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Stefan Zagelmeyer\*

## **The Development of Governance Structures in Britain and Germany: A Comparative Inquiry\*\***

This article analyses and discusses the development of governance structures for the employment relationship in Britain and Germany from a comparative perspective. The first section briefly introduces governance systems for the employment relationship in both countries and then outlines recent trends. The second section summarises quantitative studies on establishment-level determinants of governance structures. The third section contrasts and discusses the experiences of Britain and Germany and speculates about the future of collective bargaining in both countries.

### **Die Entwicklung von Governance-Strukturen in Großbritannien und Deutschland. Eine vergleichende Untersuchung**

Dieser Aufsatz analysiert und diskutiert die Entwicklung der Governance-Strukturen für die Arbeitgeber-Arbeitnehmer-Beziehungen in Großbritannien und Deutschland aus vergleichender Perspektive. Der erste Abschnitt stellt kurz die Governance-Systeme in beiden Ländern vor und berichtet anschließend über neuere Entwicklungen. Der zweite Abschnitt gibt einen Überblick über quantitative empirische Studien zu den Determinanten der Governance-Strukturen in Großbritannien und Deutschland. Der Aufsatz schließt mit einer Diskussion der Entwicklungen in Großbritannien und Deutschland sowie mit Mutmaßungen über die Zukunft kollektiver Verhandlungen in beiden Ländern.

Key words: **Collective bargaining, decollectivisation, decentralisation, Great Britain, Germany**

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## 1. Introduction

The „essence of an effective employment relationship is one in which the parties both successfully resolve issues arising from their conflicting interests and successfully pursue joint gains in cases where they share common interests“ (Kochan/Katz 1988: 7). Transaction-cost theory argues that the optimal co-ordination of economic transactions requires both contractual incentives to ensure efficient behaviour by the parties and also regulatory organisations and institutions (Baron/Kreps 1999: 91). Efficiency thus becomes a question of institutional design and governance structure. Williamson (1996: 11) defines governance „as an institutional framework in which the integrity of a transaction, or related set of transactions, is decided.“

One may distinguish three basic types of governance mechanism and respective governance structures for the employment relationship: individual governance by individual agreement between employer and employee; collective governance by collective agreement between employers and representational bodies of the employees; and statutory governance by state regulation. Over time, governance structures may emerge, change their shape, or disappear.

This article analyses and discusses the development of governance structures for the employment relationship in Britain and Germany from a comparative perspective. The first section briefly introduces governance systems for the employment relationship in both countries and then outlines recent trends. The second section summarises quantitative studies on establishment-level determinants of governance structures. The third section contrasts and discusses the experiences of Britain and Germany and speculates about the future of collective bargaining in both countries.

## 2. The decentralisation and decollectivisation of governance structures in Britain and Germany

### *Britain*

British industrial relations have been characterised by the tradition of voluntarism (Flanders 1974). This tradition includes the preferences of the industrial relations actors—the employers, the unions, and the state—for voluntary procedural and substantive regulation of the employment relationship and also for a non-legalistic approach to collective bargaining (Edwards et al. 1992: 21; Gospel/Palmer 1993: 155).

The first signs of decentralisation in the British governance system, then dominated by national multi-employer collective bargaining, had already appeared in the immediate post-war period, when industry-level agreements became less important with the rise of local and shop-floor bargaining (Department of Employment 1971). This type of bargaining evolved from the government-initiated establishment of joint production, consultative and advisory committees in the factories during the Second World War (Lerner 1964: 5f.). The termination of most committees after 1945 left a legacy of shop stewards (Phelps Brown 1986: 148), who gained in strength with the increase in labour demand and labour shortages, and could raise wages above nationally-agreed rates (Booth 1995: 24) independently of the control of employers, unions and governments alike.

Related to the issue of shop-floor bargaining is the growing importance of productivity bargaining, something that several reports by institutions associated with incomes policies had explicitly recommended during the 1960s (Mitchell 1972: 152; Clegg 1972: 305ff.). In productivity bargaining, pay increases are conceded in exchange for union commitments to changes in working practices which are expected to increase labour productivity (Terry/Dickens 1991). In a number of cases, productivity bargaining led to the withdrawal of companies from the employers' association when the association insisted that the national agreement be applied (Department of Employment 1971: 2).

Deteriorating economic performance, inflationary wage settlements, and the growing importance of shop-stewards, stimulated debate about the most appropriate levels of collective bargaining. In 1968 the Royal Commission on Trade Unions and Employers' associations (known as the Donovan Commission) reported that workplace bargaining was more important than anyone had realised. The Donovan Commission recommended the formalisation of plant-level industrial relations—that is, management should grant recognition and official status to shop stewards, and with them develop written plant-level collective agreements to supplement the multi-employer agreements (Royal Commission 1968).

Between the Donovan Commission and the coming into power of the Conservative government in 1979, two divergent but related trends had a lasting impact on governance structures in Britain. Within the framework of national incomes policies, the government unsuccessfully attempted to formalise collective bargaining and to control wage-bargaining by several means such as the 1971 Industrial Relations Act and the social contract recommendations. Even so, local industrial relations flourished. Company or workplace bargaining was increasingly considered not only as a supplement but also as an alternative to national level bargaining. The significance of multi-employer collective bargaining continued to decline, although formal coverage rates remained quite high.

Whereas all previous post-war governments took a positive stance towards (centralised) collective bargaining, the return to power of the Conservative Party in 1979 heralded a significant change in government attitudes towards collective bargaining. Collective organisations and institutions such as unions and collective bargaining were now believed to prevent the labour market from functioning by exerting monopoly power (Deakin/Morris 1998: 41). And so, instead of continuing to pursue the path of collective *laissez-faire*, state corporatism, and Keynesian economic policy, the Conservative government adopted a radical programme of deregulation, privatisation, and monetarist economic policy. The Thatcher government maintained an especially hostile stance towards national agreements, and explicitly criticised them for establishing rigid national wage-rates that restricted downward flexibility of wages and thus contributed to unemployment (Department of Employment 1988, cited in Brown/Zappala 1993: 61).

Reform of industrial relations was a central part of the Conservative programme. New legislation limited the right to strike, reduced union rights, and subjected the unions to an unprecedented degree of external regulation and supervision. The rights of individual union members were strengthened and the closed shop abolished. In the

early 1980s the repeal of the 1946 Fair Wages Legislation, which provided for the sectoral extension of multi-employer agreements to non-union firms, removed the floor of wages for non-union firms. The ending of the statutory system of industrial training boards in most sectors in 1982, and the abolition of the Wages Councils in 1993, further undermined national bargaining (Brown et al. 1997; Deakin/Morris 1998: 39ff.).

Thus, the period between 1979 and 1997 saw a significant reorganisation of governance structures in Britain. Analysis of the four cross-sectional waves of the Workplace Industrial/Employment Relations (WIRS/WERS) surveys permits estimation of coverage rates of different governance structures for British establishments with 25 or more employees for the period 1980 to 1998 (Table 1).

**Table 1: Coverage rates of governance structures in Britain, 1980-1998**

(Source: Zagelmeyer 2004)

in % of establishments with 25 or more employees	1980	1984	1990	1998
No collective bargaining	33	34	47	68
Single-employer collective bargaining	20	20	21	15
Multi-employer collective bargaining	47	47	32	18

Between 1980 and 1998, the sector with individual regulation (or 'no collective bargaining') grew from 33% to 68% of all establishments with 25 or more employees. While single-employer collective bargaining covered about 20% of those establishments between 1980 and 1990, it had declined to 15% in 1998. Multi-employer collective bargaining stood at about 47% of those establishments in 1980 and 1984, and then declined to 38% in 1990 and 18% in 1998. During the second half of the 1980s, the multi-employer arrangements were terminated on a large scale in a number of industries, most significantly in engineering and shipbuilding (Industrial Relations Services 1989a, 1989b, 1990a, 1990b, 1993, 1994a, 1994b). A considerable number of companies, especially large ones, withdrew from multi-employer arrangements, which in some cases led to the collapse of the employers' association and/or the termination of the national agreement (Purcell/Ahlstrand 1994: 125). As a consequence, many employers' associations introduced a new membership status, which provided that members were not automatically bound by collective agreement (EIRR 1994; Industrial Relations Services 1994a, 1994b).

After almost two decades of Conservative rule, the Labour Party was re-elected to office in 1997. New Labour introduced a national minimum wage law in 1998, signed up for the European Community Agreement on Social Policy, and strengthened employment protection and active labour market policy (Edwards et al. 1997). The most recent development, which might have a profound effect on collective bargaining structure, is the passing of the Employment Relations Act of 1999, which came into effect on 6 June 2000 and provides the following recognition procedure. Assuming that its two preconditions are met—namely, that the union organises 10% of the workforce within the proposed bargaining unit, and that a majority of workers in the proposed unit are likely to favour recognition—then, where a union recognition claim cannot be resolved bilaterally with the employer concerned, the union may refer

the matter to the tripartite Central Arbitration Committee (CAC). The CAC determines the scope of the bargaining unit and declares whether the union should be recognised (Hall 2000).

It will be interesting to see how the most recent developments in British industrial relations will affect the development of governance structures. Brook (2002: 344) reports that the trend of continuing membership decline, which started in 1980, appeared to have stopped in 1997 and has since been slightly reversed, but with union density still declining. With regard to governance structures, one may expect that the introduction of the new recognition procedures will strengthen unions in the workplace and also strengthen collective bargaining as an institution, as early research based on case studies has reported (Oxenbridge et al. 2001).

### **Germany**

Central to the German collective bargaining system is the concept of the *Tarifautonomie* (collective bargaining autonomy), which describes the legal right of coalitions of employers and employees to regulate the terms and conditions of employment within the framework of labour law, independently of any influences of the state. Collective bargaining takes place mainly at regional level, by industry. In certain industries, however, collective bargaining is also quite frequent at national or company level. Formally, only the signatories and their members are legally bound by the collective agreement, although employers usually apply the contracts to all employees. Apart from collective bargaining, other mechanisms and levels exist where wages and employment conditions are bargained over; for example, workplace bargaining between works council and management. In general, it is unlawful for works agreements to contain provisions which are regulated by collective agreement. However, a collective agreement can expressly permit the conclusion of works agreements to supplement it.

The first signs pointing towards decentralisation of collective bargaining occurred in the second half of the 1960s, with the integration of the unions into incomes policies in order to fight a deteriorating economic situation. This led to discontent among the rank-and-file union members over the 'moderate wage' policy, the excessive centralisation of the unions' policy, and union involvement in the concerted action arrangement at national level. Subsequently, the rank-and-file demanded decentralised bargaining. At the same time, protection-against-rationalisation-agreements (*Rationalisierungsschutz-Abkommen*) occurred in various industries, including provisions for retraining, extended periods of notice, financial compensation in the event of job loss, or phased compensatory payments in the event of downgrading to lower pay grades.

The early 1970s then saw the emergence of qualitative bargaining policy (*Qualitative Tarifpolitik*), which aimed to improve working life and to protect employees against the adverse effects of rationalisation and technological change. The metal sector framework wage agreement included, among other things, provision for the establishment of performance requirements, work organisation, and rest periods. That agreement was an early example of the insertion of an opening clause in collective agreements, as it included framework-provisions and minimum standards which were to be bargained over at establishment level. To this end, establishment-level bodies were given certain co-determination rights (Bispinck 1999: 5; French 2001: 8).

The conditions for collective bargaining changed in the early 1980s, when Germany was hit by recession and increasing unemployment, and a liberal-conservative coalition took over government in 1983. Subsequently, the focus of the unions' collective bargaining policy shifted towards collective working time reduction in order to 'humanise' working life and to fight unemployment. In 1984, 1987, and 1990, a series of collective agreements in the metal and printing industries reduced weekly working hours from 40 to 35, to be implemented by 1995 (Bispinck 1996: 6).

The agreements to reduce weekly working hours had far-reaching consequences. The unions achieved their goal only by permitting a flexibilisation of collectively-agreed working time, which was to be implemented at local levels. In the metal sector, these provisions had to be implemented by works agreements at establishment level, implying a delegation of authority from multi-employer collective bargaining to workplace bargaining between works councils and management (Bispinck 1999: 7).

In the 1990s, German unification, the subsequent transformation process, and the transfer of the western German industrial relations institutions to eastern Germany considerably changed the scene for collective bargaining. A trend which started in the mid 1980s but took off in the early 1990s was the conclusion of multi-employer agreements, which include so-called 'opening clauses' that delegate bargaining authority to lower levels, usually to the individual employer and the works council, in order to allow for temporary deviations from the central multi-employer agreement. The background to this trend was the companies' demand for regulations on working conditions to be more company-specific in order to maintain and/or increase competitiveness. That demand was supplemented by a demand from the workforces to increase job and employment security against the background of rising unemployment (Bellman et al. 1999).

In addition, a phenomenon of increasing importance has been the conclusion of company-level employment pacts, which have been concluded either as company agreements, works agreements, or some more informal agreement between management and works council. Typical employment pacts include guarantees of jobs, employment security, or employment levels (plus, in some cases, a continuing commitment to invest in the production locality) by the company in exchange for 'concessions' by the employees, i.e. unpaid increases in working time, increased working time flexibility, wage cuts, or a reduction of payments above contract wages (Zagelmeyer 2000).

With respect to eastern Germany, the transfer of the industrial relations and collective bargaining institutions resulted in a number of frictions. Employers' associations, especially, had and still have difficulties in organising potential members. A major challenge to the system was the unions' goal of bringing eastern wages up to western levels, regardless of productivity. In 1993, the metal-sector employers unilaterally terminated the collective agreement on phased adjustment. After two weeks of industrial action the notice was repealed, while the adjustment period was extended and a hardship clause was introduced to allow local deviations from the industry agreement (Bispinck 1999: 8).

Despite the post-unification membership boom in eastern Germany, trade union density in union density has since been declining (Hassel 1999: 493f.). As a reaction to continued membership losses, a considerable number of employers' associations have introduced a new membership status, which provides that under these rules the member is not automatically bound by any collective agreement.

Whereas, for a long time, representative information of collective bargaining coverage in Germany had not been available, the IAB establishment panel (*IAB-Betriebspanel*) permits estimation of coverage rates of different governance structures for German establishments with 1 or more employees. Table 2 displays coverage rates of governance structures in Germany between 1996 and 2001.

**Table 2: Coverage rates of governance structures in Germany, 1996-2001**

(Sources: Kohaut/Schnabel 1999, 2001, 2003a, 2003b; Lehmann 2002)

in % of establishments with 1 or more employees	1996	1998	2000	2001
	Western Germany			
No collective bargaining	41	47	52	53
Single-employer collective bargaining	10	5	3	3
Multi-employer collective bargaining	49	48	45	45
	Eastern Germany			
No collective bargaining	57	66	73	72
Single-employer collective bargaining	15	8	4	6
Multi-employer collective bargaining	28	26	23	22

Between 1996 and 2001, the sector with individual regulation (no collective bargaining) grew from 41% to 53% of all western German establishments with one or more employees. During that period, coverage of western German establishments by single-employer collective bargaining decreased from 10% to 3%. Multi-employer bargaining covered 49% of establishments in 1996 and 45% in 2001.

For eastern Germany, the trend was rather similar. Between 1996 and 2001, the sector with individual regulation grew from 57% to 72% of eastern German establishments, while coverage by single-employer bargaining decreased from 15% to 6%. Coverage by multi-employer collective agreements fell from 28% of all establishments in 1996 to 22% in 2001.

### 3. Determinants of Governance Structures: Quantitative Analyses

Against the background of recent developments in Britain and Germany, the following question emerges. What factors actually determine these developments?

Table 3 and Table 4 provide an overview of the existing quantitative studies-based on the British WIRS/WERS or the German IAB establishment panel-of the establishment-level determinants of governance structures for Britain and Germany, summarizing the type of data, the method of (multivariate) analysis, the definition of the dependent variable, and the main results concerning the explanatory variables. Al-



though there is a considerable variation with regard to the definition of the dependent variables, most studies select similar sets of independent variables. The overview is confined to research on the three types of governance structure, namely individual regulation, single-employer collective bargaining, and multi-employer collective bargaining.

Research based on the British Workplace Industrial/Employee Relations Survey series (Table 3) includes a large number of research studies on the determinants of union recognition. Studies by Beaumont/Harris (1989, 1991) yield the results that union recognition is positively associated with organisation and establishment size, age, the percentage of female employees, and the percentage of part-time employees, whereas union recognition is negatively associated with the proportion of manual workers. Research by Disney et al. (1995) and Machin (2000) shows that union recognition is positively associated with establishment size, establishment age, as well public-sector and private-sector manufacturing establishments. According to these studies, union recognition is negatively associated with the percentage of part-time employees, foreign ownership, and single-establishment companies. Nonetheless, it has to be borne in mind that these studies explicitly address the issue of union recognition, and not the issue of individual regulation versus collective bargaining. Zagelmeyer (2004) explicitly addresses the latter question and shows that the decision between individual regulation and collective bargaining is positively associated with establishment size, organisation size, and establishment age, and negatively associated foreign ownership.

There are only two studies of collective bargaining centralisation in Britain. Research by Booth (1989) shows that centralisation is negatively associated with establishment/organisation size and foreign ownership, and positively associated with the share of labour costs in turnover. Zagelmeyer (2004) shows that centralisation is negatively associated with establishment size and positively associated with the percentage of skilled employees. As concerns the impact of measures of competition and the geographical scope of the product markets, the research to date is inconclusive.

Research on the determinants of governance structures based on the German IAB Establishment Panel is most comprehensive with regard to the alternative choices examined and most heterogeneous with regard to explanatory determinants included in the models (Table 4). As far as the choice between individual regulation and collective bargaining is concerned, a study by Bellmann/Kohaut (1997) shows that establishment size, establishment age, the existence of a works council, and the percentage of skilled employees are positively associated with collective bargaining, and that establishments with a high percentage of exports in turnover are less likely to have collective bargaining. Research on the choice between decentralised regulation and multi-employer collective bargaining (Bellmann et al. 1999; Kohaut/Schnabel 2001, 2003b; Lehmann 2002) shows that establishment size, subsidiary establishment of multi-plant firms, and establishment age are positively associated with multi-employer collective bargaining.

**Table 3: Quantitative empirical studies on the determination of governance structures (Britain, WIRS/WERS)**

Author(s), Data, Method	Dependent variable	Summary of main significant results concerning explanatory variables
Booth (1989), 680 private sector establishments, WIRS84 (cross-section), multinomial logit.	Organisation level bargaining (OLB) and establishment level bargaining (ELB) vs. multi-employer bargaining (base category).	+ OLB: Organisation size of 50,000+ employees, foreign ownership, job-evaluation schemes, share ownership or value added bonus schemes. - OLB: Labour share in costs, member of employers' association, trade-union density (50-74%). ∅ OLB: Age, payment-by-results, union density (75%-99%, 100%), organisation size of 5,000-50,000 employees + ELB: Age of establishment, foreign owned, metal manufacturing. - ELB: Labour share in costs, member of employers' association. ∅ ELB: Trade-union density, establishment size, share ownership or value added bonus schemes.
Beaumont/Harris (1989), 800 private sector establishments, WIRS84 (cross-section), logit.	Union recognition (1) vs. non-recognition (0).	+ Establishment and organisation size, establishment age, percentage of manual workers, technology. - Percentage of female and part-time employees, joint consultative committees. ∅ Foreign ownership, profit-sharing.
Beaumont/Harris (1991), 2611 private sector establishments, WIRS80, WIRS84 (cross-section), logit.	Union recognition (1) vs. non-recognition (0).	<i>Results for manual employees:</i> + Establishment and organisation size, establishment age, percentage of manual workers. - Percentage of female and part-time employees. ∅ High technology plant, head office, foreign ownership, shift work, financial performance, growth in sales.
Gregg/Naylor (1993), 854 private sector establishments, WIRS84 (cross-section), probit.	Union recognition (1) vs. non-recognition (0).	+ Establishment size, establishment age.
Disney et al. (1995), WIRS80, WIRS84, WIRS90, (cross-section, pooled), logit.	Union recognition (1) vs. non-recognition (0).	+ Public sector, private sector manufacturing, establishment size, establishment age, percentage of manual workers. - Percentage of part-time employees, foreign ownership, single-establishment companies.
Machin (2000), all WIRS/WERS waves (cross-section, pooled data), probit.	Union recognition (1) vs. non-recognition (0).	+ Public sector, private sector manufacturing, establishment size, establishment age. - Percentage of part-time employees, foreign ownership, single-establishment companies.
Zagelmeyer (2004), all WIRS/WERS waves, private sector establishments (cross-section, UK, pooled data), multiple estimation techniques.	Model 1: NoCB (0) vs. CB (1).	<i>Summary of selected results (for details, see Zagelmeyer 2004):</i> + Establishment size, organisation size. - New establishments, foreign ownership. ∅ Competition, percentages of female, part-time, and skilled employees, and the existence of shift-working schemes.
	Model 2: SECB (0) vs. MECB (1).	+ Percentage of skilled employees. - Establishment size.
	Model 3: MECB (2) vs. SECB (1) vs. NoCB (0).	+ Establishment size, organisation size, percentage of skilled employees. - Percentage of female employees, percentage of part-time employees, establishment, foreign ownership. ∅ Shift-working schemes, central representation of personnel management on the top governing body.

Notes: NoCB = no collective bargaining, CB = collective bargaining, SECB = single-employer collective bargaining, DR = decentralised regulation, MECB = multi-employer collective bargaining, + = positive significant association at 10% level, - = negative significant association at 10% level, ∅ = no significant association at 10% level.

**Table 4: Quantitative empirical studies on the determination of governance structures (Germany, IAB Establishment Panel)**

Author(s), Data, Method	Dependent variable	Summary of main significant results concerning explanatory variables
Bellmann/Kohaut (1997), 2936 establishments, IAB Establishment Panel (cross-section, 1995), probit.	No collective bargaining (0) vs. collective bargaining (1).	+ Percentage of female employees, establishment size, works council. – Export share in turnover, new establishment. ∅ Percentage of skilled employees, turnover, outsourcing, reorganisation, technology, earnings.
Bellmann et al. (1999), 2973 (Model 2: 1232) western German establishments, 3140 (Model 2: 920) eastern German establishments, IAB Establishment Panel (cross-section, 1997), probit.	Model 1: DR (0) vs. MECB (1).	+ Establishment size, subsidiary. – Establishment size (sqr.), new establishment, legal status. ∅ Percentage of unskilled employees, earnings, turnover, export share in turnover.
	Model 2: No quit of MECB (0) vs. quit of MECB (1).	– Establishment size, subsidiary (eastern Germany), wage-gap (western Germany). ∅ Establishment age, legal status, percentage of unskilled employees, earnings, turnover, export share in turnover, employment change, payment above collectively agreed wages.
Kohaut/Schnabel (2003a), 8021 western German establishments, 5301 eastern German establishments, IAB Establishment Panel (cross-section, 2000), ordered probit (analysis of quits 1999/2000 not reported here).	Model 3: MECB (4) vs. SECB (3) vs. NoCB and orientation at CB (2) vs. NoCB, no orientation (1).	+ Establishment size, subsidiary, foreign ownership (eastern Germany), percentage of skilled employees. – Establishment size (sqr.), new establishment (western Germany), legal status, foreign ownership (western Germany). ∅ New establishment (eastern Germany).
Kohaut/Schnabel (2003b), 9255 western German establishments, 5480 eastern German establishments, IAB Establishment Panel (cross-section 2001 and panel 2000-2001), probit (analysis of pooled data not reported here)	Model 1: DR (0) vs. MECB (1).	+ Establishment size, subsidiary, foreign ownership (eastern Germany), percentage of skilled employees. – Establishment size (sqr.), new establishment, legal status, foreign ownership (western Germany).
	Model 2: No quit (0) vs. quit of MECB (1).	+ Establishment size squared, – Establishment size, foreign ownership (western Germany), percentage of skilled employees (western Germany), payment above collectively agreed wages, works council ∅ Subsidiary, new establishment, legal status, foreign ownership (eastern Germany), percentage of skilled employees (eastern Germany), employment change.
Lehmann (2002), 7587 establishments (IAB Panel 1995-2000, cross-section and panel), multiple estimation techniques.	Model 1: DR (0) vs. MECB (1).	<i>Summary of selected results (for details, see Lehmann 2002):</i> + Establishment size, existence of works council, payment above collectively agreed wage-rates, shift work, percentage of skilled employees. – Establishment age, export share in turnover.
	Model 2: No quit (0) vs. quit of MECB (1).	– Establishment size, works council.

*Notes:* NoCB = no collective bargaining, CB = collective bargaining, SECB = single-employer collective bargaining, DR = decentralised regulation, MECB = multi-employer collective bargaining, + = positive significant association at 10% level, – = negative significant association at 10% level, ∅ = no significant association at 10% level.

All existing quantitative empirical analysis and discussion of the process of decentralisation and decollectivisation of governance structures for the employment relationship in Britain and Germany of the type summarised in Tables 3 and 4 faces the problem that the interpretation of the results may be highly subjective, while the results of the various quantitative studies cannot be really compared, owing to differences in the questions, the coding, the construction of the datasets, and the modelling procedures. Although there are now a number of studies addressing the issue of the evolution of governance structures, the state of our knowledge about causal relationships and the mechanisms of change is still unsatisfactory.

#### **4. Discussion**

As employment relations strategies, decollectivisation and decentralisation constitute processes that may arise out of complex combinations of micro-and macro-level determinants. A number of studies are available on the determinants of governance structures but most of them, especially those based on cross-sectional data, are characterised by difficulty in explaining changes in governance structures. The following section summarises the arguments as to why collective and governance structures may have deteriorated in Britain and Germany, with a specific emphasis on those arguments which are difficult to analyse in quantitative studies. It concludes with a speculative discussion of the future of collective bargaining in both countries.

##### ***Determinants of decentralisation and decollectivisation***

As far as the determinants of change are concerned, labour law and government policy are paramount. In Britain, the years of the Conservative government reinforced and boosted the trends of decentralisation and decollectivisation that already started before 1979. Legislation weakened union power and organisation. The Conservative rhetoric against multi-employer collective bargaining as well as the abolition of industrial training boards and the fair wages legislation, both of which provided incentives for employer cooperation, gave the death-blow to multi-employer bargaining in the private sector. In addition, the government abandoned corporatist incomes policies and advocated the value of a free-market economy. The recasting of labour law created a positive climate for new ways of managing employment relations, in which employers demanded a return of prerogatives and control from the unions.

In Germany, the picture is quite different. There were only limited attempts by the CDU-led government to initiate labour market deregulation, which employers interpreted as support for increasing labour market flexibility (French, 2001). In contrast to the UK after 1979, the value of industry-level agreements in Germany has never been seriously questioned, whether by the conservative Christian-Democratic Party (CDU) or by the labour-oriented Social-Democratic Party (SPD).

Changes in labour law and public policy are directly related to the second important factor, the decline of trade unionism. In Britain, most significant in this respect is the increasing number of establishments without union members and without union recognition. More recent workplaces, especially, are less likely to be subject to collective bargaining. One may surmise that, in the absence of union members from the company, only very few employers would establish any form of collective bargaining.

Rather, they would attempt to devise institutions that yield the potential benefits of a collective voice without having to bear the costs of monopoly unionism. Such institutions could be joint consultative committees, works councils, or other collective bodies representing the workforce. This argument may also apply to Germany although, unfortunately, quantitative evidence of falling levels of unionisation in the workplace is unavailable.

Third, collective bargaining and multi-employer bargaining may be institutions that have simply passed their zenith and are no longer consistent with today's business challenges. Institutions may become both ineffective and inefficient over time. A certain governance structure may have delivered certain net benefits to the industrial relations actors in earlier decades but may not pass the cost-benefit analysis any longer. Research on governance structures in Britain shows that, unlike single-employer bargaining, multi-employer bargaining neither yielded any wage moderation nor reduced the likelihood of industrial action (Zagelmeyer 2004). It would be interesting to see comparable research on governance structures in Germany.

Fourth, a number of organisational and management-related changes have taken place since the early 1980s, and some of these may be related to the decline of collective governance. As the empirical evidence suggests that establishment and organisation size are both positively associated with collective bargaining, one may argue that lean production (with its negative effect on establishment and organisation size) may have contributed to the decline of collective institutions, both in Germany and Britain.

Fifth, sectoral change appears to be an important factor. Service-sector establishments are less likely to participate in either collective bargaining or centralised collective bargaining. An explanation for this may be the reduced likelihood of service-sector employees being union members and/or a reduced demand by employers for collective governance as service-sector employment relationships inhibit a greater degree of flexibility.

Sixth, any analysis of collective bargaining centralisation and multi-employer collective bargaining should look at the development of employers' associations. One may argue that the demise of private-sector, multi-employer collective bargaining in Britain is closely associated with the decline of employers' associations during the 1980s. Although comparable nationally representative figures for German employers' associations are unavailable, there is some indication that the organisational density of employers associations in western Germany, at least in the metal sector, are declining, whereas in eastern Germany the employers' associations have had serious organisational problems ever since unification and the beginning of institutional transfer.

Finally, a further potential factor contributing to the decline of collective governance structures may be international economic integration. It is often assumed that multinational companies and companies with international markets take part in multi-firm arrangements less commonly because they develop their own organisation-based employment systems. However, recent research on the situation in Britain (Zagelmeyer 2004) shows that there is only weak evidence that establishments under foreign-control and/or with international product markets are negatively associated with collective bargaining or collective bargaining centralisation. For Germany, the most recent research

using data from the year 2001 shows that foreign ownership of companies is negatively associated with collective bargaining centralisation in western Germany, while there is a positive association for eastern Germany (Kohaut/Schnabel 2003b).

### ***Collective governance in Britain and Germany: Past and future***

Quantitative studies on the micro-determinants of governance structures in Britain and Germany yield, by and large, similar results. In addition, if one seeks to compare developments at industry level in, for example, the metal and engineering sector, elements of the process of decentralisation appear stunningly comparable (for details, see McKinlay/McNulty 1991; French 2001), although developments have taken place with a time lag of about a decade. Beginning with the increase in local bargaining activities, and continuing with the transfer of bargaining authority from multi-employer to single-employer levels, these processes also include the change of policies and services offered by employers' associations. Nonetheless, whereas multi-employer arrangements collapsed in the British metal sector at the end of the 1980s, the German metal sector is still in the process of organised decentralisation.

Two questions emerge. Why has the German governance system not decentralised or decollectivised more rapidly? And will it follow the same path as the British system?

In order to find answers to these questions, it seems useful to introduce two different analytical concepts of embeddedness. Institutional embeddedness refers to the institutional, i.e. legal, environment of collective bargaining, and is also closely associated with public policy. In contrast, organisational embeddedness refers to the organisational environment of collective bargaining—that is to say, the structure, strategy, and strength of trade unions and employers' associations. And with regard to these two types of embeddedness, Britain and Germany differ quite considerably.

As far as institutional embeddedness is concerned, the solid legal framework for collective bargaining and co-determination in Germany contributes to the effectiveness of collective governance. In contrast, the British tradition of non-legalism allows for faster changes in governance structures, the industrial-relations actors permitting. Institutional complementarities in the German system of industrial relations, e.g. between the apprenticeship system, corporatist policy-making, and central coordination of industry bargaining, create incentives for companies to remain with the employers' association in order to have a say in policy-making. Finally, in contrast to Britain, workplace collective bargaining is conducted by the works councils rather than by shop stewards. The fact that works councils enjoy legal status provides them with institutional security and makes them less dependent on rank-and-file support.

Although the decentralisation of collective bargaining began much earlier in Britain, the year 1979 marked a sea-change in government attitudes towards trade unions and collective bargaining, with significant changes in legislation and public policy. In contrast, political support for collective institutions did not cease in Germany during the period of conservative rule from 1983 to 1998. Hassel (2002: 315) identifies the continuing political support, institutionally backed by, among others, the current tripartite employment pact, and the penetration of trade unionists in all political parties, as the „single most important stabilizing factor in the German industrial relations sys-

tem". In Germany, centralised collective bargaining still enjoys legislative support in form of the option of extending collective agreements to non-federated companies by the Ministry of Labour (*Allgemeinverbindlicherklärung*) and the fair wages legislation.

What about the future? Currently, in Germany, there is a continuing trend of 'hollowing-out' of industry-level agreements by the organised and/or disorganised delegation of collective bargaining authority from multi-employer to single-employer collective bargaining. As in the case of Britain, this may reduce the effectiveness of multi-employer agreements. The impact of the increase in decentralised activities for the future of multi-employer bargaining will mainly depend on whether the German unions, while suffering from continuing decline in membership, succeed in gaining control of workplace bargaining either from or via the works councils, and whether the government continues to support (industry-level) collective bargaining. At the moment it appears as if the German system of union representation at the workplace level is struggling with the challenges of collective bargaining decentralisation.

For western Germany, the institutional embeddedness of the employment relationship based on legal and political institutions still appears to be able to provide sufficient incentives for employers to remain within the multi-employer collective bargaining system, while the multi-employer collective bargaining arrangements may be expected to further increase flexibility. For eastern Germany, however, the transfer of western German institutions after unification appears not to have been effective. The transition process of the eastern German economy, the organisational problems of employers' associations in organising eastern German companies, and the lack of tradition of operating within the western German institutional system may be among the various reasons.

The current British collective bargaining system relies less on legal and political institutions, and thus does not enjoy the institutional embeddedness of the German system. Rather, it is based on the organisational strength of one industrial relations actor, namely the unions. Now that the decline of unions has come to a halt at the end of the 1990s in terms of membership, one may expect this to strengthen collective bargaining, at least of the single-employer type. The major obstacle to the resurgence or multi-employer bargaining in the private sector will be the organisational incapability of the employers' associations in the absence of any political or institutional incentives for employers.

So, what will be the future of collective governance in Britain and Germany? Let us first turn to Britain. If the trend of union decline may be stopped permanently, or even be reversed, one may expect collective bargaining to stabilise at single-employer levels, with or without support of the new recognition procedure. The resurgence of multi-employer bargaining, however, seems unlikely.

As far as Germany is concerned, the future of collective governance is very difficult to predict. So long as the collective bargaining system is institutionally embedded and backed by political support, multi-employer collective bargaining will persist, at least for western Germany. However, if the creeping decline of multi-employer collective bargaining gains momentum, the organisational weakness of the trade unions at workplace level may lead to the replacement of multi-employer collective bargaining, not by single-employer collective bargaining, but rather by individual regulation.

Paradoxical as it may seem at first glance, the combination of a low degree of institutional embeddedness and a high degree of organisational embeddedness at the workplace level in Britain may be more conducive to collective governance structures in the long run than the combination of a high degree of institutional embeddedness and a low degree of organisational embeddedness at workplace level which exists in Germany. However, at the present time much of this argument is informed speculation at best, and only time will tell the future of collective bargaining in Britain and Germany.

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