. To complicate matters further, some of these had been absorbed into a second TUC-affiliated union, which emerged as the Manufacturing, Finance and Science. In July 1999, however, BIFU merged with two of the largest staff associations, those at NatWest and Barclays, to form UNIFI with a membership of around 200,000, which is claimed to be the largest specialist finance union in Europe. Overall trade union density in financial services is just over 31 per cent (Office for National Statistics, 1999). As the leaflet launching the new union explained: 'Rapid change in the industry, huge job losses and the recognition of the need for greater co-operation across the sector ensured a massive YES vote by members of all three organisations for the merger'.

4.1.3 Implications for the processes of industrial relations

As will be explained in more detail in the case studies, none of our respondents expected EMU to have a significant impact on the processes of industrial relations in the UK finance sector. Certainly this was the case with the formal processes. Indeed, several of our respondents were slightly puzzled that they should be asked that that it might. Arguably, this is because the predominant level of collective bargaining is already single employer and so the UK banks could be said to have anticipated any pressure that EMU brings to decentralise sector bargaining.

Conceivably, a more formal sector social dialogue could develop in the UK in the light of EU developments more generally, which would imply the assumption by the British Bankers' Association or a similar body of some of the activities of an employers' association. If such a social dialogue did develop, however, it is more likely to be because of domestic developments, for example, increased regulation of the products and services of financial institutions, which could have significant implications for training and accreditation. Either way, such a dialogue is extremely likely to lead to a resumption of multi-employer bargaining over pay and the substantive terms and conditions of employment, given the importance management attaches to the development of organisation-based systems. Moreover, there would be significant practical problems in re-establishing multi-employer agreements, bearing in mind differences that have emerged in pay systems and working time arrangements between businesses in the same company, let alone between companies.

Thinking of EU developments more generally, it is conceivable that European Works Councils could at some stage provide the platform for Euro-company bargaining. As in the case of any sector social dialogue, however, if it happens, it is likely to take the form of joint 'opinions' or framework agreements in areas such as training or equal opportunities. It is extremely unlikely in the areas of pay and the substantive terms and conditions of employment. Both employers and UNIFI are opposed to EWCs assuming a collective bargaining role in the areas. More practically, as will be demonstrated in the case studies, many UK-based MNCs in the finance sector are reducing the numbers employed in continental Europe, raising question marks about the role of EWCs in their specific situation. In cases where the over-whelming proportion of employees come from the host country, even the use of comparisons between different countries is likely to be considerably less than in automotive sector.

Recent Euro-FIET proposals for the co-ordination of collective bargaining across the EU figured in the interview with the European officer of UNIFI. She said there was a lot of support for the organisation itself - she described it as 'a good 'honest broker'. It was far too early to predict the outcome, however. It was relatively easy, she explained, for people to sign up to written policies re co-ordination. The practice was likely to be more difficult. She was also not sure that Euro -FIET had the necessary staff and resources. She stressed that it was important not to try to go too far too quickly; the need was to find specific issues that were close to members' interests. Here the benchmarking of terms and conditions that Euro -FIET proposes to undertake could be the catalyst.

4.1.4 Implications for pay and employment

Most commentators are agreed that EMU will considerably exacerbate competition, putting pressure on pay levels and leading to major changes in the nature and type of work, working hours and above employment levels in the sector. The main problem is in isolating the specific impact of EMU from the many other changes contributing to the intensification of competition. This is especially true of the UK where, as has already been pointed out, many of these changes such as the introduction of new technology, deregulation and the decline of mutuality have been ongoing for more than a decade.

Analysis by the European Officer of UNIFI (1999c) quoting the Bank of England provides a good overview of some of the key direct effects of the Euro on the UK finance sector (post start of Stage 3). It suggests, for example, that the costs of introducing the € will make a considerable dent in profit margins, the implication being that management will have to make savings in other directions in order to keep these margins at acceptable levels. Overall the European Banking Association estimates 8-10bnECU. Individual banks have done their own calculations. Barclays, for example, has estimated the costs to be of the order of $480m.If the UK joined, accounts, direct debits, travellers' cheques, visa cards, switch cards, and 52 million cheque cards would all have to be changed as is currently happening throughout the euro zone.

More transparent pricing, a reduction in transaction charges, more cross-border services provision and so forth will all have a similar effect. Financial services provision is expected to become less profitable and more risky and earnings more volatile

There will be a differential effect between different parts of the financial sector. Over the medium and longer term increased competition is due to lead to the erosion of traditional banking relationships between corporate customers and their 'house' banks. Shell, for example, has 15 banks at the moment and has stated its intention to reduce this to just one. By contrast, retail customers may remain loyal to their local banks for much longer.

Although some national legal, tax and regulatory differences will remain, banks will carry out internal restructuring (for example centralisation of processing functions, accounts services and treasury management - what has been termed 'hub and spokes structures') to better place themselves to move into and sell widely throughout the euro zone. The aim will be to cross Europe for profitable niches and sell small ranges of products throughout Europe with only a marginal presence in any one country. Access to customers and distribution capacities will be the critical factors for success (hence the predicted explosion of multi-lingual call centres which can sell Europe-wide).

UNIFI also expects further and considerable consolidation of the sector. Over the past five years there has indeed been a large increase in European mergers and acquisitions advisory activity (25 per cent p.a.) in anticipation of the euro. Over the coming years it is widely predicted that only a small number of pan-European financial conglomerates will emerge from the 11,000 companies currently in existence in the sector. Both of these effects are predicted to lead to massive consolidation initially targeted at the countries where there is most 'scope' (for example, in the Netherlands the top 5 banks have over 80 per cent of market share whereas in Germany the same number has 17 per cent; in Finland 3 operators control 95 per cent of banking turnover and 5 operators sell 90 per cent of the insurance policies). In the new euro world it is predicted that national banks will lose their natural home base advantage and will seek to merge or acquire to expand their distribution into other (more likely to be neighbour) countries.

All of these changes, argues UNIFI, will have a direct impact on the levels of employment in the sector, the nature of work and jobs. Thus, the introduction of the euro means a direct elimination of certain functions - jobs in (intra-EU) foreign exchange and some treasury functions will be the immediate targets. Retraining and redeployment are also expected in the central banks. An example readily given when job losses are discussed is that of the ECB itself where it is often quoted that while in 1995 EU central banks *employed* 64, 753 the US *Federal* Reserve (covering a *similarly* sized area) *employed* 23, 727. Overall, estimates of job losses range from 200,000 to 500,000. At best, analysts state that the job losses in the finance sector *will* not be British ones because the *losses* have already taken *place* here or because the UK *will* be a euro 'winner' vis-a-vis the other European financial services providers.

Over the longer term increased competition and deregulation are also expected to further lengthen the business day and week. The introduction of TARGET, which is the payment system designed by the ECB forerunner to link the existing national systems to the ESCB euro payments system, has already had this effect. It requires opening hours from 07.00-18.00 every weekday bar two (25 December and 1 January). So too will every national payments and settlements system - for euro business – having a particular effect on bank holidays, which occur on around fifty days a year across Europe.

UNIFI's European officer explained that the position paper she had prepared on the Euro – one of several she and her research colleagues had produced for the new union – had been discussed in detail at two of the workshops at UNIFI's inaugural conference over the summer as well as featuring in Euro-FIET training courses and conferences. The report of the inaugural conference discussions had gone to the union's executive and the results had gone out for consultation with the branches. The recommendations included the setting up of a working group to oversee union activity on the Euro; the establishment of a database for the collection and distribution of information on the single currency; ensuring that union representatives on EWCs in the sector raised questions about the Euro's expected impact on employment and clarified the conversion arrangements with their European colleagues; and making sure that the Euro was an item on the agenda for branch, regional and national committee meetings.

She explained that UNIFI had also organised seminars on EMU where speakers from Group Euro and the Bank of England had appeared. The main thrust of these has been technical, though, rather than concerned with the HR/IR implications. Others of a similar nature were in the pipeline and a special conference of UNIFI's EWC representatives was scheduled for December, when EMU would be discussed.

She reckoned that the union was perhaps open to criticism for not doing more to sensitise the members to the HR/IR implications of EMU. The problem was, however, that much of what was being written about the impact of EMU could not but be speculative at this stage. It was very difficult therefore to focus people's minds on issues that were meaningful in day-to-day terms, especially as both the union's negotiators and members had to grapple with the many other changes taking place reflecting the domestic developments described earlier.

She added that employers were not yet being specific either. She quoted from a copy of a set of minutes reporting that UNIFI officials had asked one of the major employers in the sector (not one of our case studies) that Euro-related issues should be dealt with in the national forum as well as the EWC. The management had responded that if the union had specific Euro issues they wanted to raise, it would be happy to discuss them. By the same token, if management felt there were issues to be negotiated, it would ask the union for a meeting.

4.2 Legal & General Group

Established in 1836 under the name of Legal and General Group Life Assurance Society Limited, the Legal & General Group plc (L&G) is now one of Britain's largest financial services companies, employing around 6,800 people and with an annual turnover of over £1billion. Recent press coverage following the announcement of an £11 billion take-over bid by the NatWest Bank for L&G gives an indication of its recent market success: "Legal and General was the insurer every bank wanted to buy but few dared hope they would get" (Curphey, 1999). What makes L&G so attractive to potential buyers is its track record in the field of investment management where its 'low-cost index tracker' business (low cost, low risk) has helped it to become the UK's biggest player in the field. It is also the only UK financial company to promise to provide new 'stakeholder pensions' with charges at or below the government's 1 per cent ceiling. Stakeholder pensions are designed as group pensions plans, but are aimed at people earning between £9,000 and £18,000 who are not eligible for occupational pensions schemes or who are self-employed. They are intended, therefore, as a cheaper alternative to personal pensions. This is expected to be highly popular and as such L&G is thought by commentators to be a prize target not only for other British financial institutions, particularly banks looking to expand their fund management portfolios, but also for other European or American companies. This success has been achieved through what Curphey (1999:3) calls L&G's 'lean and mean' approach to business: "Tightly run and, unlike many of the traditional insurers, capable of paring down the costs of the back office administration."

4.2.1 Economic and industrial relations context

A recent review of L&G's business strategy has resulted in a so-called 'New World' focus on "integrated sales and services, more competitive products, multi-channel partnerships and quality service" (L&G Gazette, 1999). This has led to major re-structuring. There are now three large business areas in the UK – retail (life insurance and pensions) employing 5,000 staff; corporate (mostly pension schemes) employing 1,000 staff; and investments, employing around 450 staff. In addition there is a small group holding company and outside of the UK, overseas operations in the US, France and Holland. The US business, based in New York and Washington, is the largest operation employing 500 employees. In France there are 200 employees and in Holland 100 employees. All three businesses are much more limited than the UK operations, either catering solely for niche markets or offering very limited insurance product ranges. Twenty per cent of overall profits come from the overseas business, the majority of this coming from the US.

Although there is a degree of interdependence between the different business areas, they operate with a considerable degree of autonomy, managing their own budgets and personnel functions and with responsibility for pay and conditions of staff. The group headquarters is based in the City of London, but most of the company's business is dealt with through an extensive network of regional, area and district offices, located throughout the UK and overseas. The Head of Human Resources (HR) is the Communications and Resources Director, while the Group Personnel Manager is responsible for policy flowing from legislation and the Head of Remuneration is also responsible for Group HR services. Each of the UK retail operations have a personnel director responsible for operations within overall group policies and there are varying resources below them, at line personnel level, which reflects the different size of the operation.

The union, MSF, has about 2 ½ thousand members in L&G although it sees itself as representing all L&G staff. The union is having difficulty in recruiting more than 30-40 per cent of employees largely due to high levels of staff turnover, especially in the four customer service centres at Cardiff, Kingswood, Birmingham and Hove.

Until the mid 1980s the company's industrial relations machinery had consisted of a central consultative committee of management and union representatives which discussed "all matters of mutual interest", including pay and conditions of service as well as issues such as productivity and efficiency. According to the director of resources and communications this pay determination system which was based upon the submission of annual pay claims and counter-claims was characterised by a confrontational and adversarial approach which amounted to "trench warfare" (IRS 1998). However, during the 1980s in an environment of increasing competition and insecurity in the finance sector, the company moved to more decentralised bargaining arrangements, with a greater recognition of the importance of market factors (in pay and comparability) and business affordability. Since 1990 the company has sought to improve its communications systems and place more emphasis on informing and consulting staff. As part of this the company has set up a series of annual briefing meetings with MSF, chaired by the chief executive and attended by the executive board. The briefing is held following the announcement of the company's annual financial results and is a consultative rather than a negotiating forum. The union is presented with information about the company's performance, operations and business strategy, but the briefing also covers a wider range of issues, such as structural and other changes in the financial services market, profit sharing arrangements and health and safety. This was seen to be an important step on the way to establishing a formal partnership agreement.

The initial idea for a partnership agreement came out of discussions between management and the unions on the need to become a 'learning organisation'. This fitted both the agenda of management who believed that to be successful in an ever-changing business environment, employees needed to be more involved and better equipped with the right skills and behaviours to meet the new corporate challenges; and the union who were concerned to improve the employability and skills profile of its members in an increasingly insecure labour market.

In 1997 a Partnership Agreement was signed. Essentially it is a set of principles, objectives and practices which starts from the premise that "future success depends on a profitable business and the key to this is the commitment and involvement of staff." (IRS, 1998). The partnership agreement which replaces previous industrial relations arrangements provides for an employer-employee forum to discuss all issues that are relevant across all the business units. The body meets twice yearly and is made up of personnel and union representatives. While staff terms and conditions continue to be determined at business unit level, broad principles can be discussed at the joint forum.

Three key objectives underpin the Partnership Agreement: first, both sides are committed to working together to further the success of the business by providing a "flexible approach in times of rapid and continuous change"; second, management and unions agree to work together "in a spirit of mutual confidence, partnership and co-operation – both formally and informally"; and third, the parties aim "to achieve fairness and equality in the treatment of staff" a commitment which meets the union's objective of eliminating any form of discriminatory working.

The company describes its relationship with the union as one of consultation, not negotiation: "We give them information on how we are approaching pay and involve them in the process. We would say these are the markets we intend to use, rather than just this is the end result, do you like it? Then if an individual wishes to appeal against the result, the union can assist them by ensuring the correct process was followed." (Head of Remuneration). The union says that the agreement is more far reaching than the old procedures since it "will cover all aspects of the relationship between management and labour at all sorts of different levels" rather than being centred upon the annual pay review and peripheral terms and conditions (MSF Section Secretary).

4.2.2 Practicalities of introducing the Euro

Whilst the introduction of a single European currency would have an impact on the investment side of the business, EMU would provide the same opportunities and challenges as working with any other new currency, it was not thought that it would affect the business of insurance itself. In the longer term it was felt that it might encourage greater insurance sales via the internet, which would have consequences for those involved in selling insurance, although would still require processing activities to be undertaken, but it was felt to be "very early days, and these are very national markets" (Head of Remuneration). The only real communication exercise that had been carried out was through the company newspaper, the Gazette, which some 6 months ago had carried an article about how it would affect pension schemes.

4.2.3 Implications for the processes of industrial relations

The company compares pay levels across the different business areas in the UK but not across the overseas operations. While the Group HR department likes to "have some knowledge of what's going on in overseas operations" the local HR managers are seen to be the 'experts' and would view Head Office involvement as 'interference'. Furthermore, the company expressed the view that there was hardly any scope for comparison across Europe given arms length operating activities and the importance of local markets. Generally there is little movement of staff between operations "they're so different there's no need" (Head of Remuneration) and there are no job moves across European operations.

These views about the distinctiveness of the British market were shared by the union, which also explained that no comparisons were made by them across operations or across countries, "we just make sure that they adhere to the law in this country" (MSF). During the period of office of the last Conservative Government the union had looked to German employment practices a lot, particularly in relation to L&G's long hours working culture, but that did not happen now. There had been no moves amongst the French or the Dutch to adopt a Partnership Agreement.

The company sees the joint employer-employee forum under the Partnership Agreement as the pre-cursor for a national works council, reflecting the company's growing awareness that partnership ties in with the new social dimension in Europe and the increasing amount of EU legislation. It is in the process of negotiating a voluntary EWC agreement under Article 13, which would in effect provide for representatives from France and the Netherlands to be invited to the bi-annual meetings under the Partnership Agreement, if there were issues of transnational importance to be discussed. So far tacit agreement has been obtained from the directors of the French and Dutch businesses for the adoption of this procedure. The question that remains unanswered is who in the UK would meet with the overseas representatives, whether or not it would be all the members of the current Joint Policy Forum. However, it was generally felt that there would be no transnational issues to discuss, since there were "no real connections between the overseas operations and here. There are no transnational issues." (Group Personnel Manager). For the company the biggest issue was not consultation and communication across Europe, but within the UK amongst their own managers. In addition, Group Personnel Manager expressed the view that had the company not raised the issue of an EWC the union would not have done anything about it "I think they would have preferred it if we had done nothing."

The union's view was that European level collective bargaining would not be possible until there were common tax and investment regulations. In summary there would be no scope for bargaining over UK terms and conditions of employment at the EWC meetings and the only appropriate issues for discussion at such meetings would be pan-European issues. Furthermore, apart from take-over or merger it was difficult for the union to envisage what might constitute a pan-European issue.

The company described its own approach to Europe as largely reactive: "We're desperately trying to keep up. There's such a short lead time between drafts and legislation, it makes it very difficult." (Group Personnel Manager). Outside of the company L&G is a member of the finance sector's European Working Party Study Group, which looks at various issues connected to continuing European legislation, which at the moment the focussing on European Works Councils.

4.3.4 Implications for Pay and Employment

It was felt by both the company and the union that the introduction of the single European currency in particular and greater economic integration in general would have little impact on pay and employment in the UK, except perhaps in relation to greater use of the internet for the selling of insurance products across Europe.

In terms of pay, the company's aim was to match the market level for each job, so that geographical location was an integral part of the market rate. The other key factor would be individual performance measured against expected performance. Every job has a performance element at L&G, and the amount available for this element is also being driven by market rates. Flexible pay was seen to be an integral part of pay. Similarly, the union felt that a much greater influence on pay and employment than Europe, would be the increasing importance of the stakeholder environment in the UK. "If the margin on products is only going to be 1 per cent then the questions will be what is affordable? The business environment will be crucial – but the UK environment, not the European environment."

There was felt to be an immense amount of change in the insurance industry requiring constant skills updating, and increasing skill shortages in certain areas, such as for actuarial employees. As a result the company was placing a strong emphasis on life long learning. They had recently held a life long learning week, with pamphlets sent to all staff. Employees could still stay with L&G for life, but this would be through a portfolio of jobs, not a job for life, and employees needed to have both the right attitudes and behaviours. The company claimed to be “spending a lot on skills training, huge spend, but most of it is on the job learning, we want to encourage the idea that people should help themselves.” (Head of Remuneration). The unions view of training was that it was at a barely acceptable minimum level. If the company was serious about employability then it needed to put in place a meaningful framework for life long learning. “You can’t import skills where you have tight margins and there are skill shortages within the UK” (MSF).

In terms of competition for jobs, however, the union argued that it would be happy to see greater competition within Europe, but what it feared was that given the nature of the technology involved in the finance sector and the fact that companies were constantly seeking a low cost environment, work would be more likely to go to Indonesia or Malaysia. “If Cardiff is too expensive, where do you go next? The North East of England, or Kuala Lumpa?”

In terms of a trade off between jobs cuts and pay increases although the company had not put this to the union, MSF feared that it would happen next year: “redundancies were not in L&G’s vocabulary at the moment, but we are acutely conscious that if we pressurise for pay in this 1 per cent world, then jobs are at stake. It hasn’t happened yet, but its threatening.” The company has stated that it sees redundancy as a last resort as effective employees should always be accommodated.

4.2.5 Wider Considerations

Neither the company nor the union believed that the introduction of the single currency or moves towards greater economic integration across Europe would have a significant impact on the business, with the possible exception of the increasing use of the internet to sell insurance products some time in the future. The impact on the industry if this does happen (in terms of the skills profile of employees, rather than an on job levels) could be substantial, with a de-emphasis on selling and an increasing emphasis on processing and administration. However, this was still felt to be a long way off. Without significant structural changes in the industry, for example, to standardise financial regulations, British legislation such as the Financial Services Act 1987 are likely to mean that national financial markets remain quite distinctive and make attempts at European integration difficult to achieve.

In the meantime there was little evidence of comparisons across Europe in terms of pay and working conditions or the development of European labour markets at either managerial or non-managerial levels. Neither the company nor the union saw scope for sector level collective bargaining in the UK, let alone European level collective bargaining, with there being a clear emphasis on ability to pay, local market rates and individual performance. In terms of competition from lower cost labour the union felt that this was more likely to come from the far East than from Europe. Given the nature of the UK market the union felt that there was in the near future likely to be a clear trade-off between increasing pay levels and jobs, in which case the union would opt to protect its members jobs.

4.3 HSBC (Midland Bank)

Midland Bank plc (Midland) is one of the four major London ‘clearing banks’. In 1981 Midland bought a 57 per cent share in an American bank, Crocker, which subsequently made a loss of $10.3 million over the next 12 months. Although Crocker was finally sold off in

1985, Midland did not escape unscarred having to take onto its books some of Crocker's high risk loans. As a result Midland has suffered particularly hard in terms of the need to generate profits for capital investments and trading operations, necessitating a degree of control over costs which has not necessarily been experienced uniformly across the other clearing banks. Following several years of poor profitability, Midland was purchased in 1992 by the Hong Kong and Shanghai Banking Corporation plc (HSBC), a global bank.

4.3.1 The economic and industrial relations context

The HSBC Group

HSBC has its headquarters in London and is one of the largest banking and financial services organisation in the world. The HSBC group's international network comprises more than 5,000 offices in 79 countries and territories, operating in the Asia-Pacific Region, Europe, the Americas, the Middle East and Africa. With primary listings on both the London and Hong Kong stock exchanges, shares in HSBC are held by some 110,000 share holders in more than 90 countries. The HSBC group provides a comprehensive range of financial services, personal, commercial, investment and private banking; trade services; cash management; treasury and capital market services; insurance; consumer and business finance; pensions and investment fund management; trustee services; and security and custody services.

Whilst in 1998 the company's core UK banking business performed well and the US, Canadian and Middle Eastern businesses remained 'relatively buoyant' (Annual Report, 1998) business in Asia and some of the Latin American countries suffered in the face of difficult operating environments. Nevertheless HSBC's commitment to banking in Asia, in particular, is evident from the following statement of the Chief Executive, Keith Whitson:

> Our faith in the region's long-term prospects remains undiminished. There is no one Asian model, but there are some common denominators, some fundamentals which help to explain the region's success. First, talented people: across Asia, there are hard-working entrepreneurial people dedicated to improving their life and the lives of their families. Second there is also a strong commitment to basic education at the primary and secondary levels, and excellent universities. Third, countries throughout the region also have very high savings rates which lead naturally to high levels of investment. Fourth labour costs across Asia compare favourably with those of OECD countries. (1998:3).

The 1998 HSBC Annual Report divides the groups businesses into three main categories: large businesses - the UK, Hong Kong, Brazil and the USA; major businesses – Argentina, Canada, India, Malaysia, Singapore, Saudi Arabia and the Middle East; and other operations (including Europe). Table 1 shows HSBC's 'International Network' of offices providing financial services throughout the world, although employment figures for each country were not available.

Within each country businesses are free to act with a high degree of autonomy in banking decisions at the local level, although there is also evidence of a degree of centralisation. An important feature of the current HSBC strategy is the creation of a global brand for the HSBC group. The company's aim is to use the hexagonal HSBC logo and name everywhere by January 2000. On the business side direct banking has been a major issue for all of the group. It has been developed in the UK but a similar operation has been established in Hong Kong. The UK has more experience of credit/debit cards so people will be seconded to other parts of the group to develop it there, so there is a cross-fertilisation of ideas. At the moment the Group is focussing on 'wealth management products' for the 'older customer'.

Table 1: *HSBC's International Operations*

Asia – Pacific	Offices		Offices
Australia	44	Malaysia	46
Bangladesh	1	Myanmar (Burma)	1
Brunei Darussalam	12	New Zealand	8
China	15	Pakistan	4
Hong Kong	435	Philippines	7
India	30	Singapore	31
Indonesia	9	Sri Lanka	7
Japan	8	Taiwan	8
Kazakhstan	1	Thailand	9
Korea, Republic of	4	Vietnam	2
Macau	6		
Europe			
Armenia	1	Italy	3
Austria	1	Luxembourg	2
Azerbaijan	1	Malta	1
Channel Islands	26	Netherlands	1
Cyprus	148	Poland	2
Czech Republic	2	Russia	3
France	3	Spain	5
Germany	14	Sweden	2
Greece	4	Switzerland	4
Hungary	1	Turkey	2
Ireland	4	United Kingdom	1,792
Isle of Man	4		
Americas			
Argentina	178	Guam	1
Bahamas	6	Mexico	2
Bermuda	1	Panama	4
Brazil	2,006	Peru	47
Canada	124	Saipan	1
Cayman Islands	4	USA	450
Chile	1	Uruguay	1
Columbia	2	Venezuela	1
Middle East and Africa			
Angola	2	Oman	5
Bahrain	6	Palestinian A.A.	1
Egypt	8	Qatar	3
Ghana	1	Saudi Arabia	63
Jordan	5	South Africa	6
Kenya	1	Uganda	1
Lebanon	6	United Arab Emirates	15
Mauritius	14	Zambia	1
Mozambique	1	Zimbabwe	4
Namibia	1		

HSBC has an international management cadre of about 400 international officers who are on separate terms and conditions to the rest of the head count. They are required to be globally mobile and are often moved at short notice, following a ‘diplomatic service model.’ These managers are selected in their 20s and their careers are tightly managed so that they become chief executives, financial controllers or credit managers – and therefore hold key positions in each subsidiary. The purpose of this is to give HSBC “some consistency … Every year we are buying a bank or a financial institution somewhere, as soon as the deed is done we put in our own top management. Others are brought in at various levels, deputise and then take over. HSBC pride themselves on picking banks that are in difficulties - the share price is low, then take them over. Its been very successful. When they took over Midland they made £11 million profit in one year – this year’s half year results were £900 million”. (Head of Employee Relations).

Midland Bank plc

Throughout 1998 the UK the core banking business grew strongly, despite the impact of gradual economic slow down, and operating profits rose by 15 per cent. An emphasis on what the bank calls ‘wealth management activities’, which include the sale of investment, insurance and private banking products, were the main areas of growth. Other areas of service enhancement included providing access to products over the telephone, such as savings, mortgages and loans as well as the launch of a PC Banking service. Recent developments in Midland’s retail banking business include a major refurbishment programme covering 1,700 branches, started in 1994. In addition to providing a more pleasant and efficient physical environment, over 400 of branches now have extended opening hours (until 5 p.m.) many operate 24 hour lobbies with cash machines providing facilities for depositing and withdrawing cash, and the self service network of cash machines has been expanded considerably.

This branch re-modelling has enabled the bank to use high street branch locations as sites for the selling of financial services and financial advice. Senior managers have been appointed to the local branch network in the belief that strong local management provides customers with direct access to experienced bankers. In tandem with these developments many of the day-to-day administrative activities have been removed from local branches to specialist service centres. These centres build on the experience and expertise of Midland’s *First Direct* company, the UK’s first telephone personal banking service. A recent step which brings together HSBC’s focus on Asia and the continuing trend to remove so-called ‘back office’ work from the branches has been the announcement of ‘Project Monsoon’. Under this pilot project, due to commence on September 6th, 1999 back office work will be transferred to an HSBC processing centre in China.

HSBC Midland, formerly known as Midland Global Markets, comprises the HSBC group’s treasury activities in London, New York, Tokyo, Europe and Australia. It is one of the leading international operators in foreign exchange markets and has one of Europe’s largest trading floors, with a multi-billion pound daily turnover, covering a full range of currencies and foreign exchange hedging for corporate customers in Eastern Europe, Latin America and Asia Pacific. Also part of the Midland group is HSBC Trade Services which offers UK customers a range of specialist trade and international banking services. Internationally Midland continues to be the HSBC’s flagship in Continental Europe and Latin America, employing over 2,000 staff. In 1997 an office was opened in the Czech republic and in France, the bank joined the new clearing system in support of its strategy to join local clearing systems in advance of

EMU. In Germany HSBC Trinkhaus & Burkardt (a market leader in commercial banking, private banking and treasury business) and in Switzerland HSBC Guyzeller Bank (a private bank) were transferred away from Midland to other member companies of the HSBC group. However, Midland retains operations in Greece, Turkey, France and Spain. All of these operations are small, employing less than 250 employees, particularly in Spain where less than 130 staff are employed.

Until the mid 1980s the banking industry as a whole was marked by its tight centralised bargaining, its uniformity of terms and conditions, its strict internal labour market and its stable and paternalistic employee relations. Disputes were few and far between and there was little staff movement and/or poaching between banks. However, since the late 1980s the picture has changed considerably. In 1985 Midland gave notice of its intention to withdraw from the Federation of London Clearing Banks, the Banking employers' association. One of Midland's main arguments then, and still an important principle in current payment system design today, was the desire to respond flexibly to local labour market conditions.

Traditionally the retail banks have been characterised by secure, jobs-for-life. However, with an increasing trend towards the separation of front and back office work, particularly at Midland, this has led to changes in recruitment. In the mid 1990s there were high levels of redundancies in the branch network and whilst recruitment continues this is largely at graduate level for management positions or to the customer service or processing centres. There has been very little standard clerical level entry for the past 8 years. Approximately 100 graduates per annum are recruited on to the Advanced Development Programme (ADP) which takes all entrants to first level management (i.e. supervisory level or equivalent) usually by the age of 25-26. In addition there has been an increase in recruitment of part time staff in an attempt to match resources with customer service demand patterns. Many of these staff are on so-called zero hours contracts, where staff are employed by the Bank when called upon to work.

In 1997 Midland employed some 42,000 employees across 1,500 branches and four major service centres (located in Swansea, Leeds, Edinburgh and Hemel Hempstead) 8,500 of whom were part time. The vast proportion of employees are female, 70 per cent in total, whilst amongst part time workers the figure is 94 per cent.

Midland now gives sole recognition to UNIFI for the purposes of bargaining and consultation, with a union density of around 90 per cent. However, union recognition is limited to its domestic operations, there being no union recognition in its international banking divisions. Midland opted to remove recognition from the only other union, MSF, several years ago to reduce the problem of competitive bargaining, having failed to get the two unions to sit round the same table.

Midland's approach to trade unions has been influenced by the take over in 1992 by HSBC. The HSBC Group policy on union recognition is that, where it fits with the local culture, unions will be recognised if there is sufficient support from employees. In practice, however, UNIFI believes that the HSBC approach is more accurately described as being anti-union given its activities in other parts of the world. In particular the company's approach to trade unions in the Philippines and Indonesia was cited as giving cause for concern. In Indonesia, dismissal of all HSBC employees followed the failure of pay negotiations for a 5-6 per cent pay increase. HSBC went to the courts to defend their alleged illegal dismissal of strikers, and won. In light of these actions UNIFI's international trade union affiliate FIET has been called upon to form a World Wide Staff Council to discuss issues of global significance to trade unions representing members who are HSBC employees.

Midland negotiates at national level on base pay for each clerical grade and for technical staff (such as computer staff), London allowances and redundancies, but will not bargain over bonus payments or managerial salaries. Midland's strategy is to negotiate over pay and conditions, including holidays, but not over work organisation, staff deployment or organisational change. Salaries are reviewed annually in the context of individual and business performance, market practice and internal relativities. Allowances and benefits are largely determined by market practice.

At the local level union representatives deal only with individual cases. UNIFI believes that in the UK the industrial relations situation at Midland is fairly settled. Whilst over the past three years base pay levels have been imposed by management without union agreement, in 1998 an agreed settlement was reached. The union rep. summarised the relationship as follows: "there are lots of informal contacts between managers and the union, our working relationship is very civilised, but we're not a sweetheart union."

4.3.2 Practicalities of introducing the Euro

Preparatory work for the introduction of the single European currency began in 1994 with the establishment of an internal ad hoc company working party. In 1995 it was decided that the issues were so wide and important that the bank should have a full time, fully resourced, project group looking, looking in more detail at what the single currency meant for the bank and its customers. When it became clear that the UK would not join the first wave, then it was still considered an important issue, in that it the Euro would become a major trading currency on 4.1.99. Since then work has continued focussing on 'what does it mean to us as a bank and to our customers if we were to join at a later date'.

Midland believes that the single European currency will have a significant impact on many of its corporate and institutional customers and has invested heavily (although no figures were disclosed) to ensure that it could offer a complete Euro service from 1 January 1999. The main area of business that will be affected is that of trading in a new currency, which has meant investing in European payment and cash management capabilities. The bank have had to develop Euro pay-in systems and clearing system for cheques in Euros to be drawn on UK banks in exactly the same way in which it would be for sterling . Whereas all major banks have sterling accounts with the Bank of England now they will also have to hold a Euro account with the Bank of England. Previously banks would have a German account with the German bank, and a French account with a French bank etc. Now banks can reduce the number of accounts that they have with foreign banks in Europe. In theory any bank could come down to having one single Euro account with one bank, but in practice the need to manage huge payment flows during the course of each day means that it is often helpful to be able to pay out of different banks.

Training was provided for all Midland staff at different levels. A newsletter was produced and a case study based training package was developed for area managers and those branches where it was most likely to be relevant. There was also a modular training programme, where packs were sent out to the branch network on a monthly basis. Some modules were designed just to raise awareness and to let people know where to go for further information. Others were more specific providing operating training and manuals for those who worked on counters where the new cheques would be handed in. Employees in customer service centres had separate training, which consisted of being provided with 'question and answer' sheets. There was also training for French, Spanish and Italian staff to let them know how the systems were changing. All corporate banking managers have been trained in the implications of monetary union and the bank established a programme of customer seminars to encourage awareness amongst clients.

4.3.3 Implications for the processes of industrial relations

Within the Human Resources (HR) context, the General Manager HR in his quarterly communication identifies 2 or 3 key initiatives common to all parts of the group that businesses need to concentrate on. For major pay issues Midland have to seek permission to sign-off any agreement before the annual review in April. Midland determines staff costs in conjunction with the HR department and the Business Manager, but this has to be agreed by the Chief Executive of HSBC, and would normally also be reviewed by the HSBC compensation committee. In other HR areas such as appraisal and job evaluation there are group policies which can be "quite difficult to break out of … They are quite directive at times." (Head of Employee Relations).

A European Works Council was established in September 1996 for the purpose communicating transnational information about the HSBC group and for sharing views and consulting with employee representatives. There are two meetings per year spread over 2 days, involving 10 employee representatives: 6 from the UK, 1 from France, 2 from Germany and 1 from Greece. Some steps are being taken towards introducing a Spanish representative although at the moment there are still less than 150 employees in the Spanish operations.

The view of the Employee Relations Manager was that the EWC had been disappointing. The expectation had been that it could be a useful forum for the exchange of information and in order to facilitate this the company had put a lot of work into briefing members. However, they had found that "the clerical work force, the people who are elected have insufficient knowledge of financial information, it goes over their heads and they don't understand finance and profits … what do the top management of Midland get out of it? It's a talking shop and a bit of a waste of time. We go along with it so that we are seen to be 'good Europeans'." There was thought to be a lack of pan European issues, which was seen to stem from the nature of the business: "The way we run the business in other countries is very different. They're investment banking people, brought in through merger or acquisition, relatively small numbers scattered all over Europe. There's no commercial network in Europe, no similarity between the UK and Europe. In each country the country head runs the business – its not pan-European. There are different products, different services and a high degree of autonomy. Pan-European bargaining is a non-starter. There are no business pressures for this, no common terms and conditions across Europe, we operate a policy of market-rate in the location concerned." (Head of Employee Relations).

In so far as any involvement across Europe was considered feasible this would be through the European Banking Federation and would take the form of a dialogue within the sector about social affairs, for example the development of IT skills in Europe and year 2000 problems. But there was felt to be no mandate for European collective bargaining. Furthermore, Midland expressed the view that there was likely to be a gradual break-up in industry wide collective bargaining in other countries as more companies chose to focus on market rates.

The union side were more positive about the role of the EWC but equally opposed to any notion of European collective bargaining, seeing one of the major challenges for the union as being to protect the right to bargain nationally over domestic issues: "In the UK we're going to defend our right to domestic bargaining at whatever cost". Keeping certain issues of the EWC agenda had already proved difficult though: "We have had some problems …. there are certain issues that we made it clear we didn't want raised by employee reps at the Council meetings because we considered them to be the subject of domestic negotiations. The French delegate put us in a difficult position by raising the issue of working hours in the UK at one of the meetings".

The union shared the company's view that there was insufficient similarity across European operations: "In Europe staff are mainly engaged in commercial and corporate banking, private banking, treasury and asset management. The Greek delegate works in shipping finance, which has little in common with domestic banking. In Germany it's commercial banking, private banking and treasury. In France they deal with corporate and private banking, investment banking and asset management – it's a very small operation. So there are huge structural problems in comparing terms and conditions across Europe." (UNIFI Joint President).

4.3.4 Implications for Pay and Employment

Of great concern to the Union was the influence of global rather than European pressures in terms of cost comparisons, typified by Midland's decision to launch Project Monsoon in China. UNIFI has protested strongly to the bank over the implications for jobs in both the customer service centres and the branch network and has questioned the ethics of a rich and successful multinational organisation setting out to exploit poverty wages in the third world. The bank has stated that there are no plans to instigate any compulsory redundancies amongst the UK based employees as a result of this pilot centre. Concerns, however, remain. In China the average wage will be equivalent to £2,500 p.a. with a total cost including shift premia of £3,000 p.a. compared with an average cost of £18,000 to £20,000 p.a. for similar staff in the UK. Another processing site is already being sought in India. The bank has explained that this is not exploitation in Third World Countries, but merely paying market rates. It has also rejected the idea of setting up a new UK processing centre in an area of high unemployment, like Cornwall, as an alternative to China. UNIFI's national committee remains totally opposed to the transfer of work outside the UK

In the meantime the trend in wage setting will be driven more from the United States than from Europe, and will be to link both individual and corporate performance to pay. One aim is to increase the share option element that is available to employees so that eventually 5 per cent of HSBC shares will be in the hands of staff. Pay rates will continue to be driven by the local labour market but also combine an individual performance element. Previous plans for a team performance element have been dropped following the arrival of a new chief executive. At the moment there are about 85 different job rates across the different processing centres. Furthermore, overtime, sick pay and shift allowances have not been part of the package offered to new employees on flexible contracts in the customer service centres. Ultimately the bank wants to mirror this and move to job rates in the branches, although this is unlikely to happen at the moment.

4.3.5 Wider Considerations

A European labour market is not seen as a realistic prospect either for managerial or non-managerial staff in the banking sector. Similarly, given the very different nature of banking across different European countries price transparency in Europe is not expected to play a large part in determining competition in the sector in the UK. The biggest impact of EMU is felt to be in terms of the development of greater business opportunities in terms of trading in a new currency. Company strategy over location of operations and in terms of costs and performance are much more likely to be affected by global considerations than purely European considerations. For HSBC the importance of Asia would seem to far outweigh the importance of Europe. As the Senior Manager EMU Planning commented: "Western Europe is very over-banked; the returns are just not there. As a group we will be a global player, looking for a much greater return, it hasn't changed our strategy. From the retailing point of view backing the Euro makes no difference. In the banking sector there is no real cross borders activities, mergers or acquisitions. Now we are starting to see some rationalisation within borders, but not across them ... There are a huge number of banks in Germany, is this sustainable in the longer term?"

4.4 The NatWest Group PLC

Along with the Midland, Barclays and Lloyds banks, NatWest is one of the UK's major clearing banks. Essentially, it is a product of a merger between three banks, the National Provincial, District and Westminster, all of which were long established. Like the other 'clearers', NatWest has expanded beyond the traditional business of personal and corporate banking into a number of areas including card, mortgage and insurance services, wealth management, longer term savings and investments, currency derivatives and so on. Altogether, the group employed some 62,600 employees at the end of 1998. Operating income and expenses for the year 1998 were £7,367 and £5,055 million respectively and profit before tax, which was a record, was £2,142 million.

In recent weeks scarcely a day has gone by when NatWest has not featured in the pages of the business press. Initially, the interest was stimulated by the announcement in early September of its agreed £11 billion take-over of the Legal & General Group PLC, which was the subject of a previous case study. This was designed to combine the strengths of the two companies to produce a major new player in the so-called 'bancassurance' business. Attention quickly turned, however, to the Bank of Scotland's hostile take-over bid of nearly £22 billion for the NatWest Group itself, which was launched just over two weeks later. Seen as 'audacious' by most commentators – the Bank of Scotland is a much smaller company that NatWest both in terms of numbers of employees and stock market capitalisation – the logic of the bid was also very different. Rather than seeking to grow the business, which was the intention behind the merger with Legal & General, the Bank of Scotland proposed a sweeping rationalisation of existing operations. This, it was estimated, would involve the loss of more than 20,000 jobs through the closure of many of the retail bank's branches and their re-location in supermarkets and other more cost-effective outlets. The consequence is that NatWest has had to drop the proposed merger with Legal & General and fight for its independence. In recent weeks speculation has turned to how it proposes to do this – by delivering some of the cost reductions that the Bank of Scotland is proposing or seeking a 'white knight' in the form of a 'friendly' merger or take-over by a third party. The latter would almost certainly have to be a finance group whose activities did not directly duplicate those of NatWest, however, because of worries that the competition authorities would oppose such a merger. In recent days, it has become clear that NatWest proposes take the former course. Substantial job losses have been announced, along with the sell-off of a number of businesses, in order to increase the returns to shareholders.

4.4.1 Economic and industrial relations context

Economic context

One of the main issues to have emerged in discussions of both the merger and the take-over is NatWest's recent business strategy. In the unkind words of one commentator, 'NatWest is the textbook case-study of a bank with a good basic business which got into trouble whenever it tried to do anything else' (C. Fildes. 1999. 'On the way to the stars, banks lose their sense of direction'. *The Daily Telegraph* 20 September). Another, seeking to explain why the proposed merger had not been welcomed with enthusiasm, wrote that the NatWest group has a 'chequered history of managing take-overs and businesses' (Alex Brummer, Financial Editor. 'L&G bears burden of making deal work. *The Guardian* 7 September). Like the Midland Bank, there had been what commentators regarded as an unsuccessful foray into the USA from which NatWest had subsequently withdrawn. Attempts had also been made to moves into active fund management, through the acquisition of Gartmore, and investment banking. Overall, the general impression is that, unlike Lloyds-TSB whose chief executive has won plaudits for 'sticking with the knitting' of running the UK operations more effectively and efficiently, NatWest did not have a clear vision of where it was going.

Our concern here is not with whether these judgements are fair or not – it could be argued that they primarily reflect the stock market's concern with the short-term. The key point for present purposes is that, as part of the process of restructuring its portfolio of businesses in recent years, NatWest has cut back considerably on its overseas operations, with the result that the great bulk of NatWest's current operations are based in the UK. Indeed, apart from the Republic of Ireland, where the Ulster Bank is involved and employs some 3,000 people, the group has few activities and employees outside the United Kingdom. In continental Europe, for example, the estimate is that NatWest now only has between 500 and 1,000 employees.

Whether or not the proposed merger with Legal & General was intended to be a precursor of further EU and EMU-related developments can only be a matter of speculation. At the time of the interview with them in September, our management respondents were unable to comment for obvious reasons. The signs are, however, that it was. In discussing the 'bancassurance' concept, for example, the financial editor of *The Guardian* newspaper wrote,

> … the real pattern for what NatWest and L&G is doing is to be found on the continent at ING, Fortis, ABN Amro – and perhaps the German banking sector, where Allianz as largest banking shareholder is pulling the strings. Insurers, often underrated in the financial sector, are turning out to be the central players in consolidation – as was seen in the recent French banking tussle (Alex Brummer, Financial Editor. 'L&G bears burden of making deal work. *The Guardian* 7 September).

Another report in *The Financial Times* (A. Bolger and G. Graham. 1999. 'Exchange probes rush of L&G share deals'. *The Financial Times* 7 September) suggested that the new company would be 'a powerful force in the UK financial services market that would be well placed to participate in the consolidation of the European market'. They also quote Derek Wanless, NatWest chief executive, who suggested that the merger would 'make consolidation with a range of other institutions more attractive'.

In any event, details of the six main businesses comprising NatWest Group at the end of 1998 are shown below, together with the number of their employees.

In his 1998 review, the chief executive identified four 'key areas of expertise and focus'.

- business customers - with over 850,00 business accounts, NatWest claims to be 'the number 1 business bank' and the 'top choice for business';
- personal customers –NatWest has six million personal customers, which it services '24-hours a day, seven days a week' by telephone, 21,000 cash machines and 1,727 branches;
- electronic commerce and card products – both business and pesonal customers can bank 'on-line' as can corporate and institutional customers;
- savings products – NatWest claims to be the second-largest provider of unit trusts to retail customers in the UK.

	Main activities	No of employees
NatWest UK	retail and corporate banking, card, mortgage and insurance services	43,800
Lombard	leasing, hire purchase, factoring and income discounting, contract hire and unsecured personal loans	3,000
Ulster Bank	retail, commercial and investment banking services in both Northern Ireland and the Republic of Ireland	4,400
NatWest Wealth Management	longer-term savings, investments, private and off-shore banking	8,000
NatWest Global Financial markets	money market products, currency derivatives, foreign exchange and structured products	1,100
Greenwich NatWest	high-quality debt issuing, structuring and distribution services to corporate, government and institutional clients	2,300

The industrial relations context

In matters of human resource management and industrial relations, NatWest management has earned a reputation for innovation. NatWest was one the first banks to appreciate the need for new approaches in the wake of fundamental changes taking place in its businesses. Like most of the other banks, it had been characterised by what the HR Director himself described as 'a bureaucratic and hierarchical structure' (Bendall, Bottomley and Cleverly, 1998: 91) with some 350 head office personnel staff and a 'one-size-fits-all' approach. A succession of major programmes was introduced in the late 1980s and early 1990s designed to change the culture in favour of a greater focus on customers and results. There then followed a period of re-appraisal in which it was recognised that much more needed to be done to turn the rhetoric of ‘people are our greatest asset’ into practice. Further substantial changes took place including the adoption of the balanced scorecard approach, which was designed to reduce the emphasis on short-term financial results. In terms of the HR/IR function, there was a shift from personnel administration to HRM with considerable devolution of responsibilities to the business and line managers. In terms of relationships, the newly-appointed HR Director launched an initiative called ‘Proposition for staff’ with the objective of ‘refreshing and enhancing the commitment [needed] to sustain and make effective the internal changes needed to meet our business objectives’ (Bendall, Bottomley and Cleverly, 1998: 90).

Specific changes included the following:

- the introduction of more flexible reward structure providing the option for staff, subject to management agreement, to switch an element of their annual salary increment to bonus within the overall constraint of the reward pool allocated to their unit (subsequently withdrawn)
- a review of benefits such as the car and mortgage assistance schemes
- a ‘staff as customers’ programme which establishes the principle that staff should be treated in the same way as customers in terms of products and services while at the same time offering them preferential terms
- the introduction of an enhanced staff survey, with both a NatWest and business specific elements, which monitors key indicators as part of the balanced scorecard approach
- the introduction of a more flexible approach to working time, in particular a move to annualised hours, to enable employees, given business needs, to influence their own working hours

The company also decided to a move away from the traditional confrontational approach with the recognised unions to one of “partnership”.

This is built on the premise that both NatWest UK and the unions have a common interest in the success of the business and that staff are best served by working together in spirit of trust and co-operation. While there is mutual recognition that agreement may not always be possible on all issues, we have sought to bring the unions into the debates on key issues earlier and with greater access to information, to enable them to provide more meaningful input on behalf of the staff they represent.

At the time of this statement, there were two unions recognised for the purposes of collective bargaining (the TUC-affiliated Banking, Insurance and Finance Union and the NatWest Staff Association), which came together with the Barclays Bank Staff Association to form UNIFI. Overall, trade union density was around 70 per cent. Since the collapse of the sector multi-employer agreement, the management had negotiated basic terms and conditions, including minimum salary scales with the two unions. With the introduction of individual performance pay, the main focus of collective bargaining moved to the size of the overall increase in the pay bill.

The company was also one of the first, in 1996, to establish a European Works Council on the basis of Article 13 of the EWC Directive. Especially noteworthy is that the Staff Council was world-wide in its composition and included provision for non-union as well as union representatives.

The National Secretary of UNIFI responsible for NatWest confirmed that management-union relations were much better than in some other banks. The management, he said, had tried to innovate and seemed 'genuinely interested' in developing a co-operative relationship with the union. He certainly had no complaints about their willingness to engage the union in a dialogue. If there was a problem in this regard, it was with the management's internal communication structure – sometimes the company seemed to have trouble in getting the line managers in the individual businesses to 'sing from the same hymn sheet'.

He added that, as in the case of the other banks, the union would much prefer to have a system of national pay rates and annual awards rather than the current arrangements, especially as the latter were giving rise to problems of equal pay. The union had also not been able to reach agreement with the management over the size of increase in the paybill in recent years. On each occasion they had exhausted the procedures with a failure to agree, but the members had not been 'in a mood to do anything about it', although they had got close to a strike ballot on the last occasion. In the finance sector, he added, it was not easy to get members to appreciate that *they* were the union and that they had to become actively involved in its organisation and promoting its agenda.

He felt nonetheless that the union had been able to demonstrate its relevance to its members on the pay front. They had got management to agree to an audit of the outcome of the performance appraisal system so that some of the equal pay anomalies could be dealt with. They were also involved in the negotiation of so-called 'spot rates' in the call centres, which reflected local labour conditions. This meant that they did not have to wait for the annual negotiations to deal with any problems arising.

4.4.2 Practicalities of introducing the Euro

In its contribution to a collection of case studies produced by the Bank of England, NatWest expressed support for European integration through the Single Market, which 'we believe benefits the UK economy, our customers, and, indeed, the UK financial services industry'. It explained that,

At NatWest we believe that we and our customers are in Europe and must plan for an EMU world from 1999; irrespective of whether the UK joins EMU, we see EMU planning in the wider context of European business development. A successful EMU within the European Union will be an accelerator of other strategic changes - the completion .of the Single Market, demographic changes, the growth of direct financial services enabled by new technology, and so on (Bank of England, 1997, Issue number 6: 72).

The company also spelt out in some details its approach to and organisation for handling the coming of the €. The Group Chief Executive led a major scenario planning exercise in early 1996 to ensure that top management across the Group built a common picture of the strategic changes under way in Europe, including the effects of EMU. The pace and priority of EMU change was seen primarily a matter for each business unit, taking account of likely EMU membership, the expected rate of Euro demand in each customer market, and competing strategic priorities for each business. Business Unit chief executives then assumed primary responsibility for EMU change and delivery to customers alongside their other objectives, reporting to the main Board every six months. The contribution also emphasised that the businesses in NatWest Group had operational responsibility for almost all functions, including IT, so their chief executives were fully empowered to manage developments and trade-offs.

Alongside a small Group team given responsibility of championing EMU development, ensuring that it remained at the forefront of attention, and representing NatWest at industry bodies, a Group Steering Committee (with membership from each business) was given the task of:

- updating EMU assumptions.
- setting and monitoring quality standards for plan development and implementation.
- ensuring consistency where required and maximising shared learning across businesses.
- reviewing investment/risk proposals from businesses to ensure that the Group as a whole is properly prepared for all likely scenarios.

A full range of euro products were developed to be ready for January 1999 in the key areas of the group's activities: *London financial markets* (foreign exchange, money markets bonds, derivatives, equities); *corporate banking* and *fund management*. In each case this meant ensuring that systems and procedures were in place to handle, for example, the issues of re-denomination, securities settlement, historic performance analysis and multiple base currency client reporting.

In the case of *retail banking* in the UK, the company did not believe that there would be strong demand for Euro services from most personal and small business customers until towards the end of any transition period. Given the low probability of entry in 1999, it therefore allocated only minimal investment to this sector on a contingency basis. An additional consideration was that conversion here would require a major national campaign, not just by individual banks. In the Republic of Ireland, however, Ulster Bank would be delivering retail euro services from 1999, and NatWest would therefore subsequently benefit from this experience in building services for its UK customers, if and when the UK finally decided to enter EMU.

The contribution also emphasised the importance of staff communication and training. NatWest Group's world-wide Staff Council received an EMU presentation, which was followed up in various businesses as the need for active contact with Customers increased. For example, in Corporate Banking Services, the Customer Guide, seminars for over 1,000 corporate clients, and regular Customer bulletins, are being matched with a programme of staff awareness. Over 5,000 front-line staff received initial training in the final quarter of 1997 and early in 1998 in this business alone. The contribution concluded by suggesting that 'Excellent internal communication at every level will be essential in meeting our business goals, and enabling our Customers to adopt the euro easily and efficiently'.

Our management respondents confirmed that plans and systems had been developed in the event that the UK adopted the €. They explained that the organisation would 'gear itself up when it has to'. There was no point in doing so beforehand, however, given the wide range of legal and general implications that had yet to be decided

They also did not envisage any major changes in HR/IR practices as the result of the UK adopting the €. Payroll and pensions were already highly centralised and the issue of payment would be dealt with as and when the legal and general implications had been decided. They added that the issues did not yet appear to be a major problem with the union and they had not yet been asked to discuss them. The amalgamation of BIFU and the NatWest Staff Association had obviously been a major preoccupation.

The UNIFI National Secretary confirmed that this was the case in general terms – there had been no feed-back of problems from his members so far, although he was sure interest would mount as 2002 came closer. A specific problem had arisen involving the Manchester payment centre of corporate banking services, however. Initially, the local managers had tried to secure a change in the contract of the individuals who would be involved in operating the TARGET system without consulting the union – he said this was a specific instance of the problem he had mentioned earlier. Subsequently, the management and union had negotiated an agreement covering the working of bank holidays necessitated by the introduction of TARGET providing for enhanced hourly rates and time off in lieu. There was now a dispute over the application of the agreement reflecting the fact that that Christmas Day 1999 and New Year's Day 2000 would fall on a Saturday. Legal advice was being sought to try to resolve the dispute.

4.4.3 Implications for the process of industrial relations

Our respondents emphasised, not surprisingly in the circumstances of NatWest's position, that the impact of the € on staff terms and conditions and the HR/IR environment more generally was not considered a major priority at present. Apart from the considerations touched on below, it was important to remember that NatWest had nothing like the scale of operations in other EU member countries as it used to. Ulster Bank was the main exception to this generalisation and even a sizeable proportion of its employees were in Northern Ireland. Our management respondents therefore felt that there was no immediate reason to embark on a strategic review of the HR/IR implications of EMU. If circumstances were to change, they would do so as a matter of course.

In the circumstances, discussion in the interviews focused on two issues. One was possible developments in the activities of the NatWest Group's EWC in the light of the coming of EMU. Our management respondents said they saw the EWC as an information and consultation body and would surprised if there was pressure to develop it into a negotiating body. As the EWC Bulletin report (Wilson, 1999: 15) puts it, the emphasis on improving communications suited both management and unions: 'management was keen to drive through a strong communications agenda at a time of organisational change; and the unions wanted to be involved in the Council in a way that did not clash with the framework of issues for collective bargaining'.

The UNIFI National Secretary said that he was 'absolutely' in agreement with this point: the union was opposed to any assumption by the EWC of its collective bargaining role, which he thought was the ambition of some of the independent (non-union) members. He did nonetheless make an extremely interesting point that could apply in many situations. It was that there might be occasions when both management and union, despite their opposition in principle, might find that it made practical sense in specific situations to use the EWC to reach what was, in effect, a collective agreement.

Currently, as the EWC Bulletin report (Wilson, 1999: 16) confirms, domestic considerations tended to predominate, reflecting the changing employment structure. Indeed, the report suggests some dissatisfaction on the part of the non-UK representatives because of it. This was perhaps inevitable, however, because of the changing composition of the Staff Council. As the EU workforce has shrunk, so too has the number of representatives from other countries.

The second was the EU social dialogue. Given the ways in which different social policy issues were dealt with, our management respondents did not envisage any major initiative coming under the Maastricht process that would pose major problems. As for the EU sector social dialogue, they said they would be very surprised if it led to collective bargaining over pay and conditions. It was already clear that there were major differences in arrangements between the various countries making such a development unlikely. As in the case of the EWC, they did not think UNIFI would want this either, which was confirmed by the UNIFI National Secretary. Management were aware of EURO-FIET' ambitions and its proposals for co-ordination but had yet to see any signs of them having any impact.

4.4.4 Implications for pay and employment

Given the very small scale of NatWest's current operations in continental Europe, our respondents did not expect that EMU would have major implications for pay or existing levels of employment. The basic reason was that, even if the proposed NatWest-Legal & General company had ventured into continental Europe, there would have been little duplication of existing activities, in particular in the area of retail banking where most employees were to be found. The same would be true if NatWest were to be taken over by a company from another EU member state or, indeed, the USA. In the case of the levels of employment especially, it was domestic UK considerations that were likely to be dominant and, above all, the widely held view that there was considerable over-capacity in UK banking, which was ripe for rationalisation. It was clear that some commentators were less than excited by the prospect of the NatWest-Legal & General merger precisely because of the relatively small size of the cost savings that would be produced, i.e. around £130 million. They had been hoping that the next move would come in the form of a merger, such as that later proposed by the Bank of Scotland, in which cost savings of the order of £1 billion might be involved to the benefit of shareholders. In the event, it looks as if NatWest will itself have to make similar cuts, as well as sell off some of its businesses, in order to maintain its independence.

4.5 Summary and conclusion

It is clear that a range of pressures is bringing significant change to the nature of companies in the financial sector. These pressures have presented a number of challenges to pre-existing patterns of industrial relations. The technological changes have altered the nature of jobs, resulting in more people working in call centres in which British unions have found it difficult to recruit members and gain recognition from management, and have also reduced the numbers of people employed in the big financial groups. The decentralisation of collective bargaining that many commentators are expecting EMU to promote is already an established fact. The changes in ownership, including the erosion of mutual status and the wave of mergers and acquisitions, have resulted in much more emphasis being accorded to 'shareholder value', arguably at the cost of employment security. Handling the implications of this restructuring has been and is likely to continue to be for the foreseeable future the dominant concern of management and trade unions alike. It is in this context that the impact of EMU has to be understood. Evidently, the process of internationalisation, which the Single European Market, EMU and the Euro is strongly encouraging, is make a significant contribution to the intensification of competition. As long as retail banking in particular remains a largely domestic affair, however, it seems unlikely that EMU will have significant other implications for either the processes or the outcomes of industrial relations beyond those of the relatively small number of employees directly involved in handling the Euro.

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5. The road haulage sector – a case of threats and opportunities

The road haulage sector is one in which, *a priori*, EMU might be expected to have a significant impact. The aim of the Single European Market is to make trade within the EU much easier. Given the key role that road transport plays in moving goods, any increase in the level of cross-border activity could not fail to have significant repercussions. Moreover, road haulage is perhaps unique in the extent to which both capital and labour are, by definition, both mobile. The opportunity that European integration in general and EMU in particular brings for greater cross-national penetration is virtually unparalleled. At the same time, however, road haulage is extremely heterogeneous and massively fragmented, which helps to explain why formal industrial relations processes are weak or non-existent in this sector in the UK. The upshot is that, in terms of its impact on the nature and extent of competition, EMU is changing the face of some parts of the sector, while leaving others virtually untouched at least for the time being. So far, however, there has been little or no discernible impact on the processes of industrial relations or response from the social partners, such are the implications of the sector's fragmentation in the UK.

As Chapter 1 has already indicated, it was necessary to adopt a slightly different approach to the conduct of the interviews. As in the case of the automotive sector, parallel approaches were made to the main employers' organisation and trade union along with the HR directors of several large companies. In each of the latter cases, the approach met with a similar very apologetic response, which is interesting in itself – our would-be respondents could not see much point in seeing us because they did not think they had anything to say. To quote from a letter from one of them,

> I am ashamed to admit, that I haven't thought about the Euro yet! This is due to the fact that there is so much new legislation being introduced into the industry, and a great deal of my time is involved with the implementation of this legislation into our businesses. I feel I would not be able to make a worthwhile contribution.

The first reaction of the social partner representatives at sector level, the HR Director of the RHA and the National Secretary-RTC (Road Transport Commercial) of the T&G, was also very similar. They did nonetheless agree to interviews to discuss the current challenges facing the sector and where European developments in general fitted in. In the event, these not only proved to be extremely valuable in the range of insights provided, but also helped to shape the conduct of the research in the sector. The HR Director of the RHA suggested an approach to the Group HR Director of Christian Salvesen PLC, leading to a lengthy face-to-face interview. She also put us in touch with one of the senior consultants of Price Waterhouse Coopers' EMU Unit, who had recently organised a highly successful seminar for the RHA on the general impact of EMU. He kindly gave us a valuable perspective on the various scenarios which companies in the sector had to contemplate.

In discussions with her RHA colleague responsible for international affairs, it was also agreed that it would sensible to target a number of smaller organisations so that a more representative picture could be achieved. It was reckoned that asking for face-to face interviews was likely to receive the same response as the larger ones, however, whereas a request for a telephone interview was more likely to be successful. So it proved. The RHA Director of International Affairs kindly telephoned three members of the RHA's international group to make the initial contact. A letter was then sent asking for a telephone interview of about half an hour to discuss the ‘pros’ and ‘cons’ of operating in a Single European Market before going onto EMU and its implications.

Altogether, therefore, this report draws on material from four companies. Christian Salvesen plc is far the largest, being one of the major players in the sector as a whole. Starting life in fishing and whaling in the middle of the nineteenth century, the company moved into food processing and from there into distribution (Watson, 1996). Thus, although the company continues to have interests in vegetable processing, its main activities are now in the area of food and consumer logistics and industrial logistics. As will be revealed below, its sphere of operation in these two areas is increasingly European-wide, although it continues to treat the UK and Europe separately for reporting purposes. Altogether, the company employs some 14,000 people in 140 sites in eight countries: Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain and the UK. Turnover was just short of £600 million in 1999, which was up from the previous year by 8.4 per cent, and pre-tax profit was £32.3 million.

The three other companies were Andrew Wisehart Ltd., GroContinental Ltd. and Barbour-European Ltd. Each employed between 40 and 60 people. Andrew Wisehart Ltd. and Barbour-European Ltd., both based in Scotland, are essentially ‘dry goods’ hauliers involved in the transportation of manufacturing goods. GroContinental Ltd., based in Shropshire, specialises in refrigerated transport, with a substantial proportion of its turnover and profits coming from storage operations. Andrew Wisehart Ltd. and GroContinental Ltd were privately owned, while Barbour-European Ltd had recently been acquired by one of France’s largest road hauliers (Giraud). In each case the interview was with the managing director.

Two of the smaller organisations did not have any employee representatives. The third had two shop stewards, but they were working drivers. Collective bargaining in Christian Salvesen takes place at business unit level and involves a number of shop stewards in each case, making a company perspective virtually impossible.

In the circumstances, the T&G National Officer of the RTC Group is the main source of the employee representative perspective. Fortunately, he is a person with immense experience of the sector, having been a shop steward and a full-time official for about 30 years. He leads the trade union side in negotiations in many of the larger companies and was also involved at the EU sector level in the abortive negotiations over implementing working time regulations. He was therefore able to make a wide-ranging as well as in-depth input, which helped to ensure that a balance of views was achieved. Critically, too, while he very often had different solutions to recommend, there were no major differences of opinion between him and the management respondents on the major issues and problems of the sector.

As the research progressed, it also seemed sensible to adopt a different framework for presenting the results than in the other two sectors. Rather than splitting the material between sector and enterprises, it is combined in the form of an extended sector level case study, with the interviews used to illustrate the main points. Key considerations included the differences in the size of the companies compared to automotive and banking, the heterogeneity and fragmentation of road haulage and the need to understand the massive changes taking place in the sector as a whole and why they were having such a differential impact. Also important is that EMU is already making a major contribution to these changes. Indeed, it is perhaps no exaggeration to say that it is beginning to change the face of the sector, even if the impact is not always fully realised. Separating out its impact is therefore much more difficult than in the other two sectors.

5.1 Economic context

The changing structure of road haulage
The UK road haulage industry carries 80 per cent of all domestic freight, which in 1998 amounted to 1,630 billion tons. For organisational purposes, it can be divided into two main sectors: the 'hire-or-reward' sector, which is the main focus of this report, and the 'own account' sector. Basically, the first covers companies whose sole or main business is road haulage; the second embraces road haulage operations of companies whose primary business is not in transportation. Nearly two thirds of road freight is carried by the growing hire or reward sector and around a third by own account operators.

For many years the trunk road and motorway network has played a dominant role in the distribution of goods and services in Great Britain. Over the ten years from 1987 to 1997 the proportion of freight transported by road (measured in tonne-km) has risen from 58 per cent to 67 per cent. In 1997, this generated some 19 billion HGV vehicle kilometres on trunk roads and motorways, amounting to 58 per cent of all HGV movements on a network which accounts for 4 per cent by length of all the roads in Britain (DETR, 1999)

Road haulage is highly cyclical given that it faces a derived demand for deliveries of raw materials, components and finished goods related to general levels of economic activity. Average annual growth over the period 1993-95 was 7 per cent, although the amount of freight moved by public hauliers increased by only 2 per cent in 1996, reflecting changes in UK manufacturing activity (QED, 1998).

Estimates of employment in the road haulage industry are difficult for two reasons. Firstly, published statistical sources normally combine industry data with other transport sectors. However, an approach to the UK Office for National Statistics (ONS) for disaggregated details on 'Freight Transport by Road' (Standard Industrial Classification 60.24) provided data up to September 1997 (table 1).

Table 1: *Employment and business data: Freight transport by road*

	Year		
Measure	1995	1996	1997
Employment	219 900	227 800	251 000
Number of businesses	38 781	39 053	38 442
Total turnover (£million)	15 725	16 774	18 967
Total employment costs (£million)	4 013	4 226	5 118
Wages and salaries	3 605	3 808	4 581
NI and pensions	408	418	537

Sources: Annual Employment Survey, Sector Review (Service Trade): ONS

Secondly, many of those working in road haulage are considered to be employed in other industries for statistical purposes, including cargo handling, storage and warehousing as well as other road transport. Both direct employment, and employment dependent on the road haulage industry, are therefore likely to be significantly higher than the quarter of a million indicated by table 1. This is suggested by occupational level data from the Labour Force Survey (table 2). The Road Haulage Association estimates that approximately half a million people are employed within the sector.

Table 2: *Employment by occupation: Transport and other industries, 1998.*

Occupation	Transport industries (1)	Other industries
Transport managers	40	30
Garage/ service station staff	31	309
Drivers of road goods vehicles and driver's mates	189	292
Goods porters	27	49
Transport related occupations	659	749

Note: (1) includes rail, sea and air, passenger and freight
Source: Labour Force Survey, spring 1998, ONS

Road haulage is also an extremely heterogeneous sector. Within the membership of the Road Haulage Association, there are no fewer than 12 specialist business groups, which give some idea of the range of activities performed:

- Agricultural and food
- Car transporters
- Caravan hauliers
- Express parcels, warehousing and distribution
- General haulage
- Heavy haulage
- International
- Livestock carriers
- Milk carriers
- National tipping services
- Tanker
- Waste management

Economies of scale and market entry barriers in general road haulage are fairly low, which also makes for an extremely complex ownership structure. The following statement from the RHA is a useful starting point for helping to explain the complexity:

> The RHA represents some 10,000 member companies throughout the UK, with a total road strength of over 100,000 vehicles. Our membership spans every size and kind of road haulage operation, from largest companies with thousands of vehicles, right down to the one man owner-diver operation. This broad spectrum includes every conceivable type of freight distribution operation, from simple delivery services to the provision of highly sophisticated total logistic support services for clients – both nationally and internationally.

Especially significant is that three-quarters of RHA membership have 10 vehicles or less and half have three trucks or less, the average being around 4.7. In the words of the T&G National Secretary, road haulage sometimes resembles a 'cottage industry'. The large operators, the small family-owned businesses and the owner-diver operation are also very often mutually inter-dependent. The large operator may sub-contract to his smaller counterpart who, in turn, may have owner-drivers as part of his regular fleet. Large and small operators alike may call upon agency drivers when in need.

The managing director of Andrew Wisehart Ltd. told us a recent story that illustrates the inter-penetration of markets as well as the interdependencies. He had been asked to make an urgent delivery by one of his large customers to be completed by the end of the month, which was 24 hours away. Try as he might, he could not muster enough trucks from his regular sources, which included some twenty or so owner-drivers. He therefore put a call to an agent in Dover, who arranged to have 10 Turkish drivers in Turkish registered trucks on his doorstep 12 hours later. They had just completed a delivery of clothing in the Manchester area and had registered with the agent in the hope of securing further loads to deliver on route home to Turkey.

Another important point of the tale, which several of our respondents mentioned, is that in general road haulage the money is made on the return load. Typically, the operator does not have a return load before the truck leaves. He is therefore available in a country to operate as well as look for something to bring back. One of the reasons for the growth in this kind of activity is information technology. A lot of activity is now done on the internet and very quickly through agents who, in effect, act as the middle-men.

The expansion of road haulage has been paralleled by significant changes in the industry's structure. One is the long-term decline of own-account haulage in favour of hire and reward. To quote Smith (forthcoming) drawing on Department of Transport (1997: 64) data,

> … own account haulage transported 32.8 per cent of goods in 1985 (32:5 billion tonne-km), falling to 25.7 percent by 1996 (37.7 billion tonne-km); whereas hire and reward moved 68 per cent (68.7 billion tonne-km) in 1985, rising to 74.3 per cent (109.1 billion tonne-km) in 1996. The advantage of hire and reward haulage became more apparent as companies reformed their organisational structures and … in order to increase transparency of costs and profits … And modem information systems permit the supervision of goods distribution without direct ownership of transport … Thus own-account transport has been subjected to close scrutiny, leading in many instances to contracting-out.

Another change highlighted by Smith is the emergence within the hire and reward sub-sector of a growing dedicated-contract distribution sector composed of companies which provide or manage an integrated service comprising storage, break-bulk and packing, haulage, and supply-chain management. In the words of the Christian Salvesen 1999 Annual Report and Accounts,

> Companies want to rationalise their supply chains to cut costs and increase flexibility. They want improved routing and scheduling, better use of return loading and more efficient order and delivery cycles. Increasingly, they find that the most efficient way to achieve these benefits is to outsource the entire logistics operation, gaining access to efficient, flexible networks and high-quality information systems.

The extent of the development, sometimes known as 'third party distribution', was underlined by Christian Salvesen's Group HR director. It did not just involve transport by any means. He used the term 'sequencing' to describe the process whereby, in industrial logistics, different parts were brought together and even sub-assembled before being passed on to their destination to meet the tight deadlines of just-in-time manufacture. Major clients included

Agfa-Gevaert, Ford and General Motors, Rockware Glass and Mobil Oils. In the case of food and consumer logistics, it could mean joint ventures with major manufacturers as well as retailers to run automated chilled warehouses – he instanced the examples of Danone in Portugual and Spain, Galbani in Italy and Unilever in the Netherlands.

The logic of companies such as Christian Salvesen moving into this market is also clear. In general road haulage, profit margins are very small, reflecting the intense competition and the presence of a large number of privately-owned family firms which, unlike publicly listed companies (PLCs) do not have to worry about stock market pressures. In third party distribution, both the barriers to entry and the profit margins are much greater – the barriers to entry because of the specialist capabilities in information systems technology and warehousing and the profit margins because of the high value-added of the services involved. Something like half international trade accounted for by 50 major companies.

Also important is that contacts are much longer term than in the case of general road haulage. Typically, the Christian Salvesen Group HR director explained, they would be from two to five years' duration. He quoted the case of his company's recent success in winning the contract to be Ford's sole supplier for after-market distribution services to some 350 dealers. This was described as a multi-million pound contract that would last from 1999 to 2004.

Overall, then, the road haulage sector is highly concentrated as well as highly fragmented. Smith (forthcoming) quotes figures for the mid-1990s confirming the growing importance of large companies. Twenty-two had an annual turnover of over £100 million. One-fifth of companies operated 7 per cent of vehicles and three per cent operated 49 per cent. In 1996 National Freight Corporation was the largest company with a turnover of £2,201 million; the next fourteen were P7O Industrial Services, McGregor Cory, LEP International, Tibbett & Brittan, TDG, Parcelforce, Hays, Securicor, United Transport, TNT, Christian Salvensen, Distribution, BOC Distribution, DHL International and Ryder. As the Group HR Director of Christian Salvensen reminded us, it is a mark of the international concentration taking place that Securicor has been taken over by what was the German Post Office, while TNT is now in the arms of the Dutch equivalent.

Intensifying competition

Road haulage has always been a highly competitive sector, reflecting features such as ease of entry and the small economies of scale. Competition has considerably intensified in recent years, however. Increasing competition within the UK retail and manufacturing sectors means that the two major groups of customers for road hauliers have themselves been anxious to cut their costs to the bone. The externalisation of previously in-company transport fleets has itself added to the number of domestic players. The use of more sophisticated logistics management techniques, and growing price competition, has seen an increase in the contracting out of transport services to public haulage companies, which has stimulated further industry concentration (Usui, 1998).

The removal of barriers to cross-border activity with the EU, such as the ending of customs checks and *cabotage* (i.e. the system whereby hauliers from country had to have a licence to operate in another) has also been a significant factor. In general road haulage, several of our respondents emphasised that these developments had been mixed blessings. They could not but fail to welcome the end of the detailed customs checking that had prevailed at borders, speeding up delivery times considerably. At the same, however, they complained that the greater ease of movement had not only encouraged their customers to expect ever-tighter delivery schedules, but also opened their market to entrants from other countries.

As has already been indicated, such entrants did not just come from other EU member countries. Again, several of our respondents said that a significant factor in the intensifying competition was the entry of hauliers from countries such as Bulgaria, Rumania and as far as afield as Turkey. Some EU-based hauliers – the name of Willie Betz cropped up in several conversations – were reputedly re-locating some of their operations to these countries. An especially key consideration was the relatively low rates of pay of drivers, which made it possible to undercut the prices that UK companies could quote.

It is difficult to assess the extent of the inter-penetration. According to the UK Government, the impact of this on UK operators is limited by the fairly peripheral geographical position of the market, with the average length of haul only 91 kilometres, according to the 1998 Continuing Survey of Road Goods Transport. The then Transport Minister John Reid (1999) quoted figures suggesting that the amount of local cabotage carried out by foreign registered trucks was 'significantly less than 1 per cent'.

Figures from the Transport Statistics Freight Division of the Department of the Environment, Transport and the Regions (DETR) report that over half a million goods vehicles travelled to mainland Europe from Great Britain in the first quarter of 1999, 39 per cent of which were foreign registered vehicles (see table 3).

Table 3: *Tonnage of goods transported by UK registered vehicles over 3.5 tonnes*

Year	Within the UK	From the UK	Into the UK
1995	1,655,000,000	6,607,000	6,977,000
1996	1,683,000,000	7,279,000	7,802,000
1997	1,693,000,000	7,539,000	7,984,000

Source: Reid, J. 1999

Another perspective comes from the T&G National Secretary. Large numbers of UK hauliers, he explained, operate purely in the domestic market. They nonetheless complain bitterly about foreign companies and drivers pinching their business. In fact, the reality is the other way around. If his memory was correct, when cabotage was licensed, for every application from a haulier based in continental Europe to operate in the UK, there were five from UK operators to work on mainland Europe. In his words, 'It's not a one-way street by any manner of means'.

Much depends on the particular niche of the market in which companies operate as will be illustrated by drawing on our interviews with the four company representatives. Thus our two dry goods hauliers had experienced both a substantial increase in their own international activity as well as increasing competition from foreign entrants. Arguably, however, just as important as the competition from new entrants, if not more important, were the ups and downs of local manufacturers, who were their major customers.

Views about the state of the market and future prospects also reflected their ownership. The managing director of the company recently been acquired by Giraud was looking forward to a future in which his organisation would be able to enjoy the benefits of being part of a pan-European operation at the same time as having a significant measure of autonomy. His fellow managing director of the independent company, by contrast, was looking forward to a more uncertain future in which the prospects for manufacturing in the immediate region were likely to be the dominant consideration – the closure of a local tyre manufacturer meant the loss of 30 per cent of the company's business which he and his colleagues were urgently seeking to replace.

The position of our third company was different again. The business, the managing director explained, was roughly divided between food storage and distribution, with the extent of the international operations growing in proportion to the increase in the company's overall activity. The bulk of the company's profits, however, came from storage. Indeed, he reckoned one of the major benefits of his trucks was the advertising they provided for the business. He was also fairly confident about the future, believing that the niche market which he had achieved was largely immune to international competition. He was certain, however, he would be seeing things very differently if the business was wholly reliant on road haulage.

In third party distribution, where our fourth company Christian Salvesen operates, sector analysts were predicting, even before EMU, that 'with a large part of the growth potential of the domestic contract distribution market already exploited, the large transport companies whose domain this is must seek opportunities overseas, notably in the single market' (QED, 1993). With the coming of EMU, the logic of internationalisation has become overwhelming. In the words of the 1999 Christian Salvesen Account Report and Accounts,

> To take full advantage of the single market, businesses are consolidating across Europe. As they adopt European manufacturing and distribution strategies, they want to work with suppliers who can operate in the same scale. They are concentrating production and regional distribution in fewer, larger facilities to achieve economies of scale – so components and finished goods are crossing larger areas and greater distances. They are adding links to the supply chain by sub-contracting non-core operations. And they demand more frequent deliveries to reduce their stockholding. These factors are driving growth in the mainland transport sector ahead of the rest of the economy and trend is snow-balling.

Christian Salvesen's own response could not be more clear-cut. The 1999 Annual Report and Accounts has as its title *Creating partnerships across Europe*. It explains that

> Our home market is no longer the UK. It's the European Union … we aim to deliver superior shareholder returns by becoming the technology and service leader in European logistics. Our strategic objective is to build a European-wide business through a combination of acquisitions, joint ventures and organic growth.
>
> … By being focused on Europe, we'll be able to offer the broad European coverage that clients increasingly require. We can leverage our existing client relationships to provide shared user networks – which will ensure a flexible cost base, maximise vehicle fills and minimise empty mileage so that we use assets efficiently, and minimise environmental impact.

The company has already adopted a new corporate identity to 'unify branding and create greater awareness of our size and capability across Europe'. Overall, the business is being re-shaped to 'build a focused, integrated logistics company business with a clear strategy for expansion into mainland Europe'. As well as a change in the livery of its transport fleet, the first manifestations of the strategy have become apparent. Christian Salvesen has just acquired

Gerposa, a major industrial logistics company with national coverage in Spain, and is developing closer ties with Wohlfarth in Germany, in which it already has a major stake and an option to acquire the whole of the business in the future. Other acquisitions are in prospect.

The Christian Salvesen Group HR Director explained that, of course, his was not only company with these ambitions. He reckoned a number of major players were moving in a very similar direction, such as Hays, Excel, TDG, Tibbit & Brittan and Ocean. He also pointed out that similar things were happening in the parcels business, where the recently-privatised German and Dutch Post offices were flexing their muscles. The former had taking over Securicor as well as Dansas, while the latter had recently bought TNT. The number of players in the third party distribution sub-sector may therefore be much fewer than in general haulage and the returns greater. Competition is nonetheless intense.

Tax – employers' set the example of copy cat activity

Particular bones of contention in the overall competitive position of road hauliers in the UK are rates of fuel duty and vehicle excise duty (VED). These deserve a special mention because, as well as consuming the time and energies of key personnel, they appear to be encouraging yet further internationalisation of the sector. Not in doubt is that the UK now has by far the highest rates of fuel duty and vehicle excise duty (VED) in the EU (table 4). The British VED of £5 750 for a 40 tonne truck, for example, compare with an average for the 14 other member states of £857. Some of this disparity is accounted for by the relatively high sterling exchange rate, although the industry reacted with dismay at the 11.6 per cent increase in diesel duty in the last budget. According to the RHA, fuel can represent up to a third of total operating costs, with tax representing 85 per cent of the price of diesel. Research commissioned by the RHA from the Centre for Economics and Business forecast the loss of 26 000 jobs in the road haulage industry by 2002, and a further 27 000 elsewhere, as a result of this increase in fuel costs.

Table 4: *EU fuel costs, 1999*

	Fuel costs (1)	
Member state	Excl. VAT	Incl. VAT
UK	636	746
Italy	402	480
Ireland	376	460
Denmark	376	460
France	370	447
Sweden	370	167
Netherlands	363	428
Finland	344	421
Austria	337	402
Belgium	337	402
Germany	337	402
Portugal	298	350
Spain	298	350
Luxembourg	292	337
Greece	285	337

Notes: All figures pounds sterling. (1) An average 1000 litre tank of diesel, pump price;
Source: Road Haulage Association

If you are a French operator, explained the T&G National Secretary, you can buy your diesel in France and operate in the UK for four/five days without refilling. The current high value of the pound also adds to be the problems. A French company, for example, buying its kit and fuel in France and being paid for work in pounds is in a very strong position. Overseas operators have a substantial competitive advantage as a result.

The difference in duty rates between the UK and the rest of Europe has for some time presented a problem for hauliers operating internationally on a regular basis in competing for international contracts with operators based outside of the UK. Such firms have adapted their business patterns so that they are able to purchase increasing amounts of fuel abroad. In July 1998, the issue became of wider significance with the final removal of restrictions on *cabotage*, opening domestic services to greater foreign competition.

Immediately following the increases in diesel taxes and VED in the Budget, it was reported that some of the UK's largest haulage operators, such as Tibbett and Britten, and Wincanton Logistics, with around 8,000 trucks between them, were considering re-registering part of their fleets in continental Europe. Even public authorities such as Kent County Council, which operates 500 commercial vehicles and a transport budget of £40 million, was reckoned to be planning to do the same (Griffiths, 1999). Smaller companies such as Geoff Gilbert International, with forty trucks, and Denby Transport, with fifty vehicles, had already registered part of their operations in the Netherlands and France. Given the administrative obstacles and other employment and social costs involved, other companies, such as Laser Transport International, a Folkestone based company with sales of £14 million, were reportedly considering the possibility of sharing a depot with a Belgian or French partner company.

The UK Government has responded by emphasising that diesel taxes and VED are not the only considerations needing to be taken into account in arriving at an accurate figure for international comparisons. The process of 'flagging out' (a term used by shipowners moving the registration of their vessels overseas) and rebasing lorry fleets on the continent is administratively complex and involves additional employment costs, corporation tax and road tolls. According to the then transport minister, a fleet of fifty 38 tonne trucks in Britain costs £425 000 less to run than in France, £600 000 than the Netherlands and £800 000 than Belgium, figures supported by a survey of comparative industrial costs by the consultancy KPMG which found British road freight costs to be the lowest in the G7 group of leading industrial nations (ref).

Road hauliers remained unimpressed. The smaller operators, for whom 'flagging out' and buying fuel in mainland Europe are not practical options, are especially incensed. Their response, which marks yet another significant step in the process of internationalisation, has been to take a leaf out of the book of their French colleagues and to take direct action. Some 1 500 trucks were involved in demonstrations in March, which stimulated the creation of a haulage industry forum chaired by the transport minister. In May, hauliers disrupted traffic on the orbital London motorway, the M25, in protest at the increase in duty and increased competition from abroad. In July 1999 the RHA itself organised a demonstration when over 800 trucks converged on London's Park Lane.

5.2 Industrial relations context - struggling to cope with the problems?

Employers' organisation and trade unions
In its own words, the RHA is 'the national trade and employers' association for the hire-or-reward sector of the road haulage industry' (publicity booklet, Road Haulage Association Ltd Delivering for Members, 2). The Freight Transport Association represents the interests of organisations in the own account sector. Essentially, it is a trade organisation – it provides advice of HR/IR but is not involved in collective bargaining.

The RHA claims to have around 10,000 members throughout the UK with a total road strength of 100,000 vehicles. Members include most of the large road haulage operators such as Parcel Force, Christian Salvesen, Excel, Eddie Stobart and Wincanton. As has already been pointed out, however, three-quarters of RHA members have 10 vehicles or less.

The RHA makes particular play of the value of its representational role to the UK Government and the European Commission 'whilst also providing all the essential advice, guidance and practical services you need to prosper in the current uncertain and challenging business environment'. The publicity brochure divides the latter into two main groups. Membership services embraces advice and guidance on 'any aspect of running a modern road haulage business'. This is delivered by the head office staff and teams in four regional offices. Head office staff deal with matters such as employment law ands IR; technical and maintenance services; international operations; vehicle and depot security; current operating regulations; drivers; hours and records; the movement of hazardous goods; environment and waste issues. The regional offices covering Scotland and Northern Ireland (Glasgow), Northern (Cleckheaton), Midlands and Western (Bristol) and Southern and Eastern (Peterborough), each of which has several area managers.

The second group are entitled commercial services and embrace RHA Insurance Services; Roadway LawPlan ((legal advice and representation); RHA Financial Services (financing of vehicles etc); RHA Credit Management Services (cash flow management/debt recovery etc); RHA Management Services; Tachograph Analysis; Windscreen replacement; TIR Carnets (for the benefit of international operators).

The most important trade union in the road haulage industry is the Transport and General Workers Union (TGWU). Other unions with some representation in the industry are the GMB, RMT, and URTU - the United Road Transport Union, which had around sixteen and a half thousand members in 1998, especially owner-drivers involved in local distribution. Membership of the TGWU is organised in fifteen trade sections, of which 'Road Transport Commercial' (RCT) is one of the largest with approximately 70 000 members in 1998. As with most of the other principal sections, membership has been in a long-term decline, down from around 125,000 in 1985 (T&G Record, 1998). However, in the past couple of years, membership levels have benefited from several new national agreements with employers in the haulage and distribution sectors (eg. United Postal Services, Griggs, Swifts and Dfds) in the light of the Government's statutory recognition legislation. Industry observers have noted that 'it is not possible to provide figures on union density for road haulage...obtaining a picture of industrial relations in road haulage today is not easy' (Smith, forthcoming). This reflects, on one level, a decline and decentralisation of collective bargaining and, on another, the aggregation of official statistics on the industry. The T&G National Secretary reckoned density was around 35 per cent and concentrated in the larger companies.

Collective bargaining

Historically, reflecting the weak trade union organisation and relatively low rates of pay in the sector, road haulage had been subject to a statutory Wages Council, which determined basic rates of pay and conditions of employment. Both the T&G and URTU withdraw in 1972, arguing that the Wages Council had become more of hindrance than a help, and the council was finally abolished in 1978. Despite hopes that it might be replaced with a national sector agreement, it was only possible to secure agreement to series of regional joint industry councils to which the RHA, the T&G and URTU provided the representatives. Initially, there were 22 of these and, as in the case of the Wages Council, their brief was to fix minimum rates of pay and conditions of employment. There are now only seven covering the following areas: Scotland, South Yorkshire, West Midlands, East Midlands, Kent, Middlesex and Surrey and Devon and Cornwall. Not every part of the country is covered in other words. The regional offices of the RHA, provide the secretarial support for the JICs, but do not actually do the negotiating, which is the responsibility of the representatives of the member companies in the area. Their counterparts are the regional officials of trade unions.

Apparently, there is very little difference between the JIC agreements. Unlike the 1970s, when they characterised by major conflicts, their negotiation/re-negotiation also appears to have been a much more peaceably affair in recent years.

Although these JIC agreements provide something of a benchmark for the sector as a whole, most large companies have their own arrangements. Historically, these tended to be negotiated at company level and became the main means by which the T&G sought to set standards for the rest of the sector to follow. Increasingly, however, as in the other two sectors, there has been a shift in emphasis from the company level to the business unit or regional levels to reflect different circumstances.

To complicate matters further, some of the larger companies, notably the oil companies, have abandoned collective bargaining altogether. Instead of having their pay and conditions determined by collective bargaining, drivers have been placed on annual salaries with the other benefits that staff status brings in terms of pensions and sick pay. Effectively, said the T&G National Secretary, 'the companies had offered his members a package they couldn't refuse'. In other cases, companies had introduced so-called 'second generation' contracts, under which existing drivers had their pay and conditions protected but new recruits were put on different terms and conditions. In yet another group of companies, management had subcontracted the whole operation or substantial parts of it.

The emergence of the distribution companies, it has been argued, represented a significant shift in the balance of power between employers and trade unions in the sector, which helps to explain these developments. In Smith's (forthcoming) words,

> The size of distribution companies, and the diversity and scale of parent corporations, means that they exercise a strategic power (scale of economic resources, corporate-wide planning capacity) distinct from that of' traditional' haulage companies, which had little ability to resist trade union organisation once it had become entrenched in the workplace and across the sector, linked to support by workers in the docks and manufacturing (hence the development of the RHA as an employers' association in the 1970s). The multi-divisional form adopted by large companies permits managers to take advantage of local flexibilities in the negotiating position of trade unions' … workers' pay and conditions, and jobs

> themselves, are restricted within narrow organisational boundaries determined by the employer ... The competitive strategy of distribution companies exerts a downward pressure upon unit costs, compelling a search for increased labour and capital productivity, and reduced labour costs, by cuts in workers' earnings …

Smith also argues that changes in the law in the UK in the 1980s – the constraints imposed on industrial action and the abolition of a statutory procedure for the enforcement of collective agreements - had a particularly significant impact on industrial relations in road haulage. Again in his words,

> Workers' collective power within separate road haulage companies was directly related to the presence of sector-wide trade union organisation (co-ordinated by branches and other bodies), arrangements and norms. Such an extensive trade union organisation - with the capacity and legal right to mobilise supportive industrial action across the sector (in particular, by workers employed in large companies) and at rail depots, container bases, manufacturers and docks - countered the debilitating impact of small workplace size and structural fragmentation … and combat companies' mobility .... But the legal restraints imposed on industrial action since 1980 have prevented the enforcement of standard terms and conditions. This has been a major loss for the TGWU RTC group at a time when the operations and depots of dedicated contract distribution companies opened up new opportunities for supportive action. The weakening of trade union organisation in much of manufacturing and its dramatic collapse in the docks after the 1989 dispute … compounded problems for the TGWU RTC group: embargoes simply could not be organised. Thus the mutually sustaining, interconnected trade union organisation embedded .in the road haulage industry by the 1970s began slowly to unravel and weaken from the 1980s, as its capacity to offer a sectoral challenge to companies was lost. Union availability … to workers, let alone effectiveness, declined. At a time of high company turnover and restructuring, this has enhanced the ability of both new and established companies to impose inferior conditions and pay.

Second, .the availability of a legal procedure to extend collective agreements to non-conforming companies using The Employment Protection Act 1975, schedule 11, and its antecedents … had provided an enforceable minimum rate of pay, vital for the workers concerned, the TGWU RTC group; and competing companies. But the abolition by the Employment Act 1980 of schedule 11, Employment Protection Act 1975, removed this important defence for col1ective agreements, opening the way to the fragmentation of bargaining and the decline of the JICs.

Issues and problems

As in other industries, pay and working time have tended to be the predominant issues. In road haulage, however, they take on a particular emphasis. Hourly rates of pay are very low and hours of work very long. Regular overtime is the means by which most drivers achieve a reasonable weekly wage. So, typically, drivers would be on low rates of pay (around £4.50 an hour), supplemented by bonus payments related to mileage or delivery and extensive overtime working. According to the New Earnings Survey, overtime accounts for around a fifth of the earnings of goods vehicle drivers, with overtime averaging at 8.3 hours per week (IRS, 1988).

Dealing with the issues involved, which has become more urgent in the light of the prospective EU regulation of working time in the sector, is proving to be extremely difficult. The RTC trade group's industrial strategy focuses on reducing working hours while increasing basic pay. The union is using legislation in both areas as a bargaining platform, for example negotiating a minimum hourly pay rate for drivers of £5 an hour with BRS, one of the UK's largest road transport companies, as part of its campaign for a £5 national minimum wage. In 1998, for example, the TGWU reached a three year settlement with the West Midlands RHA which increased average pay for 7,500 drivers by around four per cent but which reduced premia payments for long hours working in the light of prosepective inclusion of the industry under the terms of the Working Time Directive.

According to the National Secretary of the RTC group, "in the debate about a national minimum wage people are beginning to understand just how low the wages of drivers are. We back a rate of £200 a week for 40 hours which is a bargain for employers". The union's 'Hire and Reward Bulletin cites a report by financial analysts JCC which claims that the average profit per employee in the UK road haulage industry has risen from £914 in 1992 to around £2000 in 1996. The average hourly pay of road haulage drivers in 1997 was £5.52.

The problem is that the employers are under pressure from their customers for increasing flexibility and find it difficult to break out of the long-hours culture that has developed. Take retailers, for example. Most of these are now seven day week, 24 hours a day operations, requiring deliveries around the clock. The trouble is, as the National Secretary of the T&G pointed out, is that 'our industry is a Monday-to Friday one … pay builds up on low rates and long hours'. Many of his members are reluctant to give this pattern up and move to five out of seven day working because of fear of loss of earnings.

As the Group HR director of Christian Salvesen also explained, it is not as easy as in some process industries to move to annualised hours arrangements, which increased hourly rates in exchange for improved flexibility. Most hauliers need their lorries to be operating for the maximum number of hours to recoup their investment. Increasing basic rates and reducing working hours would, in many cases, mean increasing the number of drivers and therefore represent a straight on-cost.

Increasing the number of drivers is also problematic. Asked to identify the major problems facing the industry, the HR director of the RHA identified two. One was recruitment, mainly of drivers but other groups as well. Piecing together her responses with those of the T&G National Secretary, the following picture emerges. Historically, a major recruiting ground for drivers of heavy goods vehicles in the UK had been the armed forces. Very often servicemen about to leave would be trained as drivers effectively at the MOD's expense. This no longer happens or certainly not to the same extent. Adding to the very bad image the industry had as a result of low pay and long hour as well are the increasingly burdensome regulations coming out of bodies such as the Driving Standards Agency, the Commercial Vehicle and the Licensing and testing regime, which have raised considerably the time and costs involved in getting qualified as a driver. Effectively, there is now a form of 'apprenticeship', which means drivers cannot move to the larger vehicles for something like two and a half years. Bearing in mind that both theory and test stages were involved, qualification could cost of the order of £600 to £700. To complicate matters further, insurance was also a major problem because many companies loaded the premium for drivers under 25. There was not the same option in other sectors of targeting school leavers.

Several respondents also stressed the growing pressures to improve the quality of recruits. More and more is expected of drivers. The amount of investment in both their trucks (including on-board computers) and the merchandise they carry is considerable, running into hundreds of thousands of pounds. Customers' expectations are also changing. Increasingly, they want people who well dressed and well-spoken, which is very different from the traditional stereotype.

As in the case of other developments, the experience was very varied. None of our three smaller companies had themselves experienced major problems, although they were aware of the difficulties that their colleagues in other parts of the country were experiencing. For Christian Salvesen, labour turnover was a problem 'in areas of high activity and demand such as the M1/Midlands corridor'.

Attempts were being made at both sector and company level to deal with the problem above all through training. For example, Christian Salvesen was offering warehouse employees the opportunity to re-train as drivers.

Interestingly, none of our respondents expected a European labour market to develop as a result of this shortage. Not only were there the continuing barriers of language and qualifications, they stressed. Other EU countries, it was pointed out, seemed to be experiencing similar problems. It also needs to be remembered that, in a sector where both capital and labour are so mobile, there are alternative and arguably less complicated mechanisms for responding to labour shortage, such as the take-over of or the sub-contracting of work to central and south eastern European companies.

The second major problem identified by the HR Director of the RHA echoed the sentiments of the HR Director of one of the companies originally approached. It concerns the impact of legislation. It will be clear from what has already been said that there have already been a number of significant changes in EU regulation governing road transport such as the ending of *cabotage* . More recently, attention has focused on the prospective directive on working time in the road transport sector. But this is not only piece of employment legislation the sector has to grapple with. On the day of our visit to the RHA at the end of August, our attention was drawn to an article in the most recent issue of *Roadway* (the RHA's journal) reminding members of the *eighteen* pieces of employment legislation recently introduced or about to be introduced.

Both the RHA's HR Director and her colleague responsible for international operations returned to the issue of regulation several times during the course of the interviews. It was, they emphasised, influencing how their members were seeing the EU. While most members were in favour of a Single European Market, they were unhappy that it was being accompanied by so much regulation in particular in the employment field. Both agreed that there was more and more frustration. A constant refrain of their members was that there was too much regulation. There were also concerns about the way decisions were made in Brussels – it was not democratic and involved small unelected groups. There were complaints too that the UK Government officials tended to 'gold-plate' some of the directives (eg Working Time). They also tended to go over the top in enforcing legislation.

Their own personal experiences were also giving them a case for concern. Failure to implement existing regulation was problem, coupled with delay and wasted time in getting decisions. The RHA's Director of International Affairs quoted the case of a UK company now operating in Luxembourg which had had one of its lorries impounded. Apparently, everything was in order – the driver had the appropriate UK driver credentials, the lorry had the right Luxembourg number plates and, it seems, the Luxembourg Ministry of Transport had gone along with the arrangements. Their customs colleagues, however, had taken a different view. The case was to be decided some time that week and he and the company were looking forward to learning what the basis of the objection. It was this kind of action that was frustrating their members –people didn't know where they stood and there were concerns about the willingness of some countries' officials to honour the letter and spirit of the Single European Market.

Road haulage, of course, is not the only sector in the UK where employers are having difficulty coming to terms with the nature and extent of the incoming legal changes. The situation is similar in many sectors, especially among SMEs, Our discussion with the Group HR Director of Christian Salvesen again helped to put things into context. He said that, even in his own company, one of the largest in the sector, HR/IR arrangements reminded him of how things had been in engineering a quarter of a century ago. Personnel practices were fairly rudimentary and some of the basic systems were not in place. In some businesses, too, there were insufficient personnel specialists to start to bring things up to data.

EMU and industrial relations - a non-event so far

As in the other sectors our respondents were asked about the practicalities of introducing the Euro and the implications, more generally of EMU for industrial relations. There had not as yet been any major issues arising from the introduction of the Euro. The Christian Salvesen annual report, for example, states fairly succinctly:

> The Group continues to adapt its commercial and financial processes so that its European subsidiaries can do business in the Euro. Decisions will be made locally as to when a subsidiary will formally adopt the Euro as its functional currency. The costs associated with the changes have not been material so far. Internal steering committees are monitoring the process towards full Euo implementation.

Each of the smaller companies had organised Euro accounts. Contrary to what they had been led to believe, however, little use of them had been made so far by customers. Indeed, one respondent said that he had only had one request for payment in Euros so far - he jokingly added that there had been a little ceremony as the Euro chequebook was produced

None of our respondents, including the T&G National Secretary RTC, were aware of cross-national comparability of pay and/or conditions yet being an issue for drivers. It was obviously very difficult to make such comparison given the differences in systems of payment, let alone the implications of different currencies. UK drivers, some of the smaller company representatives reckoned, were doing relatively well compared to colleagues from most other EU countries.

The Christian Salvesen Group HR Director again helped to put things into perspective. He said that, within his own company, there were differences in hourly rates of pay between different distribution centres even within the same region of the UK, reflecting the way the company had grown through acquisition. Yet the employee representatives involved had not yet raised the issue, even though they must be aware of it. In his experience, both local managers and employee representatives in the sector were very parochial in their outlook.

There was also very little to report on EWCs in the sector. The RHA had no information. The National Secretary of the T&G reckoned that, altogether, there might be a dozen EWCs across Europe involving road haulage. In the case of UK companies, he quoted three examples: TDG, Excel and Wincanton. He emphasised, however, that in several cases the EWC embraced activities beyond road haulage – for example, Wincaton was part of the Unigate EWC.

The Christian Salvesen Group HR Director explained that his company had set up a EWC under Article 13 of the directive. The decision had been taken to base this in Belgium, however, and not to include representatives from the UK in the first instance. Following the UK Government's signature of the social chapter, the company had to incorporate its UK operations and he was now in negotiation with local T&G representatives about the number of seats the UK representatives would get.

The one area where there appeared to be the first signs of the issues that might be expected to arise was that of management salaries. The consultant from Price Waterhouse Coopers' EMU Unit said that there was a growing European labour market for top managers above all in third party distribution. The Christian Salvesen Group HR Director agreed. The company had very recently made a number of very senior appointments, from among a range of nationalities, to spear head their European strategy. Currently, the pay of the individuals concerned was set in the currency of the country of operations. One or two senior colleagues had already asked how much these levels were in pounds sterling, however, so that they could presumably compare their own position.

He had not as yet had any request to be paid in Euros, but he was sure that this would not long in coming. If the company was to fulfil its European strategy, it would necessarily mean the recruitment of a cadre of European managers in the future. He was therefore envisaging a graduate intake drawn from a number of countries. Inevitably, therefore, their pay and conditions would have to be set on a European level.

As for management comparisons of pay and conditions in different EU countries, both the Christian Salvesen Group HR Director and the managing director of Barbour-European Ltd. confirmed that they were only beginning to be an issue. The Christian Salvesen Group HR Director said that he was in the process of getting prepared detailed fact sheets on employment conditions in the different countries in which the company operated. The managing director of Barbour-European Ltd. said that, along with colleagues from the French parent company, he had done a desk exercise comparing the costs of employing drivers in the UK and France. Interestingly, he said, when everything had been taken into account – tax, fuel, social charges and so on – there did not appear to be a great deal of difference between the two countries.

5.3 Prospects for the future

The economic context - more of the same?

Our conversation with the consultant from Price Waterhouse Coopers' EMU Unit confirmed what was already becoming apparent to us from our other interviews. The transparency of prices that the next phase of the introduction of the Euro would bring in 2002 could not fail to intensify the competitive pressures highlighted in a previous section. Coupled with the growing experience of operating in a Single European Market that key actors were acquiring, the effect would be to give further impetus to the trends and developments already taking place. Although the sector as a whole was likely to continue to grow, the increase in activity was likely to be disproportionately greater in hire and reward than own account haulage, reflecting the pressures on companies to expose non-core operations to market competition. There was also likely to be greater fragmentation and specialisation at the same time as greater concentration, as road haulage companies jockeyed for the best position to suit their circumstances. Inter-penetration of markets was also likely to increase considerably in both general road haulage and third party distribution, as the Single European becomes ever more a reality.

In these circumstances, it is going to be an extremely difficult market place for the independent haulier. The options are likely to narrow considerably. Arguably, it is already far too late to seek to build a European business. Failing that, they can seek to form joint ventures or alliances with companies in comparable positions in the UK and/or other EU countries. They can seek to shift their location to other countries to take advantage of lower costs. They can seek long-term sub-contracting relationships with larger companies and/or persuade these companies to take them over on favourable terms. Staying still was not likely to be an option, however. Those who try to do so are likely to go to the wall.

If the pace of change was the imponderable, the source of changes was very clear. Although developments on the supply side, such as an increase in the number of new entrants from central and south eastern Europe, would continue to be an important consideration, it is likely to be customers' demands that provide the main impetus. Two considerations are important here. One was the speed with which retail sector becomes Europeanised. At the moment, even the largest retail companies in EU countries are mainly domestic in operations. If, however they follow the pattern taken by manufacturing and go 'European', the results could be dramatic. The move of the giant US retailer, Wal-Mart, first into Germany and then into the UK, could be the catalyst here. Pan-European retailers are likely to seek to build relationships with pan-European hauliers rather than their domestic counterparts.

The other consideration is the growth of e-commerce. Imagine, explained the Christian Salvesen Group H R Director, if e-commerce took off in the way that many commentators were predicting. It was not just that the nature of shopping could change significantly, with many more goods being dispatched direct to people's homes rather than being carried there by shoppers themselves. It could radically alter the way in which the supply chain operated in both manufacturing and services. In his words, e-commerce represented a 'huge business opportunity' for the road haulage sector, exaggerating the trends and developments already identified.

Industrial relations - an unlikely candidate for European-level activity?

At first sight, the road haulage sector seems to be the most unlikely candidate for European-level industrial relations activity given the analysis presented here. Yet it just may be the sector in which activity takes off. Beginning with the Euro-company level, at the moment, there are few signs of cross-national activity. This could change significantly, however, if a small number of highly integrated logistics/third party distribution companies begin to dominate. As the Christian Salvesen Group HR Director explained, this would not necessarily mean an increase in through route or cross-national activity. Other things being equal, there would be exchange centres where goods were passed on. Even so, there could not fail to be a great deal of interaction between drivers from the different countries. Sooner or later, he felt that the trade unions would be able to find an issue around which to organise cross-national activity. Indeed, to use his own words, he felt that it was 'almost inevitable'.

The Christian Salvesen Group HR Director did not himself raise the possibility, but it may even be that one or more of these companies would see competitive advantage in moving to single company arrangements on a pan-European basis, much in the way that employers in the oil distribution business in the UK did. The number of employees, after all, would be relatively small in number and such an approach might help considerably with recruitment and retention. Any additional employment costs would more than likely be out-weighed by the benefits that would come from insulating such key employees from the effects of national frameworks of industrial relations. Taking such an initiative would also pre-empt trade union demands for similar arrangements that might be less favourable from management's point of view.

Turning to the EU sector level, at first sight the prospects for European level industrial relations activity look even more implausible. This is the one sector in transport that failed to reach a voluntary agreement to introduce the proposed working time regulations. As the T&G National Secretary who was intimately involved explained, however, there were important lessons to be learnt. The current arrangements for the social dialogue in the sector are far too wide. Not only do they embrace urban and commercial transport, but also owner-drivers and employed-drivers. Even more importantly, he suggested that the changes in the structure of the industry and the intensification of competition were likely to pose a serious threat to the industrial relations processes and outcomes in every EU country and not just in countries, like the UK, where trade union organisation and collective bargaining were weak. He felt that the threat was likely to lead to a growing demand in most countries for EU level regulation. Moreover, unbridled competition would have significant safety implications that sooner or later policy makers would no longer be able to ignore. This might help to overcome the other major problem he identified in explaining the failure to reach a voluntary agreement on the working time regulations, viz. the lack of political will on the part of policy makers to force the issue.

5.4 Summary and conclusion

So far there have been few, if any, signs of EMU having an direct impact on industrial relations in road haulage, reflecting the fragmentation of the sector, the relative weakness of collective bargaining and the specific problems that are consuming people's time and energies such as the shortage of drivers and the impact of legislation. Equally clear, however, is that EMU is already having a significant impact on the economic structure of the sector, which could have wide-ranging medium and long-term implications. In general road haulage, EMU is encouraging an increasing inter-penetration of activity involving companies from central and southern eastern Europe as well as EU countries. At the same time, in third party distribution it is also encouraging significant concentration as the large companies respond to the demands of MNCs for pan-European operators to handle their distribution. Developments in the retail and e-commerce are likely to push things in the same direction. In these circumstances, the pace of change in industrial relations could speed up considerably. Pressure for developments at the EU sector level could intensify as national systems are increasingly challenged. Developments at the Euro-company level in third-party distribution are also a distinct possibility. Indeed, in this case it could be that management sees competitive advantage in moving to single company arrangements on a pan-European basis.

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The following web sites were consulted:

- General net search (eg university research sites; media sites)
- Road Haulage Association
- Department of the Environment, Transport and the Regions
- Department of Trade and Industry
- OECD
- Office for National Statistics
- TGWU
- URTU
- International Transport Federation
- UK Parliament

The following publications were consulted:

- Roadway (RHA)
- Incomes Data Services Reports
- IRS Pay and Benefits Bulletins
- Labour Market Trends
- T&G Record

Direct contact was made with:

- ONS (Duncan MacGregor)
- DTI (Paul Bland, Asst. Statistician)

6. Conclusions

It is not perhaps surprising that, at first sight, there does not appear to have been a great deal of thought given to the industrial relations implications of EMU in general and a single currency in particular in the UK. There continues to be considerable political uncertainty about the UK's membership of the Euro and the date of entry seems some way off, even if the government keeps to its timetable of holding a referendum early in the next parliament. In the meantime, our respondents have to get on with the job of managing their operations and representing their members as well as coming to terms with a significant amount of both UK and EU inspired legislation. Again, not surprisingly, most of our respondents exhibit the pragmatism traditionally associated with UK industrial relations –they will get down and grapple with problems when they have to.

An important contributory factor is that most of our respondents had great difficulty in unravelling the distinctive effects of globalisation and Europeanisation, and those of, respectively, the Single European Market, EMU and the Euro. Very often they did not necessarily associate developments in the sector or enterprise with Europe let alone EMU or more narrowly the Euro. Typically, the initial reaction was that they had little to say. In the event, however, they often had great deal to say once the conversation opened up to talk about the day-to-day issues and problems they had to deal with. Time and time again these could be traced back to the coming of the Single European Market and associated developments.

As in the national debate, the concerns of management and employee representatives are mainly to do with the implications of EMU for restructuring and employment respectively. In other words, it is with the future shape and size of the organisation and how EMU affects these that most people are immediately concerned. The link between restructuring and employment is costs. Pay levels and the conditions of employment are major elements in costs, but in themselves are not yet a major issue, although they underpin concerns some managers have about EU regulation generally including, for example, the Working Time Directive. Rather the emphasis is on overall levels of productivity, taking into account not only labour costs but also the age of much of the UK's manufacturing's plant and equipment. It is against this background that worries about the cost implications of the value of sterling and the exchange rate risk of not being in the Euro need to be understood.

In both the national debate and the case studies, the implications for industrial relations processes have received much less attention than those for employment. Here the UK's distinctive structure of collective bargaining may be very important. Multi-employer bargaining no longer takes place in two of the sectors (automotive and banking) and is weak in the third (road haulage). Neither employers' organisation nor trade union officials are therefore worried about a loss of influence that EMU might bring about as the result of the simultaneous pressures for greater centralisation to the EU level and decentralisation to the organisation level. Another important consideration is that initial management concerns about the implications of EWCs seem to have subsided somewhat. EWCs have yet to develop into the force for Europeanisation that some commentators are expecting, reflecting the difficulties in making comparisons between pay and many of the conditions of employment as well as problems in developing cross national co-ordination. Other things being equal, most of these respondents also felt they would be able to cope with EU social policy initiatives as long as it these were in the form of flexible regulation which they have some discretion in implementing.

In terms of differences between the sector, market structure appears to be the dominant consideration. That impact on both the processes and outcomes of industrial relations has so far been greatest in automotive is hardly surprising. This is a sector dominated by a small number of very large MNCs with increasingly integrated world-wide markets and production operations. An internal market for capital has long been a feature, forcing UK managers and their trade union counterparts to pay attention to the 'coercive comparisons' set by operations in other countries for fear of losing out on investment. The cost implications of not being in the Euro are also much more obvious. In the words of the Governor of the bank of England, 'When the supply chain is within the euro zone, then the convenience of having fixed nominal exchange rate is clear' (para 17).

Equally not surprising is that it is in the automotive sector that employees and their representatives are beginning to make effective cross-national comparisons where the isue is fairly clear-cut, working time in Peugeot being the obvious example. The automotive sector in the UK remains one of the most highly and effectively organised in trade union terms. Arguably, the more management make cost-comparisons between operations in different countries, the more they draw the attention of employees to differences in the terms and condition of employment. Indeed, it can be argued that in companies such as General Motors and Peugeot a form of European-level 'arms length' bargaining is already under way, in which the increasing use of international comparisons by both management and trade unions is leading to the greater standardisation of arrangements across countries.

Market structures in the other sectors are very different. Banking and finance are also dominated by large MNCs and it is employees in this sector who are most directly affected by the introduction of the €. Yet retail banking, where most unionised employees are to be found, remains largely a domestic affair and the number of employees directly involved in the introduction of the €. turns out to be relatively small. Significantly, there is nothing like the cross-national integration there is in the automotive sector. Moreover, a number of the banks such as HSBC and NatWest have cut back on their operations in continental Europe in recent years, considerably reducing the scope for making cross-national comparisons. Technological change is also rapidly undermining the traditional branch structure of the banks, highlighting the considerable over-capacity. In these circumstances, cross-national mergers and take-overs do not yet have the same attraction as they have in some other countries. UK stock market pressures are putting a premium on cutting costs rather than international expansion as the recent experience of NatWest confirms.

In the case of road haulage, the dominating feature is its fragmentation. Virtually every one of the key variables – size, ownership and business focus – is represented at its most extreme. This makes common positions extremely difficult to achieve especially given the absence of an effective sector agreement. Important too is that both capital and labour are, by definition, extremely mobile. Indeed, the range of competitive threats and opportunities that the Single European Market, EMU and the Euro bring is virtually unparalleled. In general road haulage, the inter-penetration of markets by companies and drivers from countries such as Bulgaria, Rumania and Turkey as well as other EU countries is already firmly established, with the potential to grow significantly. In third party distribution, logistics companies are emerging in response to the demands of MNCs for pan-European operators to handle the management of their supply chains. So far these developments have had little or no impact on industrial relations. It could be, however, that in the latter case it is management that sees competitive advantage in moving to single company arrangements on a European basis.

As for likely future developments, it remains difficult to say for certain whether the UK will join the Euro. The business logic for doing so, and in particular of reducing the exchange rate uncertainty, is very powerful. Indeed, in the case of manufacturing especially the need to reduce the exchange rate risk would appear to be unanswerable. There also can have been few issues on which both the CBI and the TUC have been in such agreement. It must not be forgotten, however, the UK's manufacturing base is extremely small and its voice in the corridors of power nowhere near as strong as it was. Patently if it was, the Bank of England's Monetary Policy Committee would not have been setting interest rates at levels which have forced the pound to such heights against the Euro. In the final analysis, only one thing is clear. The decision about entry to the Euro is likely to be taken on political grounds; the Labour Government will not hold its promised referendum until it is convinced that it can win.

At first sight, this uncertainty appears to make any further discussion of the industrial relations implications of EMU for the UK extremely problematic. Yet, as has already been argued earlier in this report, there are strong grounds for suggesting that these implications will be similar, regardless of membership of the single currency. Critically, the UK is both home and host to a larger number of MNCs than other countries through which information and ideas will flow from Europe. The UK is also not going to be able to escape the pressure for restructuring that EMU is likely to generate because it is one of the relatively low pay-low productivity members of the EU and has the loosest set of arrangements governing mergers. Equally necessary will be tight controls on public expenditure. In theory, staying out of the Euro means retaining control over monetary policy and exchange rates. In practice, however, the limits on exercising such control are likely to be considerable. Last, but by no means least, having signed up to the social chapter, the UK will be affected by on-going developments in the EU social dimension, which are likely to be heavily influenced by the course that EMU takes.

In considering the impact of these developments, it will be helpful to distinguish the formal processes of industrial relations from the informal. The formal processes are unlikely to change very much. At first sight, the fundamental differences in the patterns of representation and structure of collective bargaining between the UK and other EU countries would appear to pose particular problems. Yet there is already evidence to suggest that these are being dealt with pragmatically. The CBI and TUC have been able to exert their influence through their involvement in UNICE and ETUC respectively. The same goes for bodies such as the EEF, the RHA and individual trade unions at the EU sector level. Even in banking, insurance and finance, where there is no longer an employers' organisation, the major companies have been able to ensure their views are heard through the intermediary of the British Bankers' Association.

Conceivably in the wake of further EU social regulation encouraged by EMU, the government could ask the CBI and TUC to play a greater either directly, in the form of agreements implementing such regulation or indirectly, in the form of opinions which are returned to the government for legal enactment. Indeed, there are very good reasons for doing so. Not only would it help to reduce the number of problems that typically arise from the implementation of legal regulation. It would considerably help to reinforce the government's commitment to partnership. Any arrangement of this kind could be handled on an informal basis, however.

Perhaps most important is that single employer bargaining is already the norm in the UK. This is above all true of the large MNCs whose significance in the UK has been cited earlier. Any encouragement that EMU gives to the decentralisation of collective bargaining is therefore likely to have less impact in the UK than in other EU member countries.

It is on the informal processes of industrial relations that the impact of EMU is likely to be most felt in the UK. This is above all true of the UK subsidiaries of the large MNCs. Thus, it could be that the most immediate effect of restructuring is to force local UK management and trade unions into each other's arms in the way that has happened recently in the cases of both Rover and Vauxhall. EMU, in other words, is likely to give a boost to the development of so-called 'partnership' agreements. In the medium and longer term, there is likely to be a greater use of comparisons, by both management and trade union representatives, in manufacturing and sub-sectors of services such as third party distribution. This, in turn, is likely to have a considerable impact on pay and conditions as well as costs, given the relatively low levels in the UK.

The attention throughout this report has been on the impact of EMU on UK industrial relations. Also important to emphasise is that the pattern of single employer bargaining that is now the norm in the UK subsidiaries of the large MNCs could have far-reaching implications for the development of a European system of industrial relations. Given the significance of MNCs in the UK cited earlier, the UK operations that are part of internationally integrated MNCs are likely to be to the fore in the development of forms of cross-border co-ordination at company level. The effect is likely to encourage the Europeanisation of collective bargaining at the Euro-company level rather than at the EU sector level.

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