



# PACTS FOR EMPLOYMENT AND COMPETITIVENESS

In recent years, employment has moved centre-stage as a policy priority of the European Union. Enterprises are faced with the task of preserving and creating jobs, as well as remaining competitive in an increasingly global business environment. A recent innovative approach to collective bargaining in many countries has been the conclusion of collective agreements, known as 'pacts for employment and competitiveness', or PECs, which have been concluded at inter-professional, sectoral and company/workplace levels. This leaflet summarises a widescale comparative investigation by the European Foundation for the Improvement of Living and Working Conditions into the nature and scope of these agreements. The research involved national overviews and detailed case studies carried out in 11 EU Member States, as well as data from the European Industrial Relations Observatory database, EIROOnline.

## Key findings

- PECs widen and deepen the bargaining agenda, reflecting the fact that intensifying competition requires management both to minimise costs *and* promote the cooperation of the workforce necessary for continuous improvement;
- The diffusion of such agreements is more widespread than expected with more than 10% of companies negotiating PECs in several countries (Spain, Germany, Netherlands);
- PECs are prevalent in sectors such as manufacturing, banking and recently-privatised public corporations, where there is considerable common pressure to engage in restructuring, hence reflecting changing market conditions;
- For management, PECs offer an opportunity to reduce costs, improve flexibility and change the culture of the organisation in the face of increasing competitive pressures;
- For employee representatives, PECs offer the possibility to minimise job losses and strengthen their role in company decision making;
- Many PECs also seek to improve the position of disadvantaged groups such as women, apprentices and ethnic minorities;
- The research reveals that while these agreements are seen to have made a positive contribution to competitiveness and employment, they are not deemed a sufficient condition for growth and job creation;
- PECs encourage the decentralisation of collective bargaining, with a wider participation of managers and employee representatives in the framework of a serious partnership approach;
- PECs also encourage a change in emphasis from 'distributive bargaining' to 'integrative bargaining', including not only trade-offs but also on-going joint monitoring and assessment.



## Diffusion of PECs

The research reveals that sectoral agreements dealing with employment and competitiveness have been concluded in a majority of EU countries, the exceptions being Greece, Ireland and the UK. In Greece and Ireland, there were national level 'social pacts' covering the same or similar ground. The only country without agreements at either the national or sectoral levels was therefore the UK, reflecting the absence of a tradition of national bargaining and the long-running decline of sectoral bargaining in the private sector.

Notwithstanding the presence of national and/or sectoral pacts, company-level agreements dealing with employment and competitiveness appear to be virtually universal, Greece being the only country where they had not been reported. Although the available data do not allow a precise picture to be drawn, it seems safe to conclude that the diffusion of such agreements is also widespread. In Germany, for example, in 1997-98, around one in four workplaces with a works council (i.e. about one in ten of all workplaces) reported the negotiation of such an agreement in the recent past. In Spain, in 1997, nearly ten per cent of collective agreements were found to deal with employment preservation and

five per cent with employment creation. In France, in 1998, almost 40 per cent of agreements dealing with reductions in working time also contained measures allowing for adjustments to handle fluctuations in workload.

## Key features

Although there is no 'typical' PEC, most take place in the context of restructuring and have two main objectives:

- to minimise reductions, preserve and/or stabilise employment;
- to reduce the organisation's costs and/or improve its ability to adapt, thereby contributing to the future conditions for economic growth and job creation.

Box 1 lists the main contents of PECs. Four main categories can be distinguished:

1. Those which redistribute work, including reductions in collectively agreed and effective working time and lifetime working hours. These may also include the extension of part-time work as well as job rotation.

### *Box 1* Contents of PECs

#### **Work redistribution**

- Temporary or long-term reduction in the working week;
- Greater variability in and extension of working hours without overtime premium;
- The increased use of part-time work;
- Extension of operating hours (e.g. weekend work).

#### **Cost cutting**

- Reduction in pay levels and associated benefits,
- Lower starter rates for new employees;
- Commitments to moderate pay demands;
- Increases linked to key indicators such as prices, productivity, exchange rates;
- Share ownership.

#### **Productivity and adaptability**

- Conditions for use of fixed-term contracts, temporary work and contracting out;
- New forms of work organisation (e.g. team work);
- Training and development.

#### **Employability**

- Guarantees of employment and/or no compulsory redundancy (open-ended or specific period);
- Investment for particular establishments;
- Transformation of precarious into more stable jobs;
- Additional employment for specific groups (e.g. young people, long-term unemployed);
- The relocation of the workforce within the company;
- The introduction of 'work foundations' to improve the employment prospects of redundant workers.



2. Those which cut costs, such as wage restraint or wage differentiation for some or all workers, the introduction of variable forms of working time without premium payments and the expansion of forms of atypical employment such as temporary and sub-contract work.
3. Those which boost productivity and improve adaptability, such as training, job rotation and working time flexibility.
4. Those which improve the employment prospects of redundant workers where job cuts are unavoidable, e.g. employment 'companies' or 'foundations'.

In practice, the central thrust of most PECs is employment preservation rather than employment creation. Other than the French cases, few examples of job creation are to be found, although a number of Dutch, Italian and Spanish agreements include provisions for groups such as temporary employees, apprentices and women. Some redundancy, albeit almost invariably voluntary rather than compulsory, is often present. Significantly, too, reductions in pay, above all in basic collectively agreed rates of pay, are rare.

Training does not figure prominently, which may reflect that its importance is accepted and there is no need to make specific provision. Where it is a feature, management tends to prefer to invest in specific rather than general skills. Training for employability is rare and tends to go with provisions for employment 'companies'/'foundations'/'pools'.

**Three types of agreements**

Three main types of PECs may be identified. The first are agreements essentially concerned with the *survival* of the business or some of its operations. The second are agreements intended to aid the process of *retrenchment* – not so much a question of survival, but of slimming down in the light of changing market conditions. The third are agreements designed to help with the *adaptation* of the business to deal with new market situations. The three types, it must be emphasised, are not mutually exclusive: it is a question of balance. Also, negotiators may start in one group and end up in another.

**Sectoral differences**

Company PECs are concentrated mainly in three sectors: manufacturing, banking and recently-privatised public corporations, all of which have been experiencing considerable pressure to engage in restructuring.

In automobiles, food and drink, household appliances and some branches of electronics, each of the three types is to be found. Competition is increasingly global and markets are characterised by oversupply leading to pressure to lower prices at the

same time as improve quality and reliability. A small number of very large MNCs with increasingly integrated worldwide markets and production operations is also involved. An internal market for capital is a feature, forcing national managers and employee representatives to pay attention to the 'coercive comparisons' set by operations in other countries.

In banking, where many PECs are of the *retrenchment* type, large MNCs also dominate employment. Yet retail banking, where most employees are to be found, remains largely a domestic affair and there is nothing like the cross-national integration that exists in the automotive sector. In a context of increasing deregulation, pressures to change the traditional branch structure come from new technology and intensifying competition, as telephone and internet banking have taken off. A wave of mergers and acquisitions is also encouraging cost-cutting.

In air transport, telecommunications and other utilities, most PECs are of the *adaptation* type. Here deregulation has significantly reduced, if not eliminated altogether, the market protection that management used to enjoy. Privatisation has also meant that management has to take into account the expectations of shareholders in running the business. Indeed, a major reduction in the cost bases involving employment cuts has often been seen as a necessary preliminary to an effective flotation of shares on stock markets.

Clearly, then, the emphasis is not a matter of choice. A wide range of factors is involved, over which negotiators have little control. In some cases, circumstances effectively condemn negotiators to cost reductions, whereas in others they make it possible to contribute to future competitiveness through share ownership and employee representative involvement in the strategic direction of the business.

**Country differences**

Despite considerable differences of emphasis, the Dutch, German, Irish, Italian and UK PECs tend to be characterised by a mix of guarantees on employment security, reductions in employment and the arrangements for handling them, coupled with provisions for flexibility of working time and work organisation. Spanish PECs cover much of the same ground, but also emphasise the transfer of temporary into permanent jobs. In France, employment creation rather than reduction or preservation is the key feature. In Austria and the Scandinavian countries, explicit links between employment and competitiveness are less obvious at company level, whereas employment 'companies' or 'foundations' are more in evidence.

These variations reflect different national level approaches and frameworks rather than economic

circumstances. For example, in the Scandinavian countries, the link between competitiveness and employment has been the subject of tripartite agreements dealing with general economic policy, wage policy and pro-active employment policies. The result is that company PECs occur only in exceptional circumstances. In the UK, by contrast, competitiveness and employment is seen primarily as an issue for management and trade unions, reflecting the tradition of ‘voluntarism’. In France, Italy and Spain, the division of responsibilities of government and the social partners for the link between competitiveness and employment is different again. An important focus for company PECs is the specific issues of legislation or higher level agreements, such as a reduction in working time or transfer of temporary into permanent jobs.

### The parties and their motives

Whereas sectoral agreements involve employers’ organisations and trade unions, company PECs often involve actors new to negotiations. The managers can be line or personnel specialists. Employee representatives can be trade union officials or work councillors, depending on the legal framework. In both cases, several tiers can be involved, reflecting the fact that what is essentially a framework agreement devolves responsibility for implementation to individual business units or workplaces.

As Box 2 shows in detail, PECs offer management an opportunity to reduce costs, improve flexibility and change the culture of the organisation to reflect

increasing competitive pressures. For employee representatives, negotiations offer the possibility to try and preserve employment and also to strengthen their role in company decision making.

The research reveals other important underlying considerations, such as management’s need to obtain the agreement of employee representatives in order to change the terms of existing collective agreements. Moreover, intensifying competition requires management both to minimise costs *and* promote the cooperation of the workforce necessary for continuous improvement. In these circumstances, the legitimacy of management decision making is profoundly important, putting a premium on employee representatives’ agreement.

For employee representatives, engagement is very difficult to avoid. Workplaces may be closed with a loss of jobs or starved of investment. By refusing to negotiate, employee representatives forego the opportunity to extend the bargaining agenda to issues that may have been long-standing aims. Above all, they run the risk of being accused of abandoning their members when they are most in need of representation to reduce the number of job losses and/or improve on management’s initial proposals for changes.

Although not usually directly involved, the public authorities very often have an important influence on both the context and the process of negotiations, being especially helpful in getting negotiations off the ground where there is a legacy of suspicion and mistrust. The effect is to add to the pressure on the

#### Box 2 Main motives for supporting negotiation of PECs

##### Management

- Reduce labour costs;
- Improve flexibility of working time and work practices;
- Legitimise introduction of change;
- Retain key human resources;
- Increase motivation and identification of employees with the company;
- Improve company image in local community.

##### Employee representatives

- Save jobs;
- Help organisation to remain viable;
- Maintain membership base;
- Maintain negotiating credibility;
- Extend bargaining agenda;
- Strengthen role in company decision making.

##### Government

- Encourage social partners to take greater responsibility for employment issues;
- Encourage process of social dialogue at meso and micro level.



parties to reach agreement and to reduce the abuse resulting from any imbalance in the bargaining relationship.

**The process**

Many PECs have taken place against a background of crisis, with management often initiating the negotiations with their own bargaining agenda. In many cases employee representatives feel they have little alternative but to negotiate. Yet few PECs appear to be ‘imposed’. Once negotiations are started, most appear to be ‘genuine’, requiring considerable time and resources on the part of both parties. Moreover, although concessions are demanded of employees, the trade is rarely one way.

Critically important, too, unlike the USA where the term ‘concession bargaining’ was originally coined, there are no obvious signs that management has been trying to undermine the position of employee representatives. On the contrary, one of the more remarkable features of PECs is the extent to which management goes out of its way to ensure that it has the agreement of employee representatives in order to maximise the legitimacy of what it feels has to be done.

Overall, the process of negotiating PECs displays many of the characteristics of the ‘integrative bargaining’ associated with the Walton and McKersie framework. Certainly many PECs use a number of the standards mechanisms of ‘integrative bargaining’ to avoid the conflict that can occur in ‘distributive bargaining’ such as joint working parties.

It also seems that, once management and employee representatives have negotiated a PEC, they are likely to do so again. Some companies, e.g. those in the automotive sector, have negotiated several agreements. The generation of agreements is one of the key influences on the contents of PECs: the more agreements, the more likely the introduction of new contents. Management is also less likely to act unilaterally.

**Effects**

***Impact on competitiveness and employment***

Even though it is impossible to measure the impact, most of those involved feel that PECs have made a positive contribution to competitiveness and employment. In many cases they have safeguarded jobs in return for improvements in key areas of flexibility, such as pay, working time and work organisation. They are also reckoned to have positive effects in areas such as greater working time flexibility for employees, greater security and autonomy, and improved opportunities for training and development.

It is very clear, however, that PECs are not a sufficient condition for maintaining competitiveness. In cases such as Volkswagen, PECs have made a significant contribution to overcoming a crisis and building for the future. In others, such as Rover, PECs have helped to deal with immediate crises, but have been unable to overcome other problems such as weaknesses in the model range.

There are cases where there has been a worsening of some of the conditions of employment. New recruits have sometimes had to endure inferior conditions albeit for short periods. Improvements in conditions have often benefited one group more than another where harmonisation has been involved.

There is an argument that PECs benefit employed ‘insiders’ at the expense of unemployed ‘outsiders’. In theory, it might be argued, negotiators should be reducing pay rather than employment. The problem is that the assumption lying behind this viewpoint, that labour is simply a factor of production to be bought or sold like any other, is seriously flawed. It is hardly surprising that both employee representatives and managers are unenthusiastic about reducing pay. The maintenance of pay levels is necessary to secure the cooperation and commitment of the workforce essential for continuous improvement.

It is important to note also that PECs have in many cases sought to improve the position of ‘disadvantaged’ groups such as women, the young and long-term unemployed and ethnic minorities.

***Impact on collective bargaining***

Company PECs are part of the trend of decentralisation of collective bargaining prevalent in Western Europe since 1980. Sometimes they have benefited from the decline of sector-level negotiation (as in the UK) and sometimes they have been made possible by the widening of the field of responsibility in company negotiation (as in France, Italy and the Netherlands). In other countries, they reflect the introduction of ‘opening clauses’ or ‘hardship clauses’ into sectoral agreements (as in Austria and Germany).

Decentralisation increases the stresses and strains within trade unions and can pitch workplace against workplace. There are nonetheless benefits in terms of the increased scope of collective agreements and the involvement of a wider group of managers and employee representatives in their negotiation and administration.

However, PECs do not do away with the need for sectoral agreements. On the contrary, the evidence suggests that there is a key role for higher level agreements to play in setting guidelines for company bargaining as well as continuing to establish minimum standards.

PECs can be concluded in a wide spectrum of situations ranging from 'concession bargaining' to 'partnership agreements'. Other things being equal, however, the successful negotiation of PECs forces parties to adopt a more 'integrative' approach to collective bargaining. Not only is the negotiation of trade-offs involved but also on-going joint monitoring and assessment since many of the measures are medium-term in both their implementation and their effects.

There is some evidence that PECs are encouraging standard approaches and conditions, such as working time 'corridors' and team working. Arguably, however, PECs are simply the vehicle for this development. The striving to achieve 'best practice' in large companies and the pressures of an internal market for investment are producing this effect regardless of collective bargaining.

### **Lessons for the future**

There are a number of practical implications to be drawn from the comments of the national correspondents or their interviewees. Others are implicit in the analysis.

#### *Prerequisites*

There would appear to be three main prerequisites for the successful negotiation of PECs:

#### *A consensus about the need for change*

Unless this is present, there is unlikely to be a basis for negotiations, let alone agreement. Here the earlier discussion of the features of the sectors where PECs are to be found takes on a special significance. Pressures for change are difficult to ignore.

#### *Extended mutual recognition*

Management has to recognise the full implications of employee 'voice'. This means involving employee representatives not only in negotiation of pay and conditions, but also in issues traditionally associated with managerial prerogative, e.g. business planning. For their part, employee representatives have to recognise the pressures managers are under to make changes and be willing to help implement them.

#### *The need for quid pro quos*

There have to be concessions on both sides. Inevitably, the temptation for management is to emphasise the sacrifices that employees have to make and to ignore the need for employee representatives to have something other than survival to show their members in return. Yet unless managers are willing to meet some employee aspirations, there is unlikely to be agreement.

#### *A problem-solving approach*

PECs should be seen as a form of integrative bargaining. Managers, above all, should be aware that this involves three key steps:

- joint discussion and identification of the problem;
- joint gathering of information about and discussion of different alternative solutions and the consequences;
- a willingness to jointly evaluate the alternative solutions and come up with a mutually acceptable solution.

All parties should have some appreciation of the techniques of integrative bargaining. One of these is a willingness to contemplate a wide agenda of issues which would make trade-offs more likely. Another is to widen and deepen the committee structure that normally handles negotiations. Outside agencies can also be used to facilitate a problem-solving approach, especially government agencies enjoying the trust and respect of management and trade unions.

#### *The importance of involvement and participation*

Agreements at higher levels can at best establish guidelines and parameters for workplace negotiations. By implication, the managers and employee representatives who are going to have to live with the outcome of any agreement also have to be involved.

In the case of multinational companies, the potential for headquarters management to play one unit off against another is clearly there. One of the logics of having an internal market is the opportunity that it brings to use on-going comparisons of costs and quality to promote continuous improvement. Yet this is something that has to be exercised with caution. Local management has to be given some freedom to negotiate with their employee representatives, otherwise the exercise will appear to be a pointless charade.

#### *The importance of communication*

The critical importance of communication is a recurring theme in any discussion of the management of change. PECs are no exception. In the Lufthansa case, for example, the researchers found that the elaborate communication and participation structures which had been specially put in place contributed significantly to communicating and legitimising the restructuring measures and finally to making the whole process a success.

The point applies no less to trade unions than it does to management. In the Telia case in Sweden, for example, cooperation between the local branch of the union, which made the deal and the union representatives in the workplaces, was shown to be unsuccessful due to the fact that too little



information had been given to these union representatives about the reasons for the agreement.

**A need for realism**

Negotiators need to be realistic about what can be achieved in the midst of so much uncertainty. In the words of one commentator, ‘If the product is not right, high-standard employment practices cannot redeem a situation’. Management must not promise what it cannot deliver. The greater disillusion comes from broken promises and a failure to communicate.

**Conclusion and policy implications**

A balanced judgement on PECs is appropriate in the light of the available evidence. Criticisms can be certainly levelled. Taken together, however, the package of provisions involved in many PECs is impressive for both the range and depth of the coverage. Anyone studying the agreements cannot fail to be impressed by their comprehensive nature and the time and effort that must have gone into their drafting. Collective bargaining, it seems, is proving itself to be very capable of coping with the increasing complexities of managing the employment relationship as well as continuing to provide a mechanism for dealing with issues of distribution. Indeed, given the sensitivity as well as the complexity of the issues involved, it is difficult to imagine that the alternative processes (namely legislation and management decision) could adequately deal with them.

Evidently, policy makers, at both EU and national levels, have a fundamental role to play in maximising the stability of the macro-economic environment in which the social partners have to operate. They also have a key part to play in ensuring an appropriate mix of more flexibility within micro-economic policies and a regulatory framework that promotes minimum standards on information and consultation to encourage the modernisation of employment relations.

As well as encouraging benchmarking and the dissemination of information about good practice, two things are required if PECs are to be a key ingredient in the modernisation process. The first, which takes us back to the prerequisites for the successful negotiation of PECs, is support for involvement of employees and their representatives. The second is support for those forms of learning that promote employability. Here there is a need to recognise that, although management may be willing to invest in forms of learning that equip their workforce with the necessary skills to perform present and future tasks *within* the organisation, they may not be so ready to invest in forms that promote employability *without*. To repeat an earlier point, management tends to prefer to invest in specific rather than general skills. It is evident that if policy makers are serious about encouraging employability, they will have to do more to structure things to help bring it about.

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