



Industrial restructuring is an important feature of all European economies and currently high on the agenda of social partners and governments across Europe. However, patterns of restructuring vary from country to country, and the comparative supplement in this issue of *EIRObserver* examines one source of these differences - national systems of 'corporate governance' (ie the set of mechanisms that control and influence senior management). It seeks to shed light on the relative influence of employees and of shareholders on managerial restructuring decisions, and to link this to key tendencies and developments in restructuring.

The supplement describes the main aspects of the corporate governance systems in the 15 EU Member States and Norway, identifying a key distinction between Anglo-Saxon 'outsider' systems and continental European 'insider' systems - though the latter group is diverse and the system is changing in many countries (though arguably with no close convergence towards the Anglo-Saxon model). The supplement also outlines the main provisions concerning employee representation in restructuring, highlighting the significant national variations. It then goes on to identify the main patterns concerning the link between restructuring on the one hand and the national systems of corporate governance and employee representation on the other. The main conclusion is that there are indeed strong linkages between the nature of institutions in the financial markets (the system of corporate governance) and those in the labour market.

*EIRObserver* presents a small edited selection of articles based on some of the reports supplied for the *EIROOnline* database, in this case for November and December 2002. *EIROOnline* - the core of EIRO's operations - is publicly accessible on the World-Wide Web, providing a comprehensive set of reports on key industrial relations developments in the EU Member States (plus Norway) and a number of candidate countries, and at European level. The address of the *EIROOnline* website is:

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EIRO, which started operations in 1997, is based on a network of leading research institutes in each of the countries covered and at EU level (listed on p.12), coordinated by the European Foundation for the Improvement of Living and Working Conditions. Its aim is to collect, analyse and disseminate high-quality and up-to-date information on key developments in industrial relations in Europe, primarily to serve the needs of a core audience of national and European-level organisations of the social partners, governmental organisations and EU institutions.

Mark Carley, Editor



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## EU-level social partners issue work programme for 2003-5

*In late 2002, the central European-level social partners - UNICE/UEAPME, CEEP and ETUC - presented a joint three-year work programme, focusing on employment, enlargement and mobility.*

Representatives of the central EU-level social partner organisations - the European Trade Union Confederation (ETUC), the Union of Industrial and Employers' Confederations of Europe (UNICE)/European Association of Craft, Small and Medium-Sized Enterprises (UEAPME) and the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) - held an intersectoral social dialogue summit in Brussels on 28 November 2002. The highlight was the launch of a three-year work programme for 2003-5.

### Background

The idea of drawing up a joint programme of autonomous work was announced by the social partners in a joint statement to the Laeken European Council in December 2001 (*EIRObserver* 1/02 p.2). ETUC, UNICE/UEAPME and CEEP stated that they wanted to 'reposition the role of the social partners' and develop an autonomous social dialogue process, not dependent on consultations from the European Commission.

The Commission encouraged this vision in its June 2002 Communication on the future of the social dialogue, in which it stated that it would like to see the social dialogue process strengthened and improved.

### Main elements

The social partners developed their joint programme throughout 2002 and launched it at the November 2002 social dialogue summit. The social partners maintained in a joint statement that the programme marks a significant departure from previous practice, which consisted of deciding on a case-by-case basis whether or not to deal with a specific issue in the social dialogue and whether or not to deal with an issue jointly and by what means (joint opinion, agreement or another instrument). The work programme is divided into three sections, set out below.

### Employment

Most of the actions likely to generate future agreements or joint opinions are contained in the first section of the work programme, under the heading of employment. The main actions are as follows:

- a seminar with a view to negotiating a voluntary agreement on stress at work (to be held in 2003);
- a seminar to explore the possibility of negotiating a voluntary agreement on harassment (2004-5);
- a seminar to discuss case studies and explore possible joint actions relating to the ageing workforce (2004);
- a seminar on undeclared work, with the aim of concluding a joint opinion (2005);
- an update of the social partners' 1995 joint declaration on racism, with the participation of the candidate countries (2004);
- a seminar on equal opportunities and gender discrimination with the aim of deciding on a 'framework of actions' (2003);
- a joint declaration and/or an awareness-raising campaign over the course of the work programme to promote young people's interest in science and technology in order to address the 'skills gap';
- work in the area of corporate restructuring (2003) - the social partners will 'identify orientations' which could assist in managing change and its social consequences, on the basis of real cases. This follows a formal consultation of the social partners by the Commission in January 2002 on the issue of managing change (*EIRObserver* 2/02 p.4). The social partners had asked the Commission to suspend the second consultation to allow them to hold a seminar on this issue in October 2002; and
- monitoring and follow-up actions on recent social partner agreements on lifelong learning (*EIRObserver* 3/02 p.4) and telework (*EIRObserver* 5/02 p.2).

### Enlargement

The main points of the programme's smaller section on work related to the forthcoming enlargement of the EU are:

- a series of joint seminars on industrial relations in the context of enlargement, including case studies on ways of articulating different levels of negotiations;
- two enlarged social dialogue committee meetings to be held each year throughout the programme;
- under the heading of the implementation of the legal 'acquis communautaire' (the body of EU law and regulations which must be transposed nationally before a country may join the EU), a joint seminar on European Works Councils (in 2004);
- a study on restructuring in the candidate countries and the inclusion of the

candidate countries in follow-up actions on lifelong learning (see above), along with a seminar (2004); and

- attempts, from 2004 onwards, to identify issues that will arise in the EU after enlargement. These could include an increase in diversity, migration and cross-border working.

### Mobility

The final and briefest section of the work programme covers mobility. The sole topic identified in this section is the Commission's action plan on skills and mobility, launched in February 2002. The social partners intend, during the programme, to organise a seminar to identify where joint actions by the social partners at EU level could help in addressing obstacles to mobility, particularly for managerial staff. These could include supplementary pensions.

### Commentary

This work programme has been generally welcomed and seen by all involved parties as a new departure for the social partners. In a joint press statement, ETUC, UNICE/UEAPME and CEEP stated that: 'The new work method shows that, following 17 years of experience, the European social dialogue has matured and is moving into a more autonomous phase.'

The employment and social affairs Commissioner, Anna Diamantopoulou, told the social partners that: 'Your work programme heralds a new period in a social dialogue which is coming into its own. It brings in genuine European-level industrial relations. The Commission is pleased by this step forward.' The Commission President, Romano Prodi, added that: 'The social partners have today started a new page in the social dialogue, which has thus entered a new phase. Their joint work programme gives their dialogue fresh momentum to rise to the current challenges of the European Union, to make a positive contribution to the Lisbon strategy and to integrate the perspective of enlargement.'

This new three-year work programme is an important step in the development of the European-level social dialogue. After some years of reacting to consultations by the Commission on a range of issues, which has produced notable results in the form of European-level agreements, the social partners will now act in a more autonomous manner, looking at issues which they believe to be of importance. Thus, the coming three years will see a renewed phase of activity which is likely to result in a number of joint actions and intensified research in a range of areas. (Andrea Broughton, IRS)

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## LO makes proposal on resolving demarcation disputes

*In November 2002, the Confederation of Danish Trade Unions (LO) issued proposals for the resolution of demarcation disputes among its member unions, which are a persistent problem.*

In connection with its efforts to modernise the trade union movement, the Confederation of Danish Trade Unions (LO) has made proposals to resolve the long-running problem of demarcation disputes among member unions. Notably, for 12 years, the Trade Union of Public Employees (FOA) and the General Workers' Union (SiD) have been in dispute about which of them should organise bus drivers in Copenhagen. Another example of a disputed membership group is hotels and restaurant workers. LO's proposal – presented at an executive committee meeting on 15 November 2002 – would allow LO to impose heavy fines on unions which cannot or do not wish to reach agreement, or leave it to the members to decide the issue through a ballot.

### Current situation

According to LO's current rules, demarcation disputes between member organisations are decided by the executive committee. The decision is normally taken by a 'demarcation committee' composed of a judge and two top LO officials. The only possible sanction is expulsion from LO, and this has never been used. A confederation is unlikely voluntarily to reduce its membership and especially not when it comes to such a large member union as, for instance, SiD.

Over the last 10 years, the demarcation committee has dealt with 11 cases, though there have been many more demarcation disputes which it has not considered. There have also been a number of disputes among unions about individual members or broader issues. The greatest problems arise in connection with the outsourcing and contracting out of public tasks. An example of this was the outsourcing of bus routes in Copenhagen, which led to the continuing demarcation dispute between FOA and SiD. In addition, the emergence of new work tasks, such as those related to new information technologies, may lead to conflicts.

### Disputes should be solved internally

The main principle of LO's proposal is that demarcation disputes should be solved internally between the unions

concerned. For this purpose, a number of 'rules of the game' are proposed:

- a union which becomes aware of a demarcation dispute would have a duty immediately to send a request for negotiations to the other unions involved, which would then have to start such negotiations within one month;
- if the negotiations end without any solution having been found, the unions concerned would have a duty to seek conciliation assistance from LO, lawyers, labour market researchers or others within three months of the breakdown of the negotiations. If the parties fail to agree on a conciliator, the appointment would be made by LO; and
- if the conciliation process does not lead to a solution, a ballot would take place among the union members concerned within a period of three months, allowing them to decide which of the unions they wish to be members of. The unions would then meet for new negotiations in which the result of the ballot would be given great weight.

The LO demarcation committee – chaired by a judge – would take a final decision only if this negotiation and conciliation process ends in deadlock. If the unions fail to respect the decision, fines could be imposed upon them by the demarcation committee.

The proposal also includes four instruments which could be used by unions to prevent, and negotiate solutions to, demarcation disputes:

- clear demarcation agreements which define the borders within which unions are to organise in a given field based on the criteria of occupational skills, work functions or geographical location. The unions should, however, ensure the support of their members – for instance through a ballot;
- common agreements whereby two or more unions jointly are parties to an agreement with the relevant employer. This may prevent demarcation disputes, because the members will be working under the same terms and conditions irrespective of which union they belong to;
- union mergers and amalgamations are recommended as the most effective method to avoid demarcation disputes. This could start on a small scale with the establishment of joint local union offices; and
- shared membership whereby individual members obtain membership and the related advantages in two or more

unions, without having to pay union dues that are higher than if they were members of a single union.

### Commentary

This initiative should be seen as part of the current major initiative for a modernised LO. The LO president, Hans Jensen, has declared that he is ready to discuss the content of the proposal for the resolution of demarcation disputes which he presented to the executive committee. However, he has made it absolutely clear that the end result must be a system which will – once and for all – resolve the internal disputes which are so harmful to the reputation of the union movement.

According to Mr Jensen: 'The new LO will focus fully on promoting the interests of employees and in this connection it is of decisive importance that we do not waste our energy on quarrelling about which unions should organise what members. Instead, we should join our efforts to fight to organise the employees which are not today members of any trade union.'

Mr Jensen can expect strong opposition. As might be expected with an initiative related to demarcation disputes, there were differing opinions among the 20 LO member unions. The Danish Metalworkers' Union, SiD and the Union of Workers in the Wood and Building Industry (TIB) - among the larger unions - have been especially sceptical about. They find that some of the elements of the proposal are unrealistic. This applies, for instance, to the ideas of joint agreements and ballots among members about which union they wish to belong to. It could lead to huge internal problems if members were free to 'shop around' among unions in this way. According to the critics, this could mean that a union could argue that there is a demarcation dispute and then 'poach' other unions' members prior to a ballot.

Other major unions, such as FOA, support the proposal and believe that it will make it possible to find a solution which will also give members more influence. (Carsten Jørgensen, FAOS).

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## Incomes policy agreement concluded for 2003-4

*The Finnish social partners have signed a two-year incomes policy agreement, which covers over 90% of employees. The cost effect of the of the agreed wage increases is 2.9% in 2003 and 2.2% in 2004.*

In December 2002, the Finnish social partners signed a new two-year central incomes policy agreement for 2003-4, after individual trade unions had decided their stance on the negotiation result achieved two weeks earlier. Most unions approved the deal, with the result that over 90% of wage earners are covered by the new agreement.

### Wage deal

The wage increases in the 2003-4 central incomes policy agreement and the overall cost impact are set out in the table below. The accord contains general increases for all workers, plus a 'union increment' for sectoral distribution, and an 'equality increment' to be used for improving gender wage equality. The deal will increase wage costs by 2.9% from 1 March 2003 and by 2.2% from 1 March 2004. The agreement also includes a 'general negotiation' clause, a wage development clause and an index clause, meaning that wages must be increased by up to 0.4% if inflation from November 2002 to October 2003 exceeds 2.7%.

### Qualitative measures

The social partners agreed on the following 'qualitative' provisions in the 2003-4 agreement.

- The career development and professional knowledge of *workers' representatives* and labour protection (health and safety) delegates will be safeguarded, and they will be provided with up-to-date working tools (such as information technology). The minimum compensation for representatives will be increased, and the possibilities for flexible use of time will be improved.
- It is proposed that a special unit for supervising the employment terms and work permits of *foreign workers* be established at the Ministry of the Interior by the end of 2003.

Furthermore, the resources and rights of labour protection delegates in this sphere will be increased. By the end of March 2003, the situation as regards criminalising the use of cheap foreign labour will be clarified.

- A consensus was reached that *daily working times* of under four hours should not be used if there are no specific grounds for this, or if the employee does not want it. There will be further discussion on the subject in the talks to be conducted in each sector to implement the central agreement. Furthermore, working hours will be controlled more effectively.

- A central goal of the unions was to obtain greater *financial compensation for employees made redundant*. They were not successful, but instead it was agreed that an 'employment programme' for workers threatened by redundancy should in future be prepared in cooperation between employers, employees and public authorities. The aim is to ensure that redundant employees will be able to find a job quickly, either with the same or another employer. In addition, the period of increased income-related unemployment benefit will be extended from 130 to 150 days for employees with 20 years' employment.

- Resources for funding a *training programme* to raise the level of 'know-how' among adult employees have been agreed for 2003. Some 10,000 students a year will be involved from 2004. The basic adult training benefit will be increased from EUR 440 to EUR 500 per month. Personnel training will be made more effective. Learning at work will be developed on a tripartite basis, and adult training will be covered by extra financing.

- The *partial care leave* scheme - whereby parents of young children may reduce their working hours - will be extended to cover a child's first years at school. A working group will examine ways of making working time arrangements more flexible to meet family needs, and make proposals on the issue. The working group will also examine the use of working time accounts.

- *Ongoing negotiations* in between central incomes policy rounds will be strengthened. Projects promoting equal pay will be continued and made more effective during the period of the new agreement. In addition, the central social partners recommend that the gender effects of collective agreements should be evaluated in the forthcoming sectoral negotiations.

### Government package

Now that the central agreement has been signed, in order to support it the government will, as promised during the talks, implement tax cuts and provide money for various employment measures. After the deal was concluded, the government submitted to parliament the relevant proposals concerning the 2003 state budget. The price of the package is estimated at EUR 100 million.

### Sectors outside deal

Despite the high coverage of the new agreement, some significant and strategically important trade unions remained outside the deal. Unions representing workers in merchant shipping, aviation, road transport, the forestry processing industry and the food industry decided not to approve it. However, the Finnish Medical Association and the Paper Workers' Union changed their earlier positions and decided to join the deal. It is thought that the most difficult negotiating situation in the sectors which have not signed up to the central agreement will be in the transport sector. The employers consider it a severe shortcoming that such a key sector was left outside the deal.

### Commentary

In the end, the new incomes policy agreement was concluded quite as foreseen, though it had been believed that it would be more difficult. Its coverage, at 90%, is very high. The Finnish incomes policy system has thus proved that it is still strong. The most significant trade unions finally decided to approve the deal, including the Paper Workers' Union, which is important for Finnish exports. The central factor influencing the deal on this occasion was the continuing economic recession. The government's tax and employment package reflects its interest in obtaining an agreement which may stabilise the economy. Over the decades, incomes policy agreements have shifted away from the goal of guaranteeing social and labour market peace and towards that of supporting employment. The new global economic environment sets clear boundaries for bargaining activity. The Finnish strategy is aimed at retaining a high level of competitiveness, which it is believed will also ensure high employment. (Juha Hietanen, Ministry of Labour)

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### Wage provisions of 2003-4 central incomes policy agreement

	1 March 2003	1 March 2004
General increase:		
- hourly (EUR)	0.17	0.16
- monthly (EUR)	28.39	26.72
- minimum (%)	1.8	1.7
Union increment (%)	0.8	0.5
Equality increment (%)	0.3	-
Overall cost impact (%)	2.9	2.2

## Development of employers' associations examined

*A new survey of German employers' associations finds that many have started to offer a special 'OT' membership status, whereby companies are not covered by the industry-wide collective agreements concluded by the associations but still receive a full range of other membership services.*

Since the beginning of the 1990s, the German system of industry-wide collective bargaining has seen a continued process of decentralisation and flexibilisation. While this has partly been associated with the increasing use of 'opening clauses' which – under certain conditions – allow companies to apply lower standards for wages, hours and working conditions than provided in the collective agreement, some observers have also been concerned about declining membership of employers' associations.

Within the German system of 'patterned' industry-wide bargaining, strong employers' associations are crucial in maintaining a high level of collective bargaining coverage, in that these associations negotiate agreements which are directly binding on all their member companies. While single-employer bargaining also exists, with such agreements covering about 7% of all employees in west Germany and 10% in the east, basic standards are mostly determined in negotiations between the eight unions affiliated to the German Federation of Trade Unions (DGB) and the 500 or so employers' associations, many of them directly or indirectly affiliated to the Confederation of German Employers' Associations (BDA). Concerns have mostly been expressed with reference to the declining membership of Gesamtmetall, the pattern-setting employers' association for the metalworking industry. Because reliable membership data for employers' associations is scarce, the future of German employers' associations has basically been associated with Gesamtmetall's situation. Gesamtmetall has continuously lost members since 1970, and the percentage of companies within the metalworking industry which are members of the association has fallen especially sharply.

### Surveying small and medium-sized companies

Some researchers question whether the development of Gesamtmetall is actually indicative of the entire German economy and predict that the situation might be even worse in sectors which are dominated by small and medium-sized enterprises (SMEs). A new study published in 2002 (*Der Mittelstand und die Tarifautonomie. Arbeitgeberverbände zwischen Sozialstaat und Dienstleistung*, Martin Völkl, München and Mering, 2002) provides for the first time a comprehensive study of employers' associations in the SME 'Mittelstand' area. The study is based on a survey of 10 associations in the sawmill, woodworking/plastics and construction materials industries, and includes companies' answers to a written questionnaire as well as numerous in-depth interviews with representatives of employers' associations and the corresponding trade unions. In contrast to earlier studies, which predominantly focused on formal representation and membership, this new study emphasises those developments within the ranks of organised employers which affect their capacity to negotiate and comply with collective agreements.

### Associations without bargaining functions

Traditionally, coverage by an industry-wide collective agreement comes with membership of the employers' association which is party to the agreement. According to the new study, this is no longer true for a large number of employers' associations examined. In the late 1980s, the Association of Employers in the Wood and Plastics Processing Industry of Rhineland-Palatinate was the first of a number of associations to introduce a special membership status, known as 'Ohne Tarifvertrag' (OT) status, which provides companies with the full range of services of the association but relieves them of the duty to comply with the standards set by the industry-wide collective agreement. Some companies took advantage of this special OT status and later negotiated company-level agreements, often with the support of their

employers' association. Most 'OT' members, however, have simply refrained from collective bargaining altogether.

There are two different versions of 'non-coverage membership' of an employers' association. In the first version, companies remain members of the original association but switch to a separate membership status which is included in the association's constitution. In the second version, a second 'non-coverage association' is created and companies are invited to transfer from the regular association into this new organisation. As a result of this development, being a member of an employers' association is no longer identical with being covered by an industry-wide collective agreement.

According to the new report, a driving force for companies' desire to shift to 'OT' status is their dissatisfaction with the terms and conditions provided by the industry-wide collective agreement. Asked about the provisions of the relevant collective agreement which should be subject to change, those member companies which are still covered by the agreement identified working time issues as the most problematic. As shown in table 1 below, basic pay is considered to be much less important.

Because German employers' associations traditionally offer a wide variety of additional membership services - such as legal assistance, political lobbying, support in business administration, human resource management, and the introduction of technology, as well as support in the field of further and vocational training - the study also surveys the interest among member companies in services other than collective bargaining. To find out whether such additional services are potentially appealing enough to motivate companies to join an employers' association or to maintain their membership, the research asked the management of member companies to rank the importance of the associations' services on a scale of 1 (most important) to 5 (least important). As shown in table 2 on p. 6, collective bargaining is considered to be the single most important function, closely followed by legal assistance and assistance in human resource management.

This high emphasis on collective bargaining is reduced, however, when the member companies of the so-called 'OT' associations are asked for their priorities. In this case, collective bargaining ranks (value 2.8) second after legal

**Table 1. Employers' association member companies' wishes for changes in the industry-level collective agreement**

Sector	Area where change is desired (% of companies)					
	Working time	Basic pay	Bonuses	More company level differentiation	Other	No changes required
Sawmill industry	61.3	37.3	38.7	21.3	2.7	9.3
Woodworking and plastics	79.5	56.4	53.8	20.5	7.7	5.1
Construction material industry	44.8	32.8	28.8	21.6	4.8	24.0

Source: Völkl 2002.

**Table 2. Ranking of importance of functions of employers' associations by member companies (1 = most important, 5 = least important)**

Sector	Collective bargaining	Legal assistance, human resource management	Lobbying	Consulting in business administration, import/export, insurance	Assistance in technology, equipment, environmental standards, energy supply	Training, vocational training and public relations
Sawmill industry	2.3	2.4	2.6	2.7	4.0	3.4
Woodworking and plastics	1.5	2.0	4.3	3.6	4.3	4.0
Construction material industry	1.8	2.0	3.2	3.1	4.2	3.6
Associations without collective bargaining function (wood and sawmill industry)	2.8	1.9	3.8	3.0	4.5	4.2

Source: Völkl 2002.

assistance and human resource management (value 1.9) but still has a much higher priority than all the other items which were included in the survey. This result appears surprising, given that these companies chose to transfer to the 'OT' associations mostly because they were dissatisfied with the terms and conditions provided by the industry-wide agreement. According to the study, many companies which seek to escape from being covered by an industry-wide agreement still need some external assistance, either to negotiate a separate company-level agreement or to provide standards which help the companies' management to negotiate wages individually with their employees.

The take-up of 'OT' membership varies widely between industries as well as individual associations - at one extreme, 100% of companies in the sawmill industry in Rhineland Palatinate are not covered by an industry-wide agreement, and at the other extreme, in the construction materials industry the associations' leadership have not yet decided to offer 'OT' status. However, the take-up of this option is closely related to companies' size. According to the study, 'OT' status is mostly used by medium-sized and large companies, because managers in these companies fear that they would be an easy target for unions' 'strike power' if they left an association. As long as they are a member of an 'OT' association, however, they could quickly retransfer into regular membership and thus find a safe haven from union strike threats. Smaller 'Mittelstand' companies, by contrast, are less exposed to union power, and

union membership in these companies is usually far below the industrial average, but management largely depends on the basic membership services provided by the employers' association. While these companies tend to remain members of the association, they practice what is known as 'unlawful decentralisation', ie they more or less openly contravene collective agreements.

**Breaches of collective agreements**

As shown in table 3 below, a notable majority of member companies of the employers' associations examined revealed that they deviate from standards set by the industry-wide agreement. Given that the survey explicitly asked about those practices which are not permitted by the agreement (ie not based on an 'opening clause' or other mechanisms of 'regulated' decentralisation), such practices could be considered to be against the law. Even in the construction materials industry, the industry with the lowest percentage of incidences of 'unlawful decentralisation', 69% of member companies deviate from collectively agreed standards. In contrast to earlier studies on this issue, the survey finds that the vast majority of deviations occur in the field of working time, while pay issues are much less important. This result may be due to the nature of the three industries surveyed, in that they are dominated by SMEs.

**Commentary**

The nationwide spread of 'OT' associations and 'OT' membership, along with

practices applying standards for wages, hours and working conditions which deviate from the binding terms and conditions of a valid collective agreement, have the potential to destabilise the German system of industry-wide collective agreements. While 'OT' status in some cases might contribute to stabilising an existing employers' association in providing a 'safety valve' for those employers that feel dissatisfied with a collective agreement, it also hurts those companies which opt to maintain their regular membership, in that it might provide their competitors with an advantage without limiting their access to other valued services provided by the employers' association.

The same is true for those regular members of an employers' association that deviate from collectively agreed standards by breaking the law. This development upsets trade unions, which seek to take wages out of competition and now fear that they do not have the strength to target each and every 'rebellious' employer. Surprisingly, there is also a growing unease among some groups of organised employers, particularly large member companies of employers' associations which feel short-changed by the prevailing practices of those small member companies which are taking a 'free ride' by deviating from a valid collective agreement. (Martin Behrens, Institute for Economic and Social Research, WSI)

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**Table 3. Breaches of industry-level collective agreement by employers' association member companies**

Sector	Do you deviate from the standards set by the industry-wide collective agreement?		If so, in which areas do you apply standards which deviate from the industry-wide agreement?			
	Yes	No	Working time	Pay	Bonuses	Other
Sawmill industry	80.0%	20.0%	86.7%	40.0%	38.3%	1.7%
Wood and plastics industry	84.6%	12.8%	84.8%	39.4%	45.5%	3.0%
Construction materials industry	68.0%	29.6%	78.8%	35.3%	36.5%	8.2%

Source: Völkl 2002.

## GSEE agrees organisational change

*The Greek General Confederation of Labour (GSEE) has taken a number of important decisions on organisational restructuring, including a possible merger with the Confederation of Public Servants (ADEDY).*

On 23-24 November 2002, the Greek General Confederation of Labour (GSEE) - Greece's main trade union confederation - held its 31st organisational/constitutional conference. The conference's key decisions related to the organisational restructuring of GSEE, though there were also important resolutions - not covered here - on the economic independence of trade unions and changes to GSEE's statutes.

### Organisational restructuring

Decisions taken at the 26th GSEE in 1990 determined the following basic aims for organisational restructuring:

- elimination of the extreme fragmentation of the trade union movement;
- creation of flexible and effective structures in line with the new productive/economic model taking shape;
- coordination of union organisations in order to achieve the optimum presence of the union movement in the country's new administrative structures, where many important decisions are taken. This should lead to collective union bodies that are more effective than existing individual interventions;
- independence in the management of unions' finances, freeing them from state intervention so as gradually to achieve full economic independence; and
- discussions on the legal framework governing unions, and a timetable to re-examine the progress of restructuring (five years was suggested).

In this context, a 'fourfold principle' has been seen as guiding trade union restructuring efforts:

- one trade union in each workplace;
- one federation for each sector of production or sector of economic activity;
- one labour centre in each prefecture; and
- one 'third-level' workers' organisation (ie confederation).

On this basis, the 31st GSEE conference, decided on a number of organisational changes, set out below.

### Cooperation with ADEDY

GSEE is in favour of a single third-level organisation for all workers. With the aim of promoting the conditions for such unity through coordinated efforts, GSEE has decided jointly with the Confederation of Public Servants (ADEDY) to create a bipartite National

Coordinating Trade Union Council to investigate and decide on strategic options, priorities and far-reaching tactical options for the union movement. Furthermore:

- following a decision by the GSEE and ADEDY executives, joint secretariats will be set up in sectors where there is believed to be a need for, and a possibility of, following a common course of action;
- efforts will be made to achieve a single voice in international relations and European participatory bodies;
- similar practices will be developed at local, prefectural and regional levels, aimed at a common understanding and a common course; and
- joint initiatives will be taken immediately in the sectors of health, education and culture.

It was decided to move in the direction of a merger of GSEE and ADEDY within the next five years.

### Regional level

In each of the country's 13 regions, a regional coordinating council will be created. It will be composed of an equal number of members from the organisations involved on an equal footing, following proposals by the region's labour centres and following a decision by the GSEE executive, which will ensure that all trends in the union movement are represented without a preponderance of any particular faction or factions. The work of the regional councils will include:

- coordination of the activity of the regional union movement on matters of central trade union interest promoted by GSEE; and
- collective elaboration and coordination of activity on matters of regional interest, such as the content of regional development, the development of initiatives at regional level and actions related to regional development (housing, health, education, culture, employment etc).

### Prefecture level

In every prefecture where there is more than one labour centre, a prefectural coordinating council will be set up, following a proposal by the labour centres concerned and a decision by the GSEE executive, which will ensure that all the trends in the prefecture's union movement are equally represented, have equal standing and are assured of a voice. The work of the coordinating councils will include:

- coordination of the activity of the prefecture's labour centres on issues of local or national interest;

• the launch of an organised dialogue and efforts to remove obstacles and achieve voluntary unification of the organisations concerned by the most expedient means, safeguarding existing infrastructure.

### Sector level

In every sector of production or broader sector of economic activity where more than one union federation operates, a sectoral coordinating council will be set up. Taking account of the decisions of the 26th GSEE conference (1990), the new measures agreed at the 31st conference and mainly the wishes of the organisations themselves, GSEE will determine which federations will participate in each coordinating council. The federations are called on to submit their proposals in writing to the GSEE executive, which will then take the decision on the final proposal. The composition of the council will be determined following these proposals by the federations and a decision by GSEE, ensuring all existing trade union forces in the sector of equal representation on an equal footing.

The councils will coordinate the activity of the federations on matters of sectoral concern, and will be a 'tribune for dialogue and exchange of views, with the aim of finding means for their unification'.

The 2002 conference called for an organisational and constitutional 'opening up' of the federations belonging to GSEE. These federations were set up years ago, often on the basis of monopoly business units (such as the Hellenic Telecommunications Organisation or the Public Power Corporation). Such an adaptation is necessary in order for workers' associations, chiefly in new private business units that are being created due to the changes taking place in the country's economy, to join the federations.

### Commentary

The decisions taken at the GSEE conference in 1990 were aimed at creating 21 sectoral federations out of the 84 existing in 1989 (their number has now fallen to 65), and at creating one labour centre per prefecture - ie 52 instead of the 86 registered with GSEE in 1989 (now down to 82). However, the decisions of the 1990 conference were never put into practice, and as a result the organisational restructuring of the trade union movement with a view to boosting its effectiveness has not been achieved. In this context, the question is to what degree the dialogue among the individual organisations over the implementation of the decisions of the 31st conference will bear fruit, providing in practice a decisive solution to the questions of organisational restructuring, by putting an end to the organisational fragmentation of the trade union movement. (Giannis Kouzis, INE/GSEE-ADEDY)

GR0212102F

16 December 2002

## National tripartite agreement signed on wages for 2003

*In late 2002, Hungary's national tripartite body reached an agreement on wage increase recommendations for sectoral and company-level bargaining in 2003, and on the level of the statutory minimum wage.*

During 2002, due to inflated budget spending in a heated election campaign and the general economic difficulties of European economies, the Hungarian economy slowed down and showed a number of worrying signs. In 2002, GDP grew by only 3.3%, compared with 5%-6% in preceding years. Furthermore, this growth, in contrast with the export-led development of the late 1990s, has been propelled by increased consumption by households and the state budget. The state budget deficit is around 8.5%, indicating the unhealthy state of government spending. Exports and investments are stagnating, and there is a palpable increase in output only in construction and commerce. The inflation rate is 5.7%, higher than in Hungary's major export markets.

### Wage developments

In 2002, wages increased at a speed unprecedented in Hungary's modern history. In the first three quarters of 2002, nominal wages grew by 18.2%, and net wages by 11.5%. The increase in nominal wages in the public sector is estimated at 30% in 2002, compared with 13% in the private sector and 19% in the economy as a whole. The statutory minimum wage was raised by 25% to HUF 50,000 (EUR 201) a month, following a 57% increase in 2001. In autumn 2002, the government abolished personal income tax on earnings up to the minimum wage, further increasing the minimum wage's net value.

Employment has decreased only slightly despite the steep rise in wages, especially the minimum wage. Nonetheless, forecasts based on major companies' employment plans for 2003 indicate that the Hungarian economy's loss of competitiveness might translate into further job losses during the year. Employers' associations have sounded the alarm to the government and demanded further tax cuts, currency devaluation and a capping of further wage rises which exceed productivity increases.

For 2003, the government has calculated GDP growth of 4%-4.5% and a 4.5% budget deficit. The Hungarian National Bank (MNB) has targeted a 4.6% inflation rate. To achieve these targets, the government plans a more

stringent economic policy and a new privatisation campaign covering some of the remaining major state-owned companies. Economic research institutions have forecast further wage increases. Partly as a consequence of measures taken in 2002, public sector wages will rise by 15% in 2003, while private sector wages are likely to increase in line with inflation. Altogether, an 8% average wage increase is expected for 2003.

### National-level wage negotiations

Traditionally, in Hungary each year the national-level tripartite body - currently the National Interest Reconciliation Council (OÉT) - negotiates over two elements of wage increases for the forthcoming year: the statutory level of the national minimum wage; and an average wage increase recommendation for sectoral and company-level bargaining. In its recommendations, the tripartite body generally proposes a minimum, an average and a maximum wage increase.

In preparation for the negotiating round for 2003, the government made clear that it would prefer a cautious increase in the nominal wage level in order to contain inflation and public debt. It asked for the social partners' cooperation to achieve a modest increase in net incomes through a reduction in personal income tax. In response, trade unions communicated their demands in August 2002. The National Association of Hungarian Trade Unions (MSZOSZ), the dominant confederation in manufacturing and private services, rejected the call for wage restraint, and declared that it would demand a 10% real wage increase. Also, MSZOSZ targeted a 9% increase in the minimum wage to reach a monthly figure of HUF 54,000 (EUR 217), 60% of the net average wage. Furthermore, MSZOSZ demanded the introduction of a national wage tariff system based on workers' education level, and a private sector wage increase equivalent to the one-off extraordinary rise in the public sector in 2002.

The Trade Unions' Cooperation Forum (SZEF), the major union organising public administration and public service employees, declared that its main demand was to adjust the bottom of the public sector wage scale to the new minimum wage to be adopted for 2003. He also demanded that salaries should be pegged to inflation, and the introduction of a monthly minimum wage of HUF 100,000 (EUR 402) for employees with a university degree across the whole public sector. The

Alliance of Autonomous Trade Unions (ASZSZ), which predominantly represents employees in public utilities, demanded a wage increase 1 or 2 percentage points higher than the average demand.

At the OÉT plenary session on 9 September 2002, the Finance Minister proposed a 3% wage increase in order to maintain the competitiveness of the economy and reduce inflation and the budget deficit. He also proposed not raising the national minimum wage, given the very steep increase over the last two years. The Minister, however, signalled that he was open to negotiating about net wage increases through further tax cuts. The employers' side on OÉT accepted the government's proposal. Trade unions, however, unanimously rejected it. MSZOSZ, beyond its demands outlined above, suggested cutting income tax on certain fringe benefits. While the government indicated that it was ready to accept this proposal, no agreement was reached on the main issues.

After the plenary meeting of OÉT, the government published proposals for a new 'tax-income scheme'. According to MNB calculations, in 2003 the average net wage will increase by 3.5% due to the reduction of personal income tax, but the net gain will be spread unevenly among the population. Unions argued that the new scheme would result in a lower than expected net income increase. ASZSZ demanded a nominal 8.5%-11% wage increase for 2003, and stuck to its demand of an 11.5% increase for the public utility sector. SZEF stated that it would maintain its demand for a nominal minimum wage increase.

In preparation for the next OÉT plenary session, the government partially revised its proposal and suggested that the real wage increase should be between 3% and 4.5%. Furthermore, the government officially announced that it accepted the unions' earlier demand to increase the income tax-free value of some fringe benefits. The government argued that the cancellation of income tax on earnings up to the minimum wage in autumn 2002 would have a spillover effect for 2003, causing a 10% net income gain if the nominal value of the minimum wage remained unchanged. It also stated that, given earlier commitments, public sector wages would increase by 26% in 2003.

The OÉT plenary session on 31 October once again failed to reach a compromise. MSZOSZ demanded a 6%-10% nominal wage increase and maintained its demand for a nominal increase in the minimum wage. ASZSZ maintained its proposed 8.5%-11% increase. The National Federation of Workers' Councils (MOSZ) proposed that the wage increase should ensure that within four years the Hungarian wage level



would be comparable with Portugal's. Employers criticised unions, stating that they were demanding unrealistic wage increases, and that it would be impossible to demand immediate compensation for all the crises and hardships of the last decade. They warned unions that wage increases at the level demanded would further harm the competitiveness of the Hungarian economy and translate into massive job losses. Having failed to reach an agreement at the tripartite plenary meeting, the unions and the employers' side of OÉT held bipartite negotiations, but these too were unsuccessful. Employers insisted on recommending a wage increase of only 3% for 2003 and on not increasing the minimum wage's nominal value.

Two days before the next plenary session of OÉT, a further bipartite meeting was held, at which the social partners' positions reportedly came closer. At the OÉT plenary meeting on 15 November, unions confirmed that they were ready to accept a lower minimum wage increase in order to reach an agreement. Employers, however, insisted that they would not accept any increase in the minimum wage's nominal value, though they indicated that they might change their position concerning the average wage increase recommendation. The unions, in response, proposed that working time reduction should be put on the negotiating agenda. In exchange for wage restraint, they demanded a reduction of statutory weekly working time from 40 to 38 hours by 2006, starting with a half hour reduction in July 2003. Unions also demanded the introduction of a national wage tariff scheme, specifying different minimum wage levels according to employees' education level. Further, unions demanded a strengthening of labour inspectorates and a role for unions in governing these inspectorates and in supervising health and pension funds.

Unable to reach a compromise at the plenary session, the social partners again held bipartite talks. Reportedly, at the bipartite meeting the employers' side proposed a 4%-6% wage increase, but no minimum wage rise. Though no compromise was reached, the parties agreed to conclude the negotiations at the forthcoming OÉT plenary. The next weekend, at the MSZOSZ congress, Prime Minister Péter Medgyessy announced that the government would support the reduction of working time to 38 hours, and the involvement of unions in a number of consultation and decision-making bodies. This further facilitated the working out of a compromise package at the next OÉT plenary.

### Agreement reached

Following a series of informal meetings between the parties, including the gov-

ernment, an agreement was finally reached at the plenary session of the OÉT on 29 November 2002. The main points are set out in the box at right.

Following the OÉT meeting, the Ministry of Finance stated that a 5.2% nominal wage increase would result in the proposed 4.5% real wage increase for 2003, taking into account the impact of tax reductions. At a separate bipartite meeting, the Confederation of Hungarian Employers and Industrialists (MGYOSZ) and MSZOSZ further clarified the OÉT agreement. They agreed to recommend a 4% to 7% nominal wage increase in manufacturing and private services, where the two organisations are major actors.

### Commentary

The annual wage negotiations in the tripartite OÉT were held at a controversial time. The past two years have seen a steep rise in wages, unprecedented in the post-transition period. Moreover, heightened expectations of the positive impact of the imminent accession to the EU drove wage demands up further. On the other hand, the expansionary budget spending, the economic stagnation of Hungary's major export markets and increasing competition for foreign direct investments in the region require a more stringent government economic policy. Furthermore, the inflation rate and the state budget deficit should be considerably lower to allow Hungary to join the 'euro-zone', which forces the government to limit budget-inspired income growth.

In this complicated environment of high expectations and economic constraints, a typical 'neo-corporatist' style agreement was worked out. Trade unions gave up some major demands in order to obtain a more influential role in certain public institutions. Moreover, they scored a historical achievement by forcing employers to accept in principle a reduction of statutory weekly working time and by bringing them to the negotiating table on this issue.

Seemingly, the political coalition forged between the Hungarian Socialist Party (MSZP) - the senior partner in the current coalition government - and some major unions during the 2002 election campaign, brought benefits for both parties. MSZP enjoys union restraint in wage demands, in exchange for sharing influence and power with the social partners, including unions.

The employers' side obtained a freeze in the minimum wage, without a statutory increase which might hurt the competitiveness of export-oriented companies. The moderate wage recommendations for 2003 also make it easier to adjust wage increases to the financial capabilities of companies.

The government not only managed to achieve an agreement in line with its

long-term economic goals, but also harvested the political benefits of reaching a compromise through complicated negotiations within democratic machinery. Thus, it could again underline the difference between itself and the previous administration, which was heavily criticised for a unilateral style of decision-making.

On the whole, it is a positive development that after four years of tensions, non-cooperation and difficulties, the tripartite machinery has proved to be a viable forum to reach compromises over major issues, provided that all the partners have the right amount of goodwill and responsibility. As for the government, it showed a readiness to offer compromises in order to facilitate an agreement, and it helped that all of the parties could feel that they scored a 'win-win' compromise. (András Tóth and László Neumann, Institute of Political Science, Hungarian Academy of Science)

*HU0212105F (Related records: HU0206101F, HU0207102F, HU0208102F, HU0209101N, HU0207102F, HU0212102N)*

16 December 2002

### Main points of tripartite agreement

- A recommended 4.5% wage increase in real terms in 2003.
- The maintenance of the current level of the statutory minimum wage, taking into account the impact of cancelling income tax on earnings up to the minimum wage.
- Support, in principle, for the reduction of working time in the long run, with negotiations with a view to reaching an agreement by June 2003.
- The launch of negotiations over the reinforcement of labour inspectorates, with the aim of reaching an agreement by 30 June 2003.

## Agreement on modernisation of public administration

*In November 2002, the Spanish government and three trade unions signed a major agreement on 'the modernisation and improvement of the public administration'.*

On 7 November 2002, the government and three trade unions representing workers in the public administration - CC.OO, UGT and CSI-CSIF - concluded a two-year collective agreement 'for the modernisation and improvement of the public administration'.

### Main points

The accord's stated aim is 'to increase quality in the provision of public services and the effective management of human resources'. Increased quality and competitiveness, and a more flexible and responsive administration are to be promoted through: greater motivation of the workforce; improvements in working conditions and employment stability; enhanced 'professionalisation' and levels of qualification for public employees; and rationalisation of the structure of the workforce. To achieve these objectives, the agreement lays down the following main guidelines.

- Measures to increase the efficacy of the provision of public services include: reallocation of workers to priority areas; promotion of worker mobility between public authorities and across the EU; abolition of the current limited 'replacement rate' for vacancies, by allowing all vacancies to be covered through public administration recruitment procedures; monitoring of temporary employment in recruitment procedures; extension of the hours of public access to services and homogenisation of working time schedules; and schemes for reducing absence from work (with the target of a 20% reduction).
- To improve the reconciliation of work and family life, an effort will be made to promote nurseries and to promote part-time work and the possibility of worker mobility for health reasons.
- 'Professionalisation' will be promoted through internal promotion and training, particularly in languages and new technologies.
- Measures will be introduced to enhance the stability of employment in the public sector, by finalising processes of consolidation, decreasing the temporary employment rate (to 8% of all public administration employment) and regulating temporary recruitment.
- Efforts will be made to improve quality of life at work and the regulation of pay and incentive payments, together

with programmes to increase productivity and performance.

- The public administration industrial relations framework will be improved, with the establishment of joint working groups to assess and streamline bargaining procedures.

On pay, the agreement provides for a real increase of 2.5% over two years: 1.3% in 2003, in addition to a 2% rise to reflect the forecast increase in the retail prices index (RPI); and 1.2% in 2004, plus the forecast RPI increase for that year. Special payments have been increased, amounting to a 0.7% overall increase in paybill, while there will be non-consolidated pay increases linked to the achievement of objectives. On working time, the agreement introduces a maximum working week of 37.5 hours (1,647 hours per year), with the possibility of bargaining over a 35-hour week in local administrations. Annual paid leave has been increased to 26 working days. Other provisions include: the creation of an occupational pension fund from 2004; and the establishment of joint working groups to monitor the areas of human resources planning, absence and provision of services, and industrial relations. The agreement's economic measures will cost a total of EUR 129.62 million over 2003 and 2004.

### Reactions

The government states that the new agreement will improve the functioning of the public administration and the working conditions of public employees. It sees the most important point as the change in conditions of service, with the improvement in pay only one point within a framework of measures to promote productivity and competitiveness. Other aspects of the agreement that the government believes will contribute to this objective are: the rationalisation and professionalisation of the workforce; the measures to harmonise working time; the reallocation of workers to cover areas such as offices and units dealing with foreign nationals, border inspection units, healthcare units, peripheral units and others (offering better pay); and the attempt to reduce absence from work.

CC.OO has welcomed the deal as marking a change in the model of collective bargaining in the public administration, in that it provides for the government to accept responsibility for pay bargaining with regard to all public employees, and it reinforces the joint General Civil Service Commission and promotes bargaining in local and

regional authorities. The accord also: opens up the issue of pay by increasing special payments; reduces casual employment; and abolishes the 'replacement rate' and allows all vacancies to be covered through public recruitment procedures.

For UGT, the agreement means the recovery of public employees' right to collective bargaining, something UGT attributes to the pressure exerted by a general strike held on 20 June. The accord is also seen as positive due to: the end of the staff replacement quota and the new measures for reducing temporary employment; the working time reduction; a pay rise higher than the inflation forecast, thus reversing the trend of recent years; and the various joint working groups.

For CSI-CSIF, the accord's importance lies mainly in the reintroduction of an overall agreed framework for the public administration, which has not existed since 1997. Other important points include the improvement of working conditions with regard to: internal promotion; reconciling work and family life; the increase in annual leave and other time off provisions; a commitment to spend 1% of paybill on 'social action'; and the pay increase.

### Commentary

The new agreement represents a significant change in the framework of industrial relations in the public administration. On pay, it breaks with the recent period of a total wage freeze for public employees. Furthermore, it attempts to contain and reduce temporary employment in the public sector. It is the first wide-reaching agreement between unions and the government in a long time, and represents an attempt to normalise relations after many disputes in the public sector and the June 2002 general strike.

However, the agreement does not include a clause on wage revision if inflation exceeds forecasts, and accepts a fairly unreliable forecast of inflation (2%) for 2003. This may lead to a new loss of purchasing power for public employees. It also involves the acceptance of the loss of purchasing power during the earlier wage freeze: in the past decade there has been a sharp decrease in real pay in the public administration, in some cases of over 10%. Functional and geographical mobility have also become more flexible, because it is no longer necessary to negotiate with the unions on such issues. The government has thus obtained a new period of industrial peace with the most representative unions in a very important sector, and the union leaderships have returned to a consensus approach. (Daniel Albarracín, CIREM Foundation)

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## New pay agreements reached in ICT sector

*Employers and trade unions in the Swedish information and communications technology (ICT) sector have signed new pay agreements, running until March 2004. Pay setting is left to local bargaining, but minimum paybill increases of 2.6%-2.8% apply if no agreement can be reached at this level.*

New pay agreements for the Swedish information and communications technology (ICT) sector were concluded on 3 December 2002. The negotiations, which started earlier in the autumn, were followed with great interest as the employers had initially offered the trade unions a zero wage increase. Throughout 2002, there had even been a discussion among ICT companies about lowering current wages, as the economic situation in the sector is so poor (*EIRObserver* 2/02 p.10).

The new pay agreements, which cover a total of 70,000 employees in the ICT sector, were concluded by the Employers' Association of the IT Trade and Industry (ALMEGA) and five trade unions - the Swedish Union of Technical and Clerical Industry Employees (SIF), the Association of Graduate Engineers (CF), the Swedish Association of Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personal Management and Social Science (Jusek), the Union of Service and Communication (Seko), and the Swedish Association of Graduates in Business, Administration and Economics (Civilekonomerna). Seko is an affiliate of the blue-collar Swedish Confederation of Trade Unions (LO). SIF is the largest affiliate of the white-collar Swedish Confederation of Professional Employees (TCO). The other three unions belong to the Swedish Confederation of Professional Associations (SACO).

### Local pay setting

The two pay agreements - the IT agreement and the telecoms agreement - are based on a system whereby local pay setting takes place in the individual companies, with the wage determined in talks between management and the local trade unions. In the event of failure to agree at this level, there is a fall-back 'scaffold' provision whereby the paybill must be increased by at least 2.6% under the IT agreement and 2.8% under the telecoms agreement. The pay agreements run from 1 January 2003 to 31 March 2004, when a majority of the current three-year pay agreements in industry and other sec-

tors expire and the next major bargaining round occurs.

The parties to the ICT settlements agree that the wage setting process has to be linked to the overall goals and economic and market situation of the individual company. This formulation was possibly included in the agreements because of the current problems in the sector.

### Working time and cooperation

The telecoms agreement continues the process of working time cuts in this branch, reducing annual working time by one more day in 2003, which brings the total cut to six days since the process started in 1998. Under their new agreement, IT companies have the same possibility to negotiate a working time cut at local level.

The parties have agreed to work together to draw up cooperation agreements for both the IT and telecoms branches, in line with the 1997 agreement on cooperation and bargaining procedures for the whole industry sector. This deal was followed by similar agreements in many other sectors. The main goal of these procedural agreements is to supervise pay negotiations and ensure that no conflict situations occur. In industry, this work is carried out by mediators appointed by a special Industry Committee.

### Reactions

The negotiations between the social partners were difficult because of the problems facing the ICT sector. Göran Hamrin, who led the negotiations for the three SACO-affiliated unions for professional workers, was, however, quite satisfied with the result, stating that: 'The pay agreements will help us to establish a positive wage development even if the times are unstable'. He added: 'Hopefully, the situation for the IT and telecoms business will improve next year. Earlier experience shows that local pay agreements result in favourable pay in favourable situations. If the current problems of the ICT business continue the scaffolds guarantee a certain pay rise. The earlier pay agreements for professional workers in the ICT sector did not contain any figures in % or kronor. The efforts from some employers to decrease pay in IT companies have forced us to abandon, in this bargaining round, the principle of blank agreements.'

Representatives of the white-collar SIF union stated that they had hesitated to sign the new agreement. The reason was not the pay rise but the total diver-

gence on work environment issues between them and the employers. SIF's chief negotiator, Thord Wedin, stated that 'our sector is very much exposed to stress and burn-out symptoms.' SIF demanded, for example, stronger rules on overtime pay. At present, many white-collar workers and professionals in ICT have no overtime pay regulated in their employment contracts. This issue has not, however, been dealt with in the new pay agreements.

Göran Trogen, the managing director of the ALMEGA employers' association, stated that the main orientation in the forthcoming local pay talks should still be individualised pay for all employees. It is only if the local trade unions and the employers cannot agree about the individual pay rises that the companies should use the minimum pay increase set out in the agreements' 'scaffolds'.

### Commentary

The new pay agreements in the Swedish ICT sector and the surrounding discussion about pay setting should be seen in the light of the last two years' deep financial problems for ICT companies. At the beginning of 2002, several companies announced that they would like to freeze or even cut their employees' pay, as they were in deep economic trouble. At the beginning of the sectoral pay negotiations in the autumn, a zero pay increase was again mentioned, though now that the deal has been concluded this appears to have been 'sabre-rattling'.

Recent research has highlighted that wage decreases in Sweden are rare. During the economic recession in the 1990s, only 1% of employees experienced a cut in their regular nominal pay. In the private sector, the coverage of collective agreements is about 80%. The trade unions in the ICT sector are traditionally very strong, and would hardly have accepted zero increases or pay cuts. An employer would have to be well equipped with arguments in order to convince the unions to swallow such a development. Another possibility is that a future economic improvement in the ICT sector may be envisaged by the employers. (Annika Berg, Arbetslivsinstitutet)

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### Other Relevant European Commission Observatories

**Employment Observatory**  
Contact: ECOTEC Research and Consulting Ltd, 28/34 Albert St, Birmingham B4 7UD, UK, e-mail: [eeo@ecotec.co.uk](mailto:eeo@ecotec.co.uk), web: <http://www.ecotec.com/eeo>

### Community information system on social protection (MISSOC)

Contact: ISG, Barbarossaplatz 2, D-50674 Cologne, Germany, tel: +49 221 235473, fax: +49 221 215267, web: [http://europa.eu.int/comm/employment\\_social/missoc2001/index\\_en.htm](http://europa.eu.int/comm/employment_social/missoc2001/index_en.htm)

## Corporate governance systems and the nature of industrial restructuring

Industrial restructuring has been a key feature of all European economies over recent years. One of its main forms has been mergers and acquisitions (M&As). These have been highly cyclical, growing rapidly during the 1990s in every country and falling back more recently. Compared with previous cycles, an increasing proportion of M&As are cross-border, giving a clear international dimension to restructuring. While the economic downturn since 2001 has seen a fall in M&As, it has led to other forms of restructuring becoming much more evident, notably a wave of cut-backs, closures and bankruptcies in various sectors. Telecommunications firms, for example, saddled with debt and faced with a collapse in their share prices, have sought cost savings, particularly telephone services operators (eg BT and France Télécom) and telecommunications equipment producers (eg Alcatel, Marconi and Ericsson). Airlines were particularly adversely affected by the attacks on the USA on 11 September 2001, following which many axed routes and cut their workforces. Moreover, information technology (IT) firms, particularly US-based firms with operations in Europe, have made numerous redundancies, disproportionately affecting countries with considerable American foreign direct investment in these sectors, such as Ireland.

Previous EIRO comparative supplements have demonstrated significant national variations in employees' rights in M&As and in the nature of industrial restructuring, finding that: while there has been a common trend towards M&As in all EU countries and these raise important industrial relations issues, their social impact varies greatly between countries (see *EIRObserver* 1/01); and, while there are national variations in employee involvement in company restructuring, the 'real influence of employees and their organisations in relation to continuous company restructuring is very limited' (see *EIRObserver* 4/01).

This comparative supplement considers one source of national differences in restructuring patterns - the influence of national systems of 'corporate governance' (CG), defined as the 'set of mechanisms that control and influence senior management'. The purpose is to shed light on the relative influence on managerial restructuring decisions of employees on the one hand and of shareholders on the other, and to link these relative influences to key tendencies and developments in restructuring across countries. The supplement - based on the contributions of the EIRO national centres in the EU Member

States and Norway - is an edited version of a full comparative study available on the *EIRO* website

This issue has great topical importance. Many observers argue that the pressures of internationalisation have recently forced change in CG systems towards those forms that permit shareholders with no close or long-term attachment to the firm to demand acts of restructuring which deliver greater 'shareholder value' (ie maximise the benefits for shareholders of investing in the company, through share prices, dividends etc). It is commonly argued that within Europe CG systems based on close and stable relationships between owners and managers are being swept away and replaced by the more fluid and 'arms-length' relationships that have long characterised the UK and USA. A consequence of this, so the argument goes, has been a convergence in the nature of corporate restructuring.

Clearly, product markets have become highly internationalised, and fluctuations in these markets mean that companies across Europe are forced to restructure from time to time. But are CG systems in the 15 EU Member States (and Norway) converging? Are many European countries moving towards the 'Anglo-Saxon' model? How do the patterns of CG in each country relate to national employee representation systems, which continue to differ? And how do these interactions shape patterns of industrial restructuring within countries? This supplement seeks to answer these questions by:

- describing the key aspects of the CG systems in the 16 countries, particularly the dominant forms of corporate ownership and the existence of a 'market for corporate control';
- outlining the main provisions on employee representation and influence in restructuring;
- seeking to identify the main patterns concerning the link between restructuring on the one hand and the national systems of CG and employee representation on the other; and
- examining the implications of the analysis.

### Corporate governance systems

Analysts of CG often distinguish between two types of system:

- 'outsider' systems are those in which the owners of firms tend to have a transitory interest in the firm and do not have close relationships with those

in senior managerial positions within the company. Rather, these systems are characterised by fluid and arms-length relationships between management and shareholders. Outsider systems are also characterised by the existence of an active 'market for corporate control' - takeovers, particularly hostile ones, are seen as both a remedy for managerial failure and a disciplinary mechanism on managers, ensuring that they act in shareholders' best interests. A further feature is the primacy of shareholder rights over those of other organisational groups (particularly employees). This system is said to be characteristic of 'Anglo-Saxon' countries; and

- by contrast, in 'insider' systems firms' owners tend to have an enduring interest in the company and often hold positions on the board of directors or other senior managerial positions. These systems are characterised by stable and close relationships between management and shareholders. This stability of ownership, often coupled with legal or institutional barriers to takeovers, means that there is little by way of a market for corporate control. Moreover, insider systems are characterised by formal rights for employees to influence key managerial decisions, often through supervisory boards or works council-type bodies. The insider system is said to be found in varying forms in continental Europe.

The distinction between outsider and insider systems is crude. Those countries allocated to the outsider category possess some of the features ascribed to insider systems, such as a number of firms that are primarily state- or family-owned. Similarly, insider systems all possess a stock market in which there is a degree of ownership by financial institutions which can buy and sell shares freely. However, the distinction highlights important differences, and table 1 on pp.ii-iii shows marked variations in the nature of CG across the 16 countries considered.

Broadly speaking, the UK and Ireland fit into the outsider category. In the UK, a high proportion of firms are quoted on the stock market, where ownership is dispersed across pension funds and insurance companies which tend to hold a small proportion of each company's stock. There is a greater degree of family ownership in Ireland but recent years have witnessed a significant growth in institutional ownership of companies, particularly foreign institutions. Both countries have a well-developed market for corporate control, with the prospect of hostile takeover an ongoing prospect for many firms. A further common feature is the way that senior managers' remuneration is tied to indices of shareholder value, and the controversy that has surrounded this in recent years.

The other 14 countries have some common elements, and can all be cate-

Table 1. Systems of corporate governance in the EU and Norway

Country	Key features of the system
<b>Austria</b>	The 'Hausbanken-System' of investment banking has been a stable source of funds for firms, many of which are privately owned, often through private foundations. Consequently, the stock market is not well developed; the ratio of market capitalisation of publicly quoted firms to GDP is only 15% (compared with 267% in Switzerland). There is no market for corporate control – a small number of owners perform a controlling function with close and stable relations with senior managers.
<b>Belgium</b>	The main forms of corporate ownership are through holding companies and families, with shareholdings concentrated and coordinated through networks and pacts. This 'pyramid' or 'cascade' structure of ownership creates a strong barrier to hostile takeovers, and there is no real market for corporate control.
<b>Denmark</b>	The system has been described as 'personal stakeholder capitalism' characterised by personal and family ownership. This is particularly the case amongst the SMEs that dominate the industrial structure. Takeovers have increased but hostile ones are very rare.
<b>Finland</b>	There has been a significant erosion of the role of the state and major banking and finance groups in owning and controlling firms. In their place have come pension funds and other financial institutions, particularly foreign ones. There has been a related growth in M&As (often cross-border), though hostile ones are still quite rare. Relations between shareholders and management are not as close as hitherto, and a marked 'shareholder value' orientation is evident, including managerial pay taking the form of share options.
<b>France</b>	The state's role in owning and controlling large firms has been greatly reduced by privatisation. Managers appear increasingly influenced by institutional investors' demands, paying out a higher proportion of profits in dividends and having their own pay tied explicitly to share prices. M&As have grown, though in the 1990s only two a year on average were hostile.
<b>Germany</b>	The CG system is central to the 'stakeholder-oriented' political economy. A distinct feature is the extremely high concentration in ownership; of 'stock companies' (AGs), 35% have only one owner and 71% have a shareholder that owns more than half of the shares. Key shareholders are non-financial companies, banks and insurance companies, while networks of cross-shareholdings and interlocking directorships are common. There are modest signs of change, however: there are more M&As, with a small number of high-profile hostile takeovers; managerial pay is becoming linked to share prices; and it is now common for firms to have 'investor relations' departments.
<b>Greece</b>	The state remains an important owner of firms, as do families. In addition, a small number of private foundations (eg Onassis) control some firms. Takeovers are rare and relations between shareholders and management close and stable. There is little to indicate significant change in these respects.
<b>Ireland</b>	Industrial groups and families, plus the state, are key features of corporate ownership. Foreign ownership is very high, largely through foreign direct (rather than 'portfolio') investment. Relations between managers and shareholders in public limited companies are fluid and arms-length, with a growing incidence of M&As. Senior managerial pay is often linked explicitly to share prices and this has attracted controversy recently.

gorised as insider systems. All these systems have until recently been characterised by more concentrated ownership than the UK and Ireland, and a market for corporate control has not been well developed. However, there is considerable variation between these countries, particularly in terms of the key corporate ownership patterns. Investment banks are influential in Austria, where relatively few firms are quoted on the stock market, and in Germany, where corporate ownership remains highly concentrated. Despite privatisation, the state is a key player in Norway, Greece and Portugal, and remains important in Finland, France and Spain, though much less so than in the past. Family ownership and control is an important feature of the Danish and Italian systems, and the Dutch system too, though here the increase in foreign ownership is notable. Investment foundations are central to the Swedish system, while 'collective investment funds' are a distinguishing aspect of Luxembourg. In Belgium, networks of inter-firm groups based on

cross-shareholdings have created a 'pyramid' or 'cascade' structure of corporate ownership.

Many of these insider forms of ownership are evolving, partly because of the internationalisation of economic activity. As large firms internationalise they often weaken their roots in their domestic CG system, while equity markets have become more open to foreign financial institutions. Change is also partly caused by privatisation, which has been pursued with varying degrees of vigour and enthusiasm by most European governments. Nevertheless, the features identified above result in a degree of concentration and stability in ownership which distinguishes them from outsider systems.

#### Forms of employee representation

There are variations across the 16 countries in forms of employee representation, and here we summarise how these differ in relation to employees' formal rights in restructuring and the

more informal ways in which they can shape restructuring. The key features of national systems are set out in table 2 on pp.iv-v.

There are two principal channels through which employees can influence restructuring. The first is by using rights based in systems of co-determination or social concertation. Some national employee representation systems grant employees the right to be informed well in advance of any restructuring that will have a significant impact on employment, and allow their representatives to negotiate a 'social plan' to deal with the consequences - as in Austria, Belgium and Germany. Many European countries have rights concerning employee representation on company's supervisory or management boards, or boards of directors, which can discuss and decide on proposed restructuring - as in Sweden, Austria, Germany, the Netherlands, Denmark, Finland, Luxembourg and Norway. To varying degrees, and in various forms, these countries have co-determination systems that are part of a tradition of dialogue and that promote a spirit of

Country	Key features of the system
Italy	Family-owned groups are one distinguishing feature of corporate ownership while, despite privatisation, the state retains an important stake in many firms. The result is a very high concentration of ownership even among firms quoted on the stock market (of which there are only 294): six out of 10 quoted companies have one shareholder with over 60% of the shares. This concentration acts as a barrier to hostile takeovers.
Luxembourg	'Collective investment funds' and the state are the two main owners of firms. Senior managerial positions tend to be very secure and, while there are few formal barriers to hostile takeovers, they are unknown.
Netherlands	SMEs are often controlled by families, while nearly 50% of firms with 100+ employees are foreign-owned. Amongst publicly quoted companies, a remarkably high proportion of shares (54%) are held by foreign institutions and individuals. Perhaps linked to this, there are some moves towards linking senior managerial pay to indices of 'shareholder value', and institutional investors have become more active in influencing management. However, this influence is normally exercised by 'voice' (ie expressing their views) rather than 'exit' (ie disinvesting). A market for corporate control is gradually emerging: though some barriers to hostile takeovers remain, some shareholders are successfully pressurising firms to reduce these.
Norway	The system is distinguished by a small number of owners which control a significant proportion of a firm, and which take a long-term, active view on investments and ownership. Around 30% of the largest 500 firms are family owned, and a relatively small proportion of firms are quoted on the stock market (whose total value was only 50% of GDP in 2001). Amongst publicly-quoted firms, the state owns 38% of the shares. More generally, ownership is quite highly concentrated, with the largest four shareholders on average controlling 52% of shares in Norwegian firms. There is a growing incidence of M&As, but these are rarely hostile.
Portugal	Among large firms the state is a key player, owning 23% of shares, and foreign parties now control 13%. Small firms are commonly sole proprietorships. There are also numerous small, individual shareholders. A market for corporate control is not well developed and hostile takeovers are particularly rare.
Spain	While traditionally Spain has typified the 'Latin' CG model, in which the state and holding companies were central, recent developments, such as privatisation and increasing investment by financial institutions (particularly foreign ones), have changed this. Now shareholdings are much more dispersed: the proportion of 'free floating shares' (whose shareholders have no direct representation on the board) increased from 55% of total stock capital in 1994 to 72% in 1998. Greater importance appears to be accorded to these shareholders by management, and the latter's pay increasingly takes the form of stock options.
Sweden	A distinctive feature of corporate ownership has been the role of 'investment company groups' such as Investor, sometimes linked to wealthy families (eg the Wallenbergs in the case of Investor). While there is a reasonably high incidence of M&As, particularly cross-border ones, there remain significant barriers to hostile takeovers, most notably the system of 'A' and 'B' shares (with the former having more votes). Independent shareholder associations have become more active over the last three decades.
UK	Shareholdings tend to be highly dispersed, with pension funds controlling a third of shares in public limited companies and insurance companies a fifth. Foreign institutions and individuals have also increased their stakes. Banks hold less than 1%. There is a well-developed market for corporate control, with very weak barriers to hostile takeovers; while they are not as frequent as in the 1980s, the possibility of them acts as a 'disciplinary mechanism' on management. Shareholding tends to be fluid, exemplified by the rush out of firms undergoing restructuring. Managerial remuneration is very strongly tied to measures of 'shareholder value', which has been very controversial recently.

Source: EIRO.

compromise over the extent and nature of restructuring. Employee representatives are commonly drawn from trade unions, which can also be influential through collective bargaining in these systems. Indeed, the position of unions is usually strengthened by the institutions of co-determination.

The second type of system is where the source of employee influence over restructuring is primarily through unions and collective bargaining. In some countries, this channel is the primary way in which employees are able to exert pressure on management, despite the existence of works councils - as in France, Italy, Spain, Portugal and Greece. In the UK and Ireland, which lack formal institutions such as works councils and have no strong tradition of social partnership, employees' influence is largely dependent on union strength at firm level. These two countries have a fairly minimalist legal framework, with employees' legal rights coming mainly from EU Directives on collective redundancies (98/59/EC) or transfers of undertakings (2001/23/EC) (these rights may be increased somewhat by imple-

mentation of the recent EU Directive on national information and consultation (2002/14/EC), which includes rights relating to restructuring plans). In countries where employee influence is principally through unions and bargaining, management-employee relations over how restructuring is dealt with tend to be more adversarial, and employees' ability to influence restructuring varies considerably from sector to sector and firm to firm according to union strength.

### The diversity of patterns of restructuring across Europe

The 16 countries considered are all characterised by some corporate restructuring. None are immune from downturns in product market conditions in particular sectors, such as those that have affected IT, telecommunications and airlines recently. Indeed, they are all becoming subject to fluctuations in product markets as more sectors become more exposed to international trade and supported less by state ownership or regulations. However, the

extent and nature of restructuring varies significantly across countries. Below, we analyse this variation and try to relate it to the systems of CG and employee representation described above. For each country we sketch some key aspects of restructuring and exemplify the patterns through discussing one or more 'critical cases'. The countries are categorised into five groups. Each of these groups contains some diversity, but there are also important commonalities within them.

### Stable insider systems with a strong social concertation tradition

Three countries have insider CG systems which are generally stable and in which a social concertation system is also largely intact. The stability of these domestic institutions does not mean that these countries are not witnessing restructuring; all three are, with the key 'drivers' including privatisation, growing international competition and a rise in M&As. However, these institutions strongly shape the extent and nature of restructuring.

**Table 2. Systems of employee representation in restructuring in the EU and Norway**

Country	Key features of the system
<b>Austria</b>	Employee rights are quite strong – not only do works councils have the right to be consulted prior to significant restructuring, but in firms employing 20+ people they also have the right to negotiate a ‘social plan’ to ease the impact on employees. Consultation often leads to compromises over management’s plans concerning terms and conditions and the extent of job losses, while employee representatives on supervisory boards can also influence restructuring. In some cases, union protests to politicians create further pressure on management to compromise.
<b>Belgium</b>	Works councils must be consulted three months prior to any restructuring, and the consequences must be negotiated with employee representatives, often leading to a social plan. Following the 1997 closure of the Renault Vilvoorde plant, these rights have been strengthened.
<b>Denmark</b>	Employees have the right to elect a third of the members of company boards, which can vote on all aspects of restructuring. Consultation processes are governed by collective agreements and so vary from firm to firm.
<b>Finland</b>	‘Personnel representatives’ may be nominated onto companies’ governing ‘administrative bodies’. Perhaps more importantly, the co-determination system means that in firms with 30+ workers employers must consult over restructuring, and the strong position of shop stewards means that in most cases management’s proposals must also be subject to negotiation. In some cases, unions have applied pressure on the government to intervene where agreement cannot be reached.
<b>France</b>	Works councils have the right to be consulted three months prior to any restructuring, but employee representatives appear to have only a limited effect on such plans. There are some instances of unions appealing to politicians for support and of organising demonstrations in protest at management’s plans. Works councils have had some success in the courts in arguing that the consultation process was not followed fully.
<b>Germany</b>	Employee rights stem partly from establishment-based works councils, which in plants employing 300+ people can bring in ‘external experts’ to analyse management’s plans and can also negotiate a ‘social compensation plan’. Employee rights also stem from representation on supervisory boards in large companies. The practical impact of these formal rights varies from firm to firm.
<b>Greece</b>	Despite the introduction of works councils in the 1980s, employee rights stem largely from collective bargaining. Generally, unions are able to ameliorate the effects on employees of restructuring, often using political pressure as a key tactic in the bargaining process.

#### **Austria**

Some restructuring is evident, taking the form of M&As in sectors such as banking. Some M&As have an international dimension, such as the 2000 takeover of Bank Austria by HypoVereinsbank of Germany. To a degree, restructuring is also occurring in state-owned firms that have been partially privatised, though the state has tended to retain a stake of above 25%, limiting the extent to which restructuring is driven by the new private sector owners. Where restructuring occurs, there have been some workforce reductions, but these tend to be relatively limited and have normally been managed through voluntary redundancy, early retirement and ‘natural wastage’.

The general picture is of some restructuring, but its scale and nature appears to be shaped by the stability of the system. In particular, the ‘shareholder value’ concept has not really become influential and the impact of restructuring continues to be mitigated by the tradition of social partnership.

#### **Denmark**

There is some evidence of an increased incidence of restructuring in Denmark, showing up, for instance, in a rising number of employees affected by M&As in the 1990s (though this involved fewer, larger deals). Some

M&As have involved foreign groups, such as the 2001 takeover by the Norwegian Orkla of the Danish newspaper group Berlingske Tidende. However, the new owners’ plans for significant cost-cutting met significant opposition and its demanding financial returns have not been realised.

The general picture is that the system of ‘personal stakeholder capitalism’, resting on much ownership being concentrated in individuals and families, remains pretty much intact, and the strength of employee rights has not been fundamentally changed. The pattern of restructuring, being fairly limited in scope and producing relatively modest adjustment costs to employees, reflects the nature of domestic CG and employee representation institutions.

#### **Luxembourg**

There has been only very limited industrial restructuring in Luxembourg, even amongst plants belonging to foreign-based multinationals. In part this is conditioned by the stability of the CG system, in which the state and collective investment funds have provided a stable basis on which domestic firms operate. Where restructuring occurs, the system of tripartism nearly always leads to agreement on how change should be implemented. One high-profile case was the creation in 2001 of Arcelor in

the steel sector - through the merger of Arbed (Luxembourg), Usinor (France) and Arceralia (Spain) - in which the Luxembourg state remained the principal active shareholder and ‘co-management’ was accepted as the basis on which the group should be run.

The limited extent of restructuring and its limited effects on employees reflects the strength and stability of CG and employee representation institutions. While the concept of shareholder value has not taken hold, the tradition of tripartism and social partnership remains firmly embedded.

#### **Gradually evolving insider systems with strong social partnership**

A second group of four countries is also characterised by insider CG systems and a strong tradition of social concertation. However, this group differs slightly from the first in that the countries are experiencing some changes in their insider systems. The causes vary, but one common feature is a growth in inward investment and a significant internationalisation of large domestic companies. The pace and nature of restructuring in these countries has been significant and has been facilitated by modest changes in CG, but its effects are strongly conditioned by an enduring tradition of co-determination.



Country	Key features of the system
<b>Ireland</b>	There is very little formal, institutional power to affect restructuring, with a minimalist legal framework centring on the EU Directives on transfers of undertakings and collective redundancies. Where unions are well organised they can exert some influence, and this is particularly the case in 'social partnership' deals, but these arrangements are quite fragile.
<b>Italy</b>	The principal way in which employees can influence restructuring is through collective bargaining, at both company and sectoral levels. In doing so they can use statutory information and consultation procedures. However, despite these procedures, there appear to be significant 'information asymmetries' between management and unions.
<b>Luxembourg</b>	In firms with 1,000+ employees and where the state has a 25%+ holding, a third of the board of directors must be elected by employees, who then have formal voting rights on investment and restructuring plans. In all firms with 150+ employees, there must be a company joint committee with consultation powers. This system has created a 'consensual' tradition and it is common for these mechanisms to ensure that employees are not adversely affected by restructuring.
<b>Netherlands</b>	Works councils have the right to 'give advice' on all major decisions, and in some companies the right to nominate and object to the appointment of members of the supervisory board. Consultation processes are commonly able to influence the nature of decisions on restructuring and their consequences for employees.
<b>Norway</b>	Employees have the right to elect one-third of company boards in firms with 20+ workers, while in those with 200+ employees they have the right to elect one-third of the 'company assembly', which has 'decisive authority' over investments, rationalisations and restructurings that have a significant bearing on employment.
<b>Portugal</b>	A number of formal statutory mechanisms exist for employees to exert influence over corporate restructuring (mainly through workers' commissions). In practice, there is significant variation in the impact of these rights, depending in part on how well organised unions are at firm level.
<b>Spain</b>	Employees have the right to be informed of changes of ownership on the same terms as shareholders, and management must allow workers' representatives to issue a report setting out their views if the changes affect employment (this report is not binding on management). Collective dismissals have been strongly regulated, but recently have been subject to numerous reforms which have made it easier to make redundancies (though agreement with workers' representatives or administrative authorisation is still required).
<b>Sweden</b>	Employees have minority representation on company boards, while the co-determination system means that consultation with unions must take place on all 'important changes'. Unions often secure concessions from management concerning its original plans - eg over the number of employees affected.
<b>UK</b>	There is a minimalist legal framework. Such rights as exist stem from EU Directives on transfers of undertakings and collective redundancies. Therefore, employee representatives' ability to influence restructuring stems from unions' strength at firm and plant level, leading to considerable variation in this respect.

Source: EIRO.

**Belgium**

There are some instances of very severe restructuring in Belgium, especially in sectors adversely affected by downturns in the international economy, such as airlines - eg the bankruptcy of Sabena post-11 September 2001 - and telecommunications - eg major cut-backs at Belgacom in response to growing debts and a fall in the value of its shares. More generally, there are also some indications that the fortunes of their shares are 'drivers' of restructuring in Belgian firms. However, the shareholder value concept has not taken hold very strongly, with the 'cascade' or 'pyramid' system of ownership remaining important.

There is still a strong basis for 'social concertation', exemplified by agreements over restructuring at Sabena, where a state-funded 'closure fund' provided significant compensation payments and redeployment assistance, and at Belgacom, where an innovative management-union agreement provided for retraining, working time reductions and voluntary redundancies. In

sum, restructuring is evident, but a drive for shareholder value has not removed the key characteristics of the CG system, and social concertation continues to shape the way in which restructuring occurs.

**Norway**

There are many instances of restructuring in Norway, particularly in finance and IT where there have been a number of M&As. More generally, there is much talk amongst managers about 'value-based management', apparently a reflection of the growing influence of external shareholders. The case of the Orkla group (consumer goods, chemicals and finance) illustrates the way that financial institutions appear to be exerting growing influence. During the 1990s, a number of institutions built up a stake in the firm and gradually pressured management into moving away from the established policy of reinvesting profits for long-term growth towards more emphasis on immediate profitability. This resulted in the ousting of the chief executive in 2001. Similarly at Kværner (engineering and construc-

tion), a long saga concerning merger with Aker was eventually resolved in March 2002, with some parts of Kværner merged with Aker and others sold off. This was widely perceived as a hostile takeover by Aker, which announced its intention to dispose of those parts of the group that could not produce a good financial return.

However, the Norwegian economy retains many important checks on the ease with which restructuring can occur. The high degree of state ownership means that restructuring decisions are significantly influenced by popular sentiments rather than market mechanisms, while the high incidence of family ownership results in the retention of long-term industrial plans. Moreover, the employee representation system means that the effects of restructuring on employees are often restricted - eg there have been no compulsory redundancies at Kværner - and the traditions of wage moderation and egalitarianism act as further constraints on external shareholders' rights. In sum, the picture is of increasing restructuring, but the

effects continue to be conditioned by a CG system that is evolving only slowly, and by a well-established system of employee representation.

#### Sweden

The growth of restructuring in Sweden shows up in the increasing number of employees being made redundant recently. One prime example is Ericsson, which has been severely affected by the downturn in the IT sector. It announced 2,100 redundancies in spring 2001 and 6,300 more in April 2002, with more to come in future. While this shows that radical restructuring can take place in Sweden, the terms on which it was conducted reflected the Swedish system of cooperation – the company set up support programmes for affected workers and those that left received 12 months' salary. The Ericsson case has also reopened a key CG debate. The system of 'A' and 'B' shares allows those shareholders holding the former, mainly investment foundations, to control most of the voting rights at Ericsson. The company wanted to issue more B shares to raise money to see it through its current difficulties, but to make them more attractive has sought to reduce the imbalance in voting rights between the two groups. So far, these attempts have been thwarted by investment foundations and other big holders of A shares, which argue that it would make the group more prone to takeover.

To summarise, the picture is of restructuring being limited by the key characteristics of the CG system, which is only slowly evolving, and by the continued tradition of co-determination and cooperation.

#### Germany

Restructuring has been widespread in Germany. A 1999-2000 survey of works councillors found that: 17% had been affected by closure or sales of sites; 37% had been affected by outsourcing; 21% had been affected by M&As; and 57% had to deal with a reduction in employment.

A prime example was the hostile takeover by the UK-based Vodafone of Mannesmann in 2000. The takeover was bitterly contested, involving political opposition in Germany to the deal. Vodafone eventually won control and sold off the machine tools, automotive and tubes divisions, leaving only the telecommunications part which accounted for 12% of Mannesmann employees but 68% of earnings. In some ways, this deal indicated that radical restructuring is possible in Germany, and some have interpreted it as a sign that more hostile takeovers will occur in future. However, the nature of the restructuring reflects the German co-determination system – when the divisions were sold off job guarantees were given by the new owners, and Vodafone has not made redundancies

in the telecommunications division. More generally, the company has largely accepted the need to deal with works councils and unions despite its non-union roots in the UK. Moreover, Mannesmann was peculiarly susceptible to a hostile takeover; it had an unusually high proportion – over 60% – of shares held by foreigners and did not have one shareholder with a controlling stake in the way that many big German firms do (such as Bertelsmann and Volkswagen).

In sum, there are signs of change, both through high-profile instances of restructuring such as Mannesmann, and in the embrace of the rhetoric of 'shareholder value' by senior managers. However, this has not been caused by far-reaching changes in the CG system, which retains many of its distinctive features, and where restructuring occurs it is still conditioned by the system of co-determination.

#### Rapidly evolving insider systems with a continuing social partnership tradition

In a third group of two countries, insider CG systems have been significantly challenged in recent years. Changes in the nature of institutions have affected the pace and nature of restructuring. In both cases, systems of social partnership have remained largely intact, but employee representatives' ability to shape the consequences of restructuring has been eroded by the growing power of external shareholders.

#### Netherlands

Restructuring has been a major feature of many sectors of the Dutch economy, including the public sector. This is particularly marked among Dutch and Anglo-Dutch multinationals, such as Philips, Shell and Corus. To some extent, the pattern of restructuring reflects a strengthening of the position of shareholders over management, while employees' rights to influence managerial decisions have remained more or less unchanged. One recent development has been new legislation that has somewhat weakened the position of trade unions in hostile takeover bids. More generally, shareholder groups are actively pressing management into moves that may deliver greater value to them, such as sell-offs, outsourcing and closures. These moves have meant that the principle of 'equal representation' for capital and labour within large companies has been eroded.

However, the extent of change should not be exaggerated. While a market for corporate control has begun to emerge, hostile takeovers are still quite difficult. This is exemplified by the recent failed hostile bid by Boskalis for HBG in the welding and construction sector. The management of Boskalis took legal action to try to force HBG to accept the deal, on the basis that the latter was

neglecting the interests of its shareholders. Although a court agreed that Boskalis had been mismanaged, it did not force management to reverse its decision to reject the bid. Moreover, while employee representatives may not be as influential as shareholders over management, their institutional rights remain intact.

To summarise, there has been a shift in the balance of power within CG which has increased pressure on management to carry out restructuring in order to deliver greater shareholder value, though this does not constitute radical change.

#### Finland

The small size and openness of the economy mean that global managerial trends such as an orientation towards shareholder value have become familiar in Finland. In particular, the high degree of foreign institutions holding shares in Finnish companies, and the high levels of foreign direct investment are channels through which this process has occurred. At the same time, the high level of international ownership in Finland has presented problems for employee representatives in ensuring that the system of co-determination remains influential.

The closure of the Kilo computer assembly plant belonging to the Japanese multinational Fujitsu illustrates this development. In 1999, Fujitsu and Siemens announced a joint venture in Europe which led to the announcement of the Kilo plant's closure, leading to 450 job losses. The public prosecutor investigated whether the Cooperation Act (which requires negotiations with workers' representatives over measures affecting employees) had been violated. The prosecutor concluded that it had not, on the basis that the Finnish managers in Fujitsu did not know that the closure decision had already been taken before completing the consultation process (though managers in Japan and Germany almost certainly had already reached this decision). The general picture is of significant change, largely due to internationalisation of corporate ownership.

#### Evolving insider systems with employee rights based on union strength

The fourth group is comprised of five 'Latin' countries which have been of the insider type, with employee influence over restructuring stemming mainly from trade union strength rather than formal co-determination systems. A key feature of these systems has, until recently anyway, been the role of the state and wealthy families in owning and exerting a significant degree of control over large firms. This meant that the extent and nature of restructuring was significantly influenced by political factors and the inclinations of

controlling families. Unions have tended to be strong and influential in some parts of the economy, particularly in large, state-controlled firms. However, these systems are changing, mainly due to privatisation and, relatedly, to the internationalisation of large firms. This has created pressure for more rapid, radical restructuring. There is significant variety within this group in terms of the extent of change, and we consider them in ascending order of the extent of change.

#### Greece

Greece has witnessed a number of instances of restructuring, many of which have adversely affected employment levels. This is particularly evident in sectors such as textiles, the lumber industry, chemical products and transportation, demonstrating the influence of international economic conditions. In the airline sector, the future of Olympic Airways appears to be hanging in the balance. There are some indications that restructuring has been influenced by fluctuations in share prices, and privatisation of firms like Skaramangas Shipyards and Hellenic Petroleum means that more large firms in Greece are subject to these pressures. However, the scale of these pressures is limited, and where unions remain strong they retain the ability to shape significantly the nature of restructuring.

In sum, there has been modest change in the form of corporate ownership, accompanied by limited moves towards shareholder value driving restructuring.

#### Portugal

Portugal has experienced considerable restructuring, particularly in banking. One high-profile instance was the 1999 bid by Spain's Santander Bank for the Champalimaud group, which controls three banks in Portugal. Following the intervention of the European Commission, Santander Bank won control of only part of the group. Much restructuring has been influenced by privatisation, followed by a tendency to create large economic groups from parts of privatised firms. The consequences of restructuring for employees appear to rest on union strength in the firms concerned, and so these vary across companies. One interesting development has been the unions' attempt to build up stakes in large groups such as Empresa de Electricidade de Portugal (electricity) and the TAP airline, and use these to influence restructuring.

The general picture is of some moves towards shareholder interests driving restructuring (particularly caused by privatisation), with the ability of unions to influence this very uneven across the economy.

#### Italy

There has been considerable restructuring, particularly in banking, where there

has been a series of M&As. There are several instances of firms in other sectors undertaking major restructuring exercises, a prime example being Fiat, which in 2002 announced a cost-cutting plan involving major job losses. However, the Fiat case illustrates the central role of collective bargaining in shaping the consequences of restructuring; the changes have been negotiated (though further restructuring plans since have led to disagreement) with the firm using various measures to restrict the job losses. Moreover, the concentration of ownership among families and the state remains largely intact, which arguably leads these 'insiders' to look for long-term recovery plans.

While there has been limited change in the ownership of Italian firms, partly from a small-scale privatisation programme, restructuring is strongly conditioned by the enduring tradition of family ownership and the centrality of collective bargaining.

#### France

Restructuring has been pervasive in France. One measure is the increasing number of employees who register for unemployment following redundancy, which has been particularly high in retail, intermediary goods, business-to-business services and construction. Four types of restructuring are evident:

- 'catch-up' restructuring in which low productivity has been a feature of the industry – common in steel and shipbuilding;
- restructuring in shrinking markets – found in sectors such as cement, oil and electrical appliances (eg Moulinex);
- restructuring due to a temporarily poor market situation – characteristic of engineering and telecommunications (eg Alcatel); and
- restructuring that reflects significant change in the profile of stock/equity ownership (eg Danone and Vivendi).

The latter two cases are particularly interesting. The Danone food group has recently closed two plants in France affecting 1,816 workers (and others outside France) in an attempt to refocus on its most profitable activities, with these moves justified in terms of the pressing need for higher shareholder returns. At Vivendi, a succession of takeovers in the media and entertainments division has shifted the firm away from its original core utilities business. This has been associated with a significant dispersion of its shares, many of which are now held by foreign pension firms. The massive debts the firm has built up have claimed the job of its chief executive, and look certain to lead to significant sell-offs. In both cases, employee representatives' influence has been very limited, including failed legal attempts to oppose management's plans.

In sum, the French system has undergone significant change, particularly amongst large firms which have been privatised and have subsequently internationalised. Here restructuring has been driven by shareholder demands for higher returns and the consequent changes have not been blocked by the unions.

#### Spain

There was a marked increase in M&As during the 1990s in Spain. There was a very high involvement (about 60%) of foreign groups in this trend, raising the extent of foreign ownership of Spanish firms. The influence of this is illustrated by the case of Lear, a US-based producer of cable equipment. In 2002, it closed its plant in Catalonia which employed 1,000 workers and opened a new one in Poland. The workers received 60 days' pay (instead of the statutory 45) but there were no programmes along the lines of Ericsson in Sweden or Belgacom in Belgium (see above).

Spain is characterised by a growing incidence of foreign shareholdings, a great reduction in the role of the state and, related to these developments, a growing dispersion of shares. These changes mean that restructuring is increasingly driven by international economic conditions. At the same time, it has become much easier and cheaper for employers to make workers redundant due to labour market reforms. The upshot has been significant change in the pattern of restructuring, increasingly driven by institutional investors and constrained less by employee rights.

#### Outsider systems with minimalist framework of employee rights

The final group is made up of two countries with outsider systems and relatively weak employee rights. While the UK and Ireland exhibit some differences (family and foreign ownership are higher in Ireland, while ownership by domestic pension funds and insurance companies is higher in the UK) both are characterised by fluid ownership, the primacy of shareholder interests and an active market for corporate control. They are also both systems in which employee rights in restructuring are currently minimalist, stemming largely from EU Directives on transfers of undertakings and collective redundancies. Where trade unions are strong they have been able to shape the consequences of restructuring for employees, but in both countries a key driver of restructuring is a concern to deliver more 'shareholder value'.

#### Ireland

Shareholders tend to have more influence over key corporate decisions than employee representatives, and the delivery of shareholder value has become more influential in recent years. One example has been the restructuring of Aer Lingus following 11 September

2001. In response to financial difficulties, management moved to cut nearly a third of its workforce very quickly. Unions were not involved in the discussions about the formation of these decisions, and have argued that the company adopted a 'short-term, accountancy driven' approach. Restructuring has recently been a pervasive feature of the IT sector, which in Ireland is dominated by North American firms, and Dell, Nortel, Xerox, Intel, Compaq and Gateway have all made significant job cuts. The closure of the Gateway plant in Dublin in 2001 illustrated the weakness of employees to influence restructuring. The company maintained a strong non-union approach, so redundant workers had only the protection of a 30-day consultation period.

Shareholder value is clearly a key driver of restructuring and this is felt through foreign ownership and the CG structures in place in Ireland. Employee rights are weak when compared with many other European countries.

#### UK

The CG system has resulted in the pressures to deliver shareholder value being strong influences over the extent and nature of restructuring. The finance sector has been particularly affected, with a wave of mergers taking place on the basis that the opportunity to remove duplication of functions could enable greater returns to shareholders. While these have been largely 'friendly', a hugely significant event was the hostile takeover in 2000 of Natwest by the Royal Bank of Scotland, which was half the size of its 'prey', leading to 18,000 redundancies. The utilities sector has also seen significant restructuring. A good illustration is Powergen, created in 1991 following the privatisation and break-up of the Central Electricity Generating Board. Over the last 10 years, the company has sold off or closed a number of power stations and greatly reduced employment at those that it still owns. Moreover, it has acquired a regional electricity distributor in the UK and made acquisitions outside the UK (eg in the USA). Recently, Powergen has agreed to be taken over by the German E.on.

One key aspect of the UK system is the active market for corporate control, which has enabled many groups to transform themselves through a series of M&As. For example, Marconi did so in the 1990s, moving out of its traditional defence business into specialist telecommunications equipment. This proved disastrous; as demand for the firm's products has shrunk, the share price has plummeted. Despite several announcements of cutbacks, the group once worth GBP 30 billion is now practically worthless. It has roughly halved its workforce and its continued survival is uncertain.

## Commentary

The evidence presented here makes clear that there are strong linkages between the nature of institutions in the financial markets (or the system of corporate governance as we have termed it here) and those in the labour market. In one group of countries, shareholdings being dispersed across a range of financial intermediaries and a well-developed market for corporate control – the outsider system of CG – goes hand-in-hand with a minimalist legal framework concerning employee rights in restructuring. In the other countries, which exhibit more stability in ownership and less of a market for corporate control – the insider systems – employee rights tend to be stronger, either through systems of co-determination or through collective bargaining (or some combination of the two). This latter group is diverse, with four subgroups discernible. The central argument that has emerged in this supplement is the impact that these various systems have on the extent, nature and consequences of restructuring. Arguably, restructuring has been most pervasive, and has occurred most rapidly, in the outsider systems and rapidly evolving insider systems. Without question, the impact on employees of restructuring has been felt most acutely in countries without a strong tradition of social concertation and where union strength is patchy.

A key debate referred to at the outset concerns whether there is convergence across Europe in terms of the nature of CG systems and the way these systems shape the patterns of industrial restructuring. It is evident from our analysis that many countries that have traditionally been characterised by insider systems are evolving. The causes of these changes vary: a reduction in the role of the state through privatisation; the increasing role of foreign ownership, particularly through pension funds; the internationalisation of large, domestic companies; and in some cases, deliberate changes by governments in the nature of domestic institutions. One reading of these trends might be that this constitutes a process of convergence along the lines of the Anglo-Saxon countries, whereby ownership is fluid, relations between managers and owners are arms-length and a market for corporate control exists. Indeed, countries such as the Netherlands, Finland, Spain and France have witnessed significant shifts in this direction, while in others such as Germany and Sweden the changes have been notable.

However, the picture is much more complex than an initial reading might suggest. Indeed, it is arguably the case that there is now greater divergence across Europe in terms of the nature of CG and employee representation systems and the way these shape patterns of restructuring. Whereas 10 years or so ago the UK and Ireland used to be clear outliers, with the other 14 countries exhibiting many common features, now the picture is more varied. In some countries, such as Austria, Denmark and Luxembourg, erosion of their versions of the insider system is scarcely detectable; in others, such as Belgium, Denmark, Sweden, Germany, Portugal, Greece and Italy, changes are detectable but their effect has certainly not been transformative; in a further group of countries – the Netherlands, Finland, France and Spain – the changes have been very significant. However, none of the 14 insider systems have converged closely on the UK-Irish model. The result is a picture of uneven change and apparently greater diversity than before.

This has important implications for EU-level policy. For example, over the last few years there has been a number of proposals for an EU Directive on takeovers. Support for a takeovers Directive comes from advocates of the outsider system who hope that it will open up a market for corporate control in countries where there is currently none. There is also support for the idea from those who advocate the insider model, such as the German finance minister, Hans Eichel, who argued during the Vodafone-Mannesmann takeover battle that common EU takeover rules might help 'avoid a culture clash between Anglo-American capitalism and the consensual German model'. The proposals on the form of such common rules have so far failed to make much progress, however, with the latest in a series of drafts issued in October 2002. The findings of this supplement suggest that the increasing diversity in CG and employee representation systems makes agreement on the form that such a Directive might take all the more difficult. (Tony Edwards, King's College, University of London)

The position of employee representatives in all three cases mentioned above has been relatively unimportant over management's plans. Generally, unions have had to accept that restructuring will take place along the lines management indicate, but have been able to influence some consequences for employees. This has mainly involved seeking assurances that redundancies will not be compulsory, which they are not always able to achieve.

In sum, the UK system is one in which management's preoccupation with delivering greater shareholder value is central, and the concerns of employee representatives are very much secondary.

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