

AMSTERDAM INSTITUTE FOR ADVANCED LABOUR STUDIES UNIVERSITY OF AMSTERDAM

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**THE TRADE-OFF BETWEEN COMPETITIVENESS AND  
EMPLOYMENT IN COLLECTIVE BARGAINING: THE  
NATIONAL CONSULTATION PROCESS AND FOUR  
CASES OF ENTERPRISE BARGAINING IN THE  
NETHERLANDS.**

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# Preface

*BY MARC VAN DER MEER*

The contents and procedures of collective bargaining are an important labour market institution. The outcome of collective wage setting directly influences the price of labour and therefore also the level of economic production and distribution of jobs. In past times, collective bargaining was 'distributive' in nature, especially since the trade-off between wages and benefits determined the income distribution and level of employment. The International Labour Organisation (ILO) has invited the Amsterdam Institute for Advanced Labour Studies (AIAS) to study the 'productive' aspects of collective bargaining. More precisely, in this report the analysis is focused on the trade-off between competitiveness and employment in collective bargaining. We present an overview of the consultation economy at national level and four case studies of collective bargaining in enterprises.

The national overview will provide an assessment of the relative importance, the diffusion, methods, rationale, success and prospects of agreements regarding competitiveness and employment. The basic question to be answered in this national overview report includes: 'Under what conditions do interest organisations exchange competitiveness and employment in the social dialogue at national level, and does this practice enhance both competitiveness and employment levels in collective bargaining at the decentralised level?' In addition to the national overview, we present four case studies of collective bargaining at enterprise level. In the case studies the question will be appended of how collective bargaining deals with aspects of employment in the perspective of a changing market and the technological constraints facing enterprises.

The study is based on several sources. In order to focus at both the process and the framework of consultation and wage setting, apart from statistics we will make use of the texts of the agreements, laws and legislation, as well as of interviews. It is important to analyse what factors those involved in bargaining base their demands on: the information available, their mutual concerns, and their economic analyses. The research is based upon the text analysis of both primary and secondary literature including the text of the national agreements and the most important collective agreements in the data bank of the Labour Inspectorate of the Ministry of Social Affairs. The case studies will be based upon the text of the different collective agreements, existing primary and secondary literature, interviews with negotiators of the collective agreements, people responsible for personnel departments of firms and representatives of employees (either trade unions or works councils). Additional information has been gathered in interviews with key informants that took place in Spring 1999, halfway the collective bargaining season for 1999, at a moment of economic growth and stability in industrial relations. We have interviewed representatives of seven organisations that play a role in the national consultation economy. At the employers side these include the spokespersons of VNO-NCW and MKB-Nederland. At the trade union side we talked to FNV, CNV and MHP. Finally we have spoken to staff members of the Social-Economic Council (SER) and Central Planning Bureau (CPB).

In addition, we studied collective bargaining processes in four different firms, where innovative agreements with a relation between employment and competitiveness occurred. We analysed two firms in the industrial sector and two firms in the service sector. Two

firms find themselves confronted with scarcity in the labour market; two other firms are troubled by abundant labour. The case studies of enterprise bargaining provide examples of enterprises that face increasing competition, both in national and international markets, and that moreover have a need to upgrade the qualifications of their staff. We expect the four cases to be typical in setting a new trend.

**TABLE 1. OVERVIEW OF CASE STUDIES**

<b>Enterprise</b>	<b>Competitiveness</b>	<b>Employment</b>	<b>Trade-off between competitiveness and employment</b>	<b>Material effect</b>
ABN-AMRO Bank	Increasing international competition and scale enlargement	Due to automation, abundant and outdated skills for part of the labour force	Yes	36 hours working week
ORIGIN Computers	Young, booming market, stiff competition	Expanding market, attempt to commit people	Yes	Newly developed collective agreement
PHILIPS Electronics	International competition on unit labour costs and innovation	Decreasing internal labour market due to deconsolidation.	Yes	Debate on remuneration, working hours and employability
STORK Metal industry	Increasing just in time production	Scarcity among crafts people, high costs due to internal flexibilisation	Yes	Internal labour pool

Firstly, we studied the case of the reorganisation of the internal labour market model in the firm Stork NV. In 1997, a new kind of labour pool was introduced in one of the subsidiaries in order to protect employment levels and to re-skill the redundant personnel.

Secondly, the collective bargaining at the electronic multinational Philips offers a good example of the combination of differentiation in remuneration, working hours and employability, which are dealt with by the personnel management and the trade unions. Also interesting is the so-called 'Philips employment plan' for unskilled and unemployed job seekers in the firm's internal and external labour market.

Thirdly, we study the case of the banking sector where in 1995 an ambitious programme for shorter working-hours and flexibilisation was agreed upon, aiming both at employment growth (or preservation) and competitiveness. The sectoral agreement within the sector will be explained for ABN-AMRO, one of the major banks.

The fourth case, an IT-firm, provides an example of the establishment of a collective agreement in a growing and expanding sector of activity, which used to be a green field site

without union organisation. The relevant debate refers to the question how in enterprises with unstable employment contracts and scarcity in the labour market, a personnel policy of investment in qualifications can be developed. Relevant in this context is the range of choices that have been formulated for employees to negotiate their own employment conditions.

In all case studies the following issues will be discussed: the market structure; the level of technological innovation; the representative organisations (personnel department and trade unions) negotiating the collective agreement with attention to some crucial characteristics of the collective agreement, such as level, extent, categories of work and coverage. Next, the variables 'competitiveness' and 'employment' will be discussed. Then the rationales or the specific motives of the parties to negotiate the agreement come into consideration. The effects are discussed by distinguishing the perceptions and the evaluated effects of the agreement. The focus is on the quid pro quo of the exchange between competitiveness and employment. Where possible, data about the type and number of jobs (both quantitative and qualitative), as well as on competitiveness are included. Finally, we will evaluate whether pro-active (creation of new jobs or reduction of unemployment) or defensive strategies (avoidance or limitations of lay-offs) have been attempted.

The analysis in the report is relevant for three empirical reasons. Firstly, we realise that the concepts of competitiveness and employment are a major public concern on both European and national level, and we will now analyse how and to what extent these issues are interrelated and dealt with in the practice of collective bargaining and consultation. Secondly, the contribution of collective bargaining to competitiveness and employment is relevant in the light of the Dutch labour market situation where simultaneously labour shortages and long-term unemployment have occurred. Thirdly, the research may help to improve our understanding of the relative weight, priority and causality of the different dimensions of employment and competitiveness in collective bargaining at both the sector and enterprise levels.

Overall, we have come to a number of conclusions. Firstly, we conclude that collective bargaining as a social and economic institution should not only be analysed by its structure and contents, but also by looking at the processes of which the structure and contents of these agreements are a result. It appears that in the Netherlands an explicit and implicit trade-off between competitiveness and employment not only occurs in the national consultation economy, but in the enterprises under study as well. The procedural changes on national and enterprise level result in a new content and structure of collective agreements. Secondly, the contents of the trade-off depend on the operationalisation of the concepts of competitiveness and employment, which differ for both the national and the enterprise level. Thirdly, over a period of time, the nature of the trade-off between competitiveness and employment also changes. It appears that the concepts of competitiveness and employment are mostly functional to each other under the conditions of emerging, or rising, economic problems that are being discussed in the national arena. Fourthly, in the Netherlands, a process of decentralisation of decision-making from the national level to the sector and enterprise level is occurring. Social partners are nowadays bargaining under a 'veil of vagueness' at national level, that enables them to reach far stretching agreements at decentral level in order to improve the competitiveness and employment patterns in firms.

The data collection of this report took place in Spring 1999 and was finished in October 1999. This research report is organised as follows. In chapter one, the national overview will be introduced, with in the conclusions an assessment of the changing nature of collective wage setting in The Netherlands. In the chapters two, three, four and five the subsequent case studies will be presented.



# 1 THE IMPACT OF THE NATIONAL CONSULTATION PROCESSES ON COLLECTIVE BARGAINING IN THE NETHERLANDS

BY MARC VAN DER MEER AND JELLE VISSER

## 1.1 INTRODUCTION<sup>1</sup>

Since the publication of the ‘White paper on growth, competitiveness and employment’ by the European Commission (1993), the attention to wage setting, competitiveness and job growth has been manifest in many European countries.<sup>2</sup> In the Netherlands, however, notably in the consultation between the social partners at a national level, the ‘structural coupling’ between competitiveness and employment was already listed on the agenda from the early 1980s onwards. The topic of this chapter is to what extent competitiveness and employment at a national level have explicitly been exchanged.

In the Netherlands, immediately after the Second World War, the central organisations of employers and employees and the government erected different national platforms to discuss social-economic developments and draft agreements, recommendations and reports. In the bi-partite Foundation of Labour (1945), organizations of employers and employees met to discuss social-economic developments and to advice on wage developments. In the tri-partite Social Economic Council (1950) employers, trade unions and independent crown members met for policy preparation and policy advice on several social-economic issues. Until 1959, collective bargaining was subject to the strict wage policy initiated by the government and controlled by the Foundation of Labour. The economy expanded due to the use of relatively moderate wage increases (below the rise of labour productivity). In the period between 1959 and 1982, the central wage policies of the government were relaxed. In the early 1980s, a first turning point was reached (Visser, 1998). In 1982, in the now famous ‘*Central recommendation concerning elements of an employment policy*’, the central representatives of employers and employees in the Foundation of Labour formulated a direct relationship between competitiveness and employment. Already in the first sentence they stated that ‘*for a structural improvement of employment are essential: recovery of economic growth; a stable price level; improvement of competitiveness of enterprises and in accordance with that an improvement of benefit levels*’ (November 24, 1982, p.1). The central recommendation, only one and a half page long, has later been called the ‘Wassenaar Agreement’, after the place where it was signed. The agreement marks a turning point in the fight against economic distress and unemployment in the 1970s and early 1980s, and the

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<sup>1</sup> In the first stage of the research project, valuable support was received by Dr Ton Wilthagen. We are also grateful to Hester Benedictus for desk research. We also express our gratitude to the persons open to communications related to the topics addressed in this chapter: Foundation of Labour (1998, January 26<sup>th</sup>), Social-economic Council (1999, February 18<sup>th</sup>), FNV (1999, March 15<sup>th</sup>), CPB (1999, March 24<sup>th</sup>), MHP (1999, March 26<sup>th</sup>), MKB-Nederland (1999, April 13<sup>th</sup>), CNV (1999, April 20<sup>th</sup>), VNO-NCW (1999 April 22<sup>th</sup>).

<sup>2</sup> The debate on competitiveness and employment goes back to the early 1970s when the Golden Age of economic expansion ended. In the past years, the OECD has published a number of contributions to analyse the relation between structural adjustment and economic performance of European Countries (OECD, 1987, 1997). The relation between competitiveness and employment has perhaps most explicitly been dealt with by consultancy companies (McKinsey 1994), Ministries (MinEZ, 1997) and by the European employers’ associations and the European Round Table of Industrialists (see UNICE 1998, ERT, 1993, 1994, 1996, 1997).

starting point of the recovery of labour market and employment performance in the late 1980s and 1990s (Visser and Hemerijck, 1997).

The Wassenaar agreement was followed by over 80 recommendations and guidelines signed between central associations of employers and employees. Many of these bi-partite agreements refer to general social-economic development, others contain more detailed analyses of concrete topics in the field of the labour market, wage policies, employment conditions, contract types, gender differences, health and care, ethnic minorities et cetera.

In December 1993, the central employers' and employees' organisations signed another far-reaching Accord: *'A New Course: Agenda for collective bargaining in 1994'*. This accord was agreed upon at a moment of increasing unemployment due to the international economic recession in the wake of the 1992 and 1993 crisis of the European Monetary System. Both parties once again stressed the need to improve both competitiveness and employment. *'The economic situation is extremely worrying. The expectations for the mid-term indicate that without structural adaptations no or only insufficient recovery of economic growth, benefits and competitiveness levels can result. In that event, our country will be confronted with an increasing and persistent problem of unemployment, in a context of an already low level of labour market participation'* (December 16, 1993, p.3).

The *'New Course Accord'* opted for differentiation and tailor-made employment conditions, while both social partners realised that competitiveness should be strengthened. The *'New Course Accord'* has become the most influential national agreement concluded in the 1990s in the Netherlands. It has been renewed by the *'Declaration regarding consultation on employment conditions, 1996 (and beyond)'* (October 1995) and the *'Agenda 2002 - agenda for collective bargaining in the coming years'* (December 1997). The agreements signed over the last five years show a clear awareness of the existing relation between employment and competitiveness and indicate that the central employers' and employees' organisations believe in the fruitfulness of national consultation. The mutual talks and meetings result in concrete agreements, recommendations, advice and reports. This way of acting is a continuous process of consultation and exchange of information, which has become a clear characteristic of the Dutch labour system.

In this text we will relate the trade-off between competitiveness and employment at a national level with collective bargaining at a sectoral and enterprise level. A basic question to be answered is how and to what extent central policy recommendations reached at the national level are being implemented and followed by bargaining agents at the lower level, in sectors and enterprises. According to Van den Toren (1996) the whole process of collective bargaining in the Netherlands is 'co-ordinated' by the central employers' and employees' organisations. Heertum-Lemmen and Wilthagen (1996) published an initial study on the continued effect of central agreements. The authors came to the ambivalent conclusion that some issues that were dealt with at a national level were not addressed or even known at a lower level, such as the explicit wish to create jobs for ethnic minorities. Other issues, such as the flexibilisation of working hours, were actively discussed and implemented to a considerable extent in sectors and enterprises.

This example indicates that in the Netherlands awareness exists of the potential trade-off between competitiveness and employment at a national level, as well as an understanding of

the potential contribution of wage-setting institutions to the improvement of labour market performance and the competitiveness of firms. This document analyses the empirical relation between competitiveness and employment in the process and outcomes of collective bargaining in the Netherlands. We will only deal with contracts that aim both implicitly and explicitly at the concepts of competitiveness and employment. We will not study policies, recommendations, covenants and contracts that deal with either competitiveness or employment alone.

We are interested in the question of how different enterprises within one sector of economic activity, which normally are in mutual competition, develop a central concept of 'employment' and 'competitiveness' in collective bargaining. And, subsequently, how these different dimensions of employment and competitiveness at different levels are traded off. We must add that this trade-off may both be implicit and explicit. We hypothesise that when firms develop innovative and strategic investment programs, the issue of competitiveness and employment will be more explicitly considered in enterprise agreements, whereas in the case of collective bargaining at the sector level, which covers different enterprises, this trade-off will be of a more implicit nature. For this reason, we have to study both implicit and explicit agreements, in their development over time, at different levels, searching for their continued effects downwards and upwards.

Our definition on the trade-off between competitiveness and employment reads that collective bargaining does combine (or does strike a balance between) competitiveness and employment when it is able to safeguard, expand or improve (in a qualitative sense) employment for existing employees and/ or persons that were so far excluded from employment, while at the same time enhancing the (international and national) competitiveness of sectors and firms by increasing (various) modes of flexibility and productivity and by reducing (various types) of costs.

In this chapter we present the Netherlands as a typical case of 'organised decentralisation' (Traxler, 1996), where collective wage setting increasingly takes place at decentralised levels, under the conditions of a mutual power balance between trade unions and employers' associations. We argue that the decentralisation of decision making contains two important factors. First, not only the outcome but also the structures of negotiations is a relevant bargaining issue for these interest organisations if they want to continue a positive sum game over time. Interest associations at the national level will not only be interested in the outcome of bargaining but also in the structure and layering of collective bargaining, which facilitates the negotiation process for the year after. Secondly, we underline as a general point in the chapter that social dialogue is functional to an innovation of collective agreements by creating within the public debate a general climate favourable of innovative change. Employers and employees at firm level can use arguments to differentiate and decentralise the regulation of labour. Such an innovation of collective agreements enables them to respond to the new internal labour market patterns that have emerged over the last number of years. We will argue that social partners bargain under a 'veil of vagueness'. Their mutual trust relations enable them to make far-reaching deals in collective bargaining, whereas they cannot oversee and control the effects of implementation.

This chapter is organised as follows. In section two we shortly present an operationalisation of the two central concepts of this chapter. In section three we overview the social dialogue

and collective bargaining processes in the Netherlands. In section four we discuss the development of the social dialogue over the last two decades. In section five we draw some conclusions.

## 1.2 DIMENSIONS OF COMPETITIVENESS AND EMPLOYMENT

The concepts of competitiveness and employment include a large number of dimensions. Competitiveness may be expressed in terms of developments in unit labour costs, flexibility, innovation and trust in the employment relations in a particular firm or sector, in comparison to others. Labour market performance may also be expressed in terms of different indicators such as employment levels, job growth, division of work between unemployed and employed people, and the quality of labour. Both concepts of competitiveness and employment have to be expressed over time and among sectors and countries.

The concepts of competitiveness and employment are both of a positive and normative nature, since their definitions include different elements that are open for interpretation and debate. Whether competitiveness or employment is (more) important for wage setting and the development of an economy, is a general question that in the field of industrial relations will be open to dispute. For it should be presumed that interest organisations, such as employers' associations or trade unions, in general have only partially similar interests and therefore will give different interpretations to 'standard' social-economic statistics and figures. In the Netherlands however, interest organisations and the government engage in a contentful dialogue that gives them a notable competitive advantage (Visser en Hemerijck, 1997; Streeck, 1997). These organisations exchange information on a regular basis and give meaning to all kinds of social-economic data that have been gathered in a data bank with common interpretations and analyses of social economic policies. Since they are used to evaluate the determinants of successful policies jointly, they can subsequently prepare strategic choice and policy advice. In other words, in the event of a major economic change, policy makers are better informed and may lose less time to determine the depth of a recession or height of the boom. They are prepared to design their social and economic policies to the new occurring situation, whereas social partners without a common set of indicators are condemned to first define the world they are in.

In the Netherlands, the social partners contain such a database, in which the nature of social-economic developments is determined. In contrast to for example Germany, where different research institutes compete in presenting the most adequate data and where social partners do not regularly evaluate social economic developments in a joint perspective, in the Netherlands more homogeneous data evaluation occurs.<sup>3</sup> In spite of the existence of a large array of research institutes presenting basic data on the social and economic development, the interest organisations mainly build their analyses on the economic forecasts of three bodies, the Central Planning Bureau, the Central Bank and the Ministry of Finance. The data of these state organs appear in the notices of the organisations of employers and employees and form the basis of their annual evaluations and the joint policy advises for the mid long

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<sup>3</sup> The German 'Sachverständigenrat' is a council in which five independent professors in economics (currently from the universities in Kiel, Cologne, Cologne, Mannheim, and Mainz) advise the German government regarding German economic policy in a joint policy report 'Jahresgutachten', to be delivered in Autumn. Two out of five specialists, are named on advice of the trade unions and the employers' organisations.

term, which they prepare in cooperation with independent crown members in the Social Economic Council. In addition, in certain multi-national firms, such as Philips or Rabobank, in certain sectors, such as in the construction industry, the retail sector or the metal industry, and in certain regions, and for specific objectives, such as for Institute for small and medium enterprises, separate research bureaus exist.

The status of the available data set does not result in general controversy. In an interesting attempt the Central Planning Bureau (CPB, 1999) evaluated 25 years of economic forecasts and argued that it underestimated the strength of the economic cycle, by underestimating both the depth of the crisis and the height of the boom. The interest organisations and government agencies every now and then put emphasis on certain indicators and developments. In this chapter will be reviewed first of all how the concepts of competitiveness and employment are dealt with in the social dialogue and then the eventual exchange between the two concepts will be analysed.

### 1.2.1. COMPETITIVENESS

In our study, ‘competitiveness’ will be conceptualised by focussing on four main dimensions. The first indicator refers to the issue of ‘unit labour costs’ which includes wage and fringe benefits, indirect labour costs (e.g. social security), and two-tier wage plans. The second indicator refers to the dimension of ‘flexibility and productivity’, which contains aspects such as the duration of working time, flexibility in working time, contract flexibility and work organisation. The third indicator refers to ‘innovation’, including aspects of work organisation, introduction of new technologies, product innovation, and research and development. The fourth dimension regards the introduction of a high trust environment in employment relations. When summing up these four dimensions, we will try to indicate, if relevant, the relative impact, the mutual relations, and the trade-off between these dimensions.

#### a Unit labour costs

The best indicator for comparing labour costs including social security contributions is the ‘unit labour costs’ indicator that should be analysed from a comparative and dynamic perspective. Since the Wassenaar agreement in 1982, the social partners in the Netherlands have aimed at controlling wage increases to achieve a clear competitive advantage over neighbour countries (Visser and Hemerijck, 1997, chapter five). In the following table aggregated unit labour costs are presented for the period 1985-1998. It appears that wage demands in the Netherlands were more modest than elsewhere and unit labour costs in the Netherlands have slightly decreased. The table also shows that a break in the series occurs, around the 1992-1994 economic downturn in Western economies.

The favourable development of Dutch unit labour costs which is a general starting point for the policy of trade unions, employers’ associations and the government, gives the country a comparative advantage over other countries. Wage restraint, however, is not always seen as a good indicator. A small minority of economists believes that the continuous stress on a ‘responsible increase of wage cost’ is harmful to the economy. The economist Van Schaik (1993) argues that the debate on wage moderation overshadows the low effective demand. The banker Boonstra (1993) argues that the spread of incomes should be enlarged to enhance labour market allocation. The economist Kleinknecht (1998) argues that wage

moderation hinders innovation (see below). We believe however, that on an aggregated scale as follows from Table 1., the results are an obvious indication of a cost advantage.

**TABLE 1. UNIT LABOUR COSTS (FOR INDUSTRY) (1985-1998)**

Countries	Average wage growth 1985-1998	Average wage growth 1985-93	Average wage growth 1994-98
USA	10.7	26.7	-16
Japan	4.6	10.6	-6
Germany	30	37.4	-7.4
France	9.1	20.7	-11.6
UK	43.4	33.4	10.0
Italy	47.3	41.8	5.5
Netherlands	-0.3	9.9	-10.2
Belgium	14.5	19.9	-5.4
EMU-11 countries	31.6	36.1	-4.5
EU-15	33.8	35.4	-1.6
OECD	19.5	27	-7.5

*Source: CPB, 1999, p. 222-223.*

#### b Flexibility and Productivity

Productivity levels in the Netherlands used to be high in comparison to other Western countries. The Dutch work force is highly educated, but over a number of years several critical points have been raised about the performance of the education system (for an overview see Visser, Van Lieshout, Van der Meer, forthcoming). The application of new technologies and the use of the human factor obviously vary per firm, per sector and per region (Atzema and Van Dijk, 1996). The labour productivity, calculated as the gross domestic product per labour hour, may be high due to both a high output level per head or to changes in the labour use strategies of firms.

Over the last decade, productivity levels in the Netherlands have lost comparative advantage. This may be explained by both a relative loss of production output and by differences in recruitment strategies. In the Netherlands, labour market participation used to be low, but it has risen over the last two decades. The slowdown in the growth of labour productivity must be related to the policy choice to stimulate labour market participation (CPB, 1998). When the number of lower skilled people at the labour market increases, average productivity levels tend to decline. According to estimations of the Central Planning Bureau, 20-40% of the decline in increase in productivity can be explained by the job growth among lower skilled employees (CPB, 1998). In addition, we observe that the increasing use of part-time work and temp work have resulted in a better matching of supply and demand and an improvement in the allocation of labour. The flexible use of labour should be related to both the demand and the supply side factors. For employers the search for flexibility has several causes. Tijdens (1998: 53) argues that in the 1990s, firstly, due to the variance in effective demand and, subsequently, in the use of capital goods, a flexible application of labour was needed. Secondly, especially in shops and services the lengthening of opening hours required different patterns of availability of labour. Thirdly, the congestion on Dutch highways was a particular national need for a further increase in flexible application of labour contracts since firms wanted to start earlier or continue later. But also on the supply side of the labour market, changing patterns have emerged since

people seem more willing than before to accept to work not only from the regular five days of nine to five clock, but also at irregular hours (see Visser, 1999a). As a consequence, labour productivity can be increased due to work sharing and an improved matching of jobs.

### c Innovation

The third element of competitiveness refers to the innovative nature of Dutch economy. The level of research and development is a continuous concern, especially since international competition compelled larger industrial plants to close down or downsize. Several larger Dutch companies went bankrupt, such as Fokker Aircraft and DAF-automobiles, whereas other companies could only survive by merger and alliances with others. The statistics show that the Dutch industry may have lost its international advantage position over the last couple of years.

The Social Economic Council (SER) argues that the decrease in labour productivity is not only to be explained by the increase in labour participation of the lower qualified. It argues that the reluctant technological innovation of the production process may be important as well. The Council, however, adds that such statements should be made with care: labour productivity is not the one and only indicator to evaluate technological innovation: the time lag for investment in technology should also be carefully compared. The Council argues that in the long run the existing policy of moderate wage growth in the Netherlands will be beneficial for achieving positive profit levels which should result in higher investment and technological development (SER, 1996: 84-85; SER, 1998: 50-52).

Kleinknecht (1998) doubts the validity of these arguments and points at the lowering of growth rates of value added per employee in the Netherlands in comparison to other countries. According to his reasoning, policies of restricted wage increases postpone capital investment to replace old vintages of capital stock. According to the author, the lack of innovation makes the Dutch economy vulnerable in the long run for three reasons. First, there is a lower rate of labour productivity. Secondly, under conditions of lack of wage competition, less competitive firms stay in businesses without innovation. Thirdly, effective demand is relatively lower, due to wage moderation, so that multiplier effects are sub-optimal (Kleinknecht, 1998). All these arguments are rejected by the Central Planning Bureau, which argues that long-term effects are more positive than Kleinknecht expects, pointing at the upgrading apparent in certain sectors (CPB, 1997: 179). For this reason labour productivity remains at a higher level than in many other western countries, see Table 2.

**TABLE 2. BIP PER LABOUR HOUR IN INDEXES (USA=100, FOR 1984 AND 1995).**

	1984	1995		1984	1995
Belgium	82	94	Japan	48	63
Denmark	64	72	Netherlands	90	97
West-Germany	79	92	UK	69	81
France	81	96	USA	100	100

*CPB 'Economische verkenning voor de volgende kabinetsperiode', 1997, Table II.3.8.*

#### d Labour peace

The fourth indicator of competitiveness refers to the availability of a skilled labour force ready to work in a peaceful and productive human relations climate. In a recent publication of the Dutch and French Institut de l'Entreprise, it was remarked that the Dutch industrial relations model contains a consensus approach which distincts from conflict models such as exist in France (Bout et al, 1999). The relative cohesion in the Netherlands occurs at both the national level of the consultation economy, the sector level where collective bargaining and decision making within social funds take place, and at enterprise level. In the latter, there are two forms of employees' representation, firstly, the trade unions negotiate collective wage agreements and secondly, the works councils have legal rights for consultation, information and advice on social-economic and personnel aspects.

Labour peace indeed seems to be an asset of Dutch industrial relations. Strike levels are relatively low in comparison to other countries (Shalev, 1992). Moreover, strike patterns are generally stable over time. When strikes occur, this is mostly due to one of two reasons. Firstly, strikes are called at moments of factory closure (but only in the form of a single protest manifestation). Secondly, strikes are a weapon for trade unions to exert pressure when collective bargaining over contract renewal has deadlocked (with most recent examples in construction, and several times in public services: transport, post, city cleaning). In any case, open labour conflicts are believed to take place outside the direct employment relationship.<sup>4</sup>

#### 1.2.2. SCARCITY AND SURPLUS IN THE LABOUR MARKET

In our research, 'employment' will be conceptualised by focusing on three dimensions. Firstly, we will study the quantitative aspects. Within this dimension, the number of employees will be scaled according to the level of employment security and the provision for employment creation for individual employees. Secondly, we will concentrate on guarantees for individual employees or groups of employees that they will keep their jobs if a company arrives at financial losses. Thirdly, we will focus on the qualitative dimensions such as different forms and different intensities of training measures, as well as the possible transformation of precarious jobs into more stable jobs. Here, we will study strategic company policies, including agreements in collective bargaining on investment plans for particular establishments, agreements on research and development, and minimal scales of production in particular sectors.

In the late 1990s, Dutch labour market performance received international attention. The economic growth and labour market developments compare positively with experiences in other European countries, whereas the level of income equality and social cohesion seem to be less fragile than elsewhere in the Western world. According to the most recent OECD (1998) economic survey of the Netherlands, the Dutch economy 'clearly outperformed' other European countries in terms of average GDP growth in the 1994-1997 period. Unemployment is declining. The standardised unemployment rate is currently lower than 300,000, a decline from 8.7% in 1994 to 5.5% in 1998. This is the lowest level since 1981, and one of the lowest levels among OECD countries. The official number of unemployed

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<sup>4</sup> There are no data regarding individual conflicts between bosses and their personnel, so this aspect is left out of consideration. It is in any case more likely that such conflicts show up in sickness rates rather than in industrial conflict proper.



according to the Dutch and ILO definitions refers to job seekers who currently have no job, are available for work for at least 12 hours per week and are registered with the public employment service. The level of unemployment benefits calculated by the public employment service remains at 605,000 in 1999.

In the summer of 1999, the press wrote about shortages in some segments of the labour market, especially skilled craft workers, nurses and administrative employees (NRC-Handelsblad, July 8, 1999). According to the Central Planning Bureau, vacancies that are difficult to fulfil are appearing in the chemical, metal, and construction industry for specialists with an initial or secondary degree in vocational training. In trade and services there are vacancies available for higher skilled personnel, for example for persons in machine rentals and intermediate products, and for architects, engineers, fiscal and legal specialists (CPB, 1998: 81).

The extent of the employment growth which has occurred since the early 1980s depends upon the measurement and the criteria used. It should be added that labour market participation, that used to be low in comparison to other European countries, has risen over the last decade. Especially Dutch women who used to be inactive, have massively joined the labour market, mainly as part-time workers (Visser, 1999a).

Employment creation, calculated in terms of persons, has been 'markedly better' than in most other countries, except the US (OECD, 1998). In the figure below figures are presented for the development of the employment in 1992-1999 (CPB, 1998). Job growth expressed in number of persons shows the highest increase, followed by the number of job for more than 12 hours, and the rise in the number of labour years. In addition, employment growth is mainly an increase in part-time employment, involving over two-thirds of the new jobs created (Bosselaar, 1996). Younger people with the latest skills and women entering the labour market occupy most part-time jobs.

According to the CBS-Arbeidskrachtentelling 1997, 37% of the employed in the Netherlands work part-time, which is 2.3 million persons (see Visser, 1999a). A part-time job is a regular job for less than 35 hours per week. When we exclude smaller jobs for pupils, students, and employed family members, and when we include only jobs of more than 12 hours per week, 30% of the employed labour force works part-time. On average, people in the Netherlands work twice as much part-time as elsewhere in Europe. In the Netherlands two thirds of all women work part-time (against one third in the European Union), and 16% of all men work part-time, which exceeds the European 5% average. Apart from 30% part-timers, and 60% full timers, another 10% of the labour force is occupied in some kind of flexible contract.

Notwithstanding the relative labour market success, two kinds of employment problems have appeared. Firstly, the persistent and long-term unemployment issue has not fully been resolved. Let us keep in mind that the most vulnerable groups are the long-term unemployed, among whom many ethnic minorities and school leavers. In addition, a substantial number of people are not seeking employment, such as those who retired early, receive benefits or participate in subsidised employment programs. Secondly, firms have to deal with the developing labour shortage. Here, the actual question is how to explain why insufficient numbers of people have been trained for the jobs that cannot be filled. In

addition, firms have announced that the ‘employability’ of their working staff should be improved, because they no longer guarantee ‘life-time employment’.

**TABLE 3. DEMAND AND SUPPLY ON THE LABOUR MARKET, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999
	<i>Level</i>	<i>Change</i>						
	<i>*1,000</i>	<i>*1,000</i>						
Employment in years	5,328	-6	-18	76	106	143	151	96
Number of persons (totals)	6,458	-3	46	103	144	185	203	139
Numbers of persons more than 12 hours	5,767	-10	5	136	137	172	179	119
Labour force	6,178	60	71	122	98	116	96	94
Unemployed labour force	411	70	66	-14	-39	-56	-83	-25
Unemployment benefits	587	77	113	15	-27	-64	-76	-20
	<i>Levels</i>							
	<i>*1,000</i>							
Unemployed labour force	411	481	547	533	494	438	355	330
Unemployment benefits	587	64	777	792	765	701	625	605

*CPB, Macro-economische verkenning 1999, p. 75*

### 1.2.3. A FIRST CONCLUSION

In this section, we have seen that according to the available statistics, in the Netherlands employment growth differs positively from developments in other countries. Labour market participation used to be low, but has risen for men and a larger number of women. Employment levels have also increased and unemployment has fallen. Not all labour market problems have been resolved. Some categories are persistently inactive, whereas in some sectors scarcity is appearing. In the literature, it has been remarked that a new family pattern has emerged in the labour market. Instead of the former model with the adult male breadwinner, nowadays families of ‘one and half’ earners are becoming the dominant model (Visser, 1999a). This form of distribution of labour is an inventive answer to the international labour market crisis (Freeman, 1998).

The question whether job growth can be related to competitiveness can not be answered without analysing collective bargaining processes. We have found a first argument that competitive levels have perhaps improved due to the policy of ‘responsible’ wage setting in the country. Nevertheless, labour productivity has not increased as much as in other countries. According to some critics wage moderation retards innovation. The social harmony in society is relatively large in comparison to large European countries such as, for example, France (Bout, 1999). Income distribution is less skewed than in Anglo-Saxon countries, as especially can be seen in the United Kingdom (SCP, 1999).

Before we will start analysing collective wage settings, we would like to add some comments to this conclusion. Firstly, a provision should be made that the different dimensions of employment and competitiveness, that have been mentioned so far, are not

mutually exclusive. For example, the qualitative dimension of employment may also be ranked as an additional dimension of competitiveness. We presume that training in capacities and skills helps firms to innovate and compete in the market, as well as improve the employment opportunities for the staff members becoming redundant in periods of economic decline. We should add that strategic investment and innovative policies of firms have so far been ranked under both dimensions of competitiveness and employment. Secondly, these dimensions may have a different specific weight in collective bargaining processes both across and within various sectors of economic activity. In the following we will discuss the relation between national consultation and collective bargaining. Third, almost no statistical information is available regarding the change of employment patterns within firms. The statistics point at a general increase of skill levels, so one may presume that qualification levels within firms have been changed over time. That presumes that the contents of collective bargaining also may have changed.

### 1.3 THE LINKAGE BETWEEN NATIONAL CONSULTATION AND COLLECTIVE BARGAINING IN THE NETHERLANDS

Collective bargaining in the Netherlands ought to be placed in its proper perspective, taking the impact of national consultation into consideration. Since 1982, collective wage setting has occurred free of government intervention. The government abstains from intervention in the wage setting, although the Wage Act of 1970 (changed in 1987) permits specific wage freezing measures, in case of significant economic decline. At a national level, joint institutions (Foundation of Labour -STAR, Social Economic Council -SER) offer a platform for consultation and debate, through which the government can informally persuade social partners to take account of the “general interests”, i.e. government policy. In case of significant economic decline the government may impose a wage freeze to a maximum of two times six months. As such, the government performs three functions in the wage setting. Firstly, it is part of and helps support the institutional framework for ‘responsible’ collective bargaining. Secondly, the government sets minimum criteria for wages and social security benefits, and provides a floor in the market, among others via the national minimum wage. Thirdly, it is the main employer in the country.

In the Netherlands, employers’ associations and unions are addressed as “social partners” or “social parties”. They are broadly representative interest organisations, although the level of membership may be moderate. The social partners own a private, bi-partite Foundation of Labour (Stichting van de Arbeid- STAR) that has proved to be the most important inter-sectoral consultation platform for the policy co-ordination and wage setting in the Netherlands (Van Bottenburg, 1995). The mission of the Foundation of Labour is to promote permanent good relations in Dutch industry and society. These good relations are attempted by stimulating consultation between employers and employees and their organisations; giving advice to employers’ and employees’ organisations; by promoting the establishment of various social and economic regulations; and by carrying out legal tasks. The STAR is a relatively small organisation, with only 5 staff members, but with various committees.

The tri-partite Social-Economic Council is a body under public law (Act on Industrial Organization, 1950). The main task of the SER is to advise the government on social and economic issues. Until 1995 this was a prerogative of the SER (the government had to consult the SER before enacting new legislation), but this has been resolved by parliament

in 1995. The advisory reports do not need to be unanimous and are not binding, but in case of unanimous advice, the ideas are hard to ignore by the government. Normally, the government informs the council whether or not the advice will be followed. In addition to its advisory role, the SER serves as a platform for information exchange and as the supervisor for a series of consultative bodies at the level of industry and trade groups, as well as the implementation of the Works Councils Act. The discussion in the SER has proved to be a platform for setting the agenda for public policy, sometimes more than problem solving. The fact that major groupings in society meet and talk may help to put problems on the political agenda. In between 1972-1982, the SER's function to serve as advisory council to the government eroded, and the Council was internally so divided that in these ten years it was never able to render unanimous advice on macro-economic policy. As a consequence the SER was accused to behave as a stalemate or blocking mechanism delaying or even postponing in stead of supporting the implementation of decisions. Since the early 1980s the Foundation of Labour appears to have gained more influence than the SER, although it is established at the same address, and consists partly of the same trade union and employers' representatives.

The SER has defined the principal objectives for social economic policy in the Netherlands as follows: a balanced economic growth and sustainable development, the largest possible labour participation and a fair division of labour. The SER-council advises and reports on different themes, such as the medium-term social and economic developments; industrial policy; social security; labour and industrial law; worker participation and co-determination; the relation between labour market and education; transport; consumer affairs.

In the Netherlands, collective bargaining is the responsibility of employers' and employees' organisations. Collective bargaining takes place at both the sector level and the company level. The government may, on request, also extend the collective agreements to firms that are not affiliated with an employer's organisation. Organisations that sign a collective agreement have the obligation to register that agreement in the Labour Inspectorate of the Ministry of Social Affairs and Employment. In late 1996, the sector agreements covered 4.3 million workers. Some 3.3 million workers are directly covered by a sector agreement that is extended, while 0.5 million are only covered because of the extension. Some 0.6 million employees are covered through company agreements. Another 0.5 million employees are not covered since they work in firms to which application of wage agreements was not extended.

In Table 4 we present an overview of collective wage setting. Almost 5 million wage earners in the market sector are covered by a collective agreement (82%). Since union membership is much lower (20% in the private sector), the high coverage rate can be reached only due to three other factors: firstly, the high organization of employers, which applies in most sectors; secondly, the application of the contract to non-union members in firms belonging to employers federations signing a contract (the so-called 'erga omnes clause' in the Collective Agreement Act of 1927, art.14); and thirdly, the extension of collective agreements by the government (Extension and Nullification of Collective Agreements Act of 1937). In the government sector the coverage rate is 100 %. Total coverage for employees in the market and the public sector is about 85%.

**TABLE 4. COLLECTIVE BARGAINING, TYPES OF AGREEMENT AND COVERAGE IN 1997**

Type of agreement	Workers covered
Covered by company agreements	600,000
Covered by industry agreement	4,300,000
-direct coverage by agreement that will be extended	-3,300,000
-coverage through extension	-500,000
-direct coverage by agreement that will not be extended	-500,000
Total coverage private sector	4,900,000

*Source: Ministry of Social Affairs and Employment, 1997.*

The sectoral agreements in construction, metal and the larger company agreements used to set the pattern for the other agreements, though currently wage leadership is less obvious than before (Rojer and van Rij, 1998). The larger multi-national companies continue negotiating their own agreements. At Philips, AKZO-Nobel, and Unilever, pay bargaining continues at the level of the company, under control of the head quarter, in order to keep unions and distributional conflicts out of the work place. These agreements have a framework agreement that is valid for different plants. There are hardly any employers who like to switch from unions to works council as a bargaining partner. They usually appreciate the professionalisation and reliability of union negotiators, and fear that bargaining with the works council would jeopardize the consultation of the latter (see, Hartog and Teulings, 1998). Exceptions to the rule are Royal Dutch Shell, where there are individual agreements of the management with the personnel, IKEA and Adriaan Koren where the works council has a prominent role negotiating pay increases. In the late 1990s, about 10% of all works councils are involved in wage issues (Van het Kaar, 1999).

Collective agreements provide a framework that prescribes the procedural rights and obligations of the contracting parties as well as of the employees in the enterprises covered. In addition, a number of substantive issues are regulated in collective agreements. These issues extend far beyond the theoretical wage-employment trade-off (McDonald and Solow, 1981). In the Netherlands, a lot of topics are discussed in collective bargaining such as working time, quality of the work, organisation of the firm, co-determination, additional social security compensation, employment policies for vulnerable groups in the labour market and environmental issues. It will have become obvious that the many topics dealt with in collective bargaining at the sector and enterprise levels have an impact on both employment and competitiveness.

The national consultation relates to the issues of competitiveness and employment in two ways. Firstly, there is the indirect relationship between the national consultation level and the firm, if a collective agreement is negotiated at a sector level. Secondly, there also is a direct relationship between the national consultation level and the enterprise, if collective bargaining is a matter of negotiations at an enterprise level between the personnel management and the employee representatives (trade unions and, to a far lesser extent, the works council).

## 1.4 THE PENDULUM OF SOCIAL CONSULTATION (1982-1999)

### 1.4.1 BEFORE WASSENAAR 1982

The consultation economy in the Netherlands has its roots in the early After-War period. After 1945, spokesmen of interest associations in the Foundation of Labour advised the government about wage and income policies. In the Netherlands, longer than in any other country in the Western World, the government took care of centrally fixing annual wage increases in the form of a statutory wage policy (Windmuller, 1969). Collective agreements needed prior approval from a Board of State Mediators who themselves were bound by wage guidelines issued by the Minister of Social Affairs. These annual guidelines were subject to central negotiations and intense consultation with the central organisations of unions and employers, which themselves kept tight control over their affiliates.

This system that functioned well from 1945-1959, and formally even till 1970, could not respond to the need for differentiation in employment conditions when the economy boomed in the 1960s. It was felt that wage setting should respond to sectoral differences and should therefore be placed in hands of unions and employers. In the new Wage Act of 1970 this was recognised, though the government retained the power to order a temporary wage stop or impose a ceiling on wages if the economic situation did in its view justify such a step. Despite the legal freedom of collective bargaining, the government intervened in 1971, 1974, 1976, 1979, 1980, 1981 and 1982 in collective bargaining. Negotiations in this period took place between the central peak federations at the central level but only in 1972 did they reach a central accord. The Minister of Social Affairs from 1979-1981, Albeda, later wrote that in that period the consultation economy went 'bankrupt': at a time that wage moderation was desperately needed to respond to the soaring unemployment, unions and employers proved unable to co-ordinate their policies and deliver wage restraint (Albeda, 1987).

### 1.4.2 BEYOND WASSENAAR 1982

The Wassenaar agreement of 1982 marks a turning point (Visser and Hemerijck, 1997).<sup>5</sup> First, the economic crisis hit extremely deep. At that time, unemployment had risen sharply (until a maximum of 12% in 1984) and all economic indicators were pointing at alarm: interest rates and inflation rose, public debt had increased, and jobs were lost. It was, according to the later employers' president Rinnooij Kan 'dramatically spoken, the 'Stunde Null' for the Dutch economy' (1993: 40).

Secondly, the relations between interest associations were inimical. The 1982 agreement was therefore startling, especially since in 1979 a similar draft agreement on wage moderation and labour time sharing at the last minute had not been signed due to a veto by the FNV-confederation. Within FNV, the Industry union that in the 1970s opted for income distribution and power sharing was prepared to knuckle under and signed the 1979-agreement, but it lacked support of other FNV-affiliates (Visser, 1998: 279). The CNV-union, according to its later president, Westerlaken, was prepared to sign, but the FNV blocked the agreement. He argued that in 1979 the talks were premature due to the mutual

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<sup>5</sup> Many of the following arguments have been mentioned in a public discussion of this book on October 1th, 1997 (see Giebels, 1997). Many arguments have also been restated in interviews.

distrust between social partners, moreover the unions were at that time (still) of opinion that wages should be determined at a national level. For the employers there was no doubt that wage setting should be decentralised, and they were only prepared to sign an agreement when wage moderation was added to the union proposals on labour time reduction (source: Giebels, 1997).

The third explanatory variable concerns the role of the government. While during the period 1979-1982 social partners kept each other in a stranglehold, the government was divided over the need of an intervention in wage setting. This made the corporatist system 'immobile' and unable to respond the societal needs (Hemerijck, 1995). The new central-right no-nonsense austerity government coalition under Mr. Lubbers, who entered office in mid 1982, immediately threatened to intervene in wage setting. Compelled by this 'shadow of hierarchy' of state intervention the social partners joined forces and accepted the other as a bargaining partner (Visser and Hemerijck, 1997; see the comments of the then Prime Minister Lubbers in Giebels, 1997).

The at first sight minor though surprising agreement at Wassenaar had a major impact on collective bargaining and Dutch industrial relations in general. The basic trade-off for the interest organisations was between wage moderation and working time reduction. Trade unions accepted moderate wage increases and gave up the automatic cost of living adjustments in several collective wage agreements (among others at Philips), due in 1983 and 1984. Unlike past agreements, the Wassenaar and following agreements did not contain a concrete figure concerning desired or expected wage developments. The proposal was only to keep wage increase lower than productivity increase whereas the unions should abstain from demanding price compensation. This offer would then become the basis for a so-called 'cost neutral' reduction of working hours and job-sharing. The wage moderation resulted in restoration of profit levels and investment growth over the course of the 1980s. By 1985, almost all cost-of-living indexes had disappeared. Real wages fell by nine percent. The unadjusted share of income imputed to labour that had risen to 91 percent in 1980, declined to 81 percent in 1985. At the same time, a five percent reduction in the working week emerged, from 40 to 38 hours in the period, 1983-1986 (Visser, 1989). The perceived impact of Wassenaar agreement for competitiveness and employment is however moderate, especially since the effect could only be measured over a longer period of years. In one of its 'as if' studies, the CPB estimates that during the 1980s, 265,000 job places will have been created by wage moderation, another 250,000 due to part-time work and only 30,000 to 40,000 due to labour time reduction (CPB: 1991).

Wassenaar has become the basis for a de facto 'Tarifautonomie' (Visser, 1999b: 42). Since 1982, no more government wage measures have occurred and the Wage Act was changed in 1987 narrowing the possibilities for government intervention. Over the course of the 1980s, collective bargaining slightly changed in nature.

Firstly, the developments in the market sector and the public sector diverged after the government broke the automatic connection between these two, so that wage increases in the public sector were no longer tied to those in the market sector. In 1983 the government announcement that it would cut public employee wages by 3.5% brought a substantial part of the 850,000 employees on the street, but this conflict was ignored by their main employer: the government. Abandoned by the other unions and under siege of a hostile

public opinion, the public sector unions gave in. In 1985, the ‘trend following mechanism’ in the subsidised sector was legally abolished. In a subsequent phase, the wage negotiations for the public sector as a whole were differentiated in eight different sectors (this process was completed in 1993). This resulted in an autonomisation of labour relations in the public sector independent from the market sector. The civil servants have lost several privileges for their status in the field of pensions and dismissal protection, but they have gained the right to strike and collective bargaining. The public sector unions are free to bargain on wages and call a strike when needed, though their claims should always be within the limits of the public budget, set by the government.

Secondly, in the course of the 1980s, many policy advises were issued by the Social Economic Council, regarding youth unemployment (1984, 1986), training (1986, 1987), long term unemployment (1986, 1987), the minimum wage costs (1988), part-time work (1989), female labour (1990, 1991), reintegration of handicapped people (1990), and the reduction of sickness leave (1991) (Rinnooij Kan, 1993: 41). Some of these issues appear on the collective bargaining agenda, especially initiatives oriented on target groups such as younger people, women, ethnic minorities, and the disabled (SER, 1998).

The impact of this attention for collective bargaining should not be overstated however. The contents of collective agreements changed slightly, the structure and process of collective bargaining remained constant. As we have seen, wage growth is moderate and a five-percent labour time reduction has been implemented, but case studies on collective bargaining in the 1980s, show that sectoral initiatives for innovation of collective bargaining only have moderate effects. In the construction industry for example, the labour market reform that was discussed within collective bargaining in the aftermath of Wassenaar agreement, was implemented only after several years of discussion and did not contain short-term effects (Van der Meer, 1999). In one of our interviews it was observed that in the 1980s there was a strong believe, probably too optimistic that one instrument, i.e. wage moderation and labour time reduction, would be the *paspartout* for all problems on the labour market (interview). The effects of labour time reduction however appeared to be marginal, especially since the reduction of working hours did not lead to re-staffing. The problems of unemployment were not resolved (Visser, 1989).

#### 1.4.3 THE JOINT POLICY FRAMEWORK OF 1989 AND THE NEW CRISIS OF THE CONSULTATION ECONOMY

After 1989, the social concertation reaches a new deadlock. At the entrance of the third, now central-left government coalition under Mr. Lubbers, the cabinet together with the social partners (with the exclusion of MHP) reached a so-called ‘Joint Policy Framework’ (GBK, *Gemeenschappelijke Beleidskader*). This is a broad encompassing over-all approach of economic management. In 1991 halfway during the cabinet period, at the moment that the government presented disappointing macro-economic results, the employers ended the co-operation in this GBK and stopped for the first time since the Second World War, the tripartite consultation in the Foundation of Labour with the government for that year.

The employers, united in the Central Council for Employers’ Organisations (RCO), had two main points of critique. Firstly, they rejected the economic policy of the government, a Christian-Social Democratic coalition (1989-1994), which in their opinion was not enough orientated to further tax relieve, lowering the public debt, addressing problems of rising



costs of sickness and disability schemes and the need for rejection of the re-introduced automatic coupling of wages and social benefits. Secondly, they disagreed with the government over its consultation with the social partners, especially when the governments ignored unanimous recommendations agreed by the Social-Economic Council. In short, the employers wanted more bi-partite autonomy of the social partners against government intervention and a government policy showing more (fiscal) restraint in its own domain.

According to the employers, the government's so-called 'mid-term policy review' ('Tussenbalans') '*prejudices, in a general sense, the Dutch competitiveness within the European context and therefore contributes negatively to the already bleak economic development*' (RCO-letter to the government, March 15, 1991). Trade unions were also critical. FNV and CNV argued that the GBK did not do enough for social benefit claimants and those employed in the public sector. The union for medium and higher staff personnel, the MHP, on the other hand, stood aside, since it had rejected the GBK already in 1989. The result was a double break of trust in the relations, on the one hand between the government and the social partners, and, on the other, between the employers' associations and the trade unions.

It took half a year until the cabinet decided to ask the Social-Economic Council (SER) for advice to overcome the impasse. This request of June 1992 was presented within the debate on the future of Europe after the Treaty of Maastricht (1991). The government encouraged the Council to evaluate two separate issues within one policy advice. Firstly, it demanded an opinion regarding the future of European Monetary Unification. Secondly, it was interested to receive a reflection on the task division between government and social partners for the realisation of policy objectives. In the unanimous report 'Convergence and Consultation Economy', produced in record time, the SER combined two policy advices. Firstly, the council was in favour of the Economic and Monetary Union, on the basis of a study by the CPB (1991). In answer to the second issue, the Council pleaded for a more clear division of labour both between the government and social partners, and within their respective organisations. Also the mutual relations between the cabinet and its advisory organs, such as the Social Economic Council should be streamlined. It was agreed that collective bargaining is the responsibility of the social partners. The argument was that main trends such as internationalisation, individualisation and decentralisation should be translated into a policy in which decisions are made at the level of individual sectors and firms. This implied a continuation of the practice of decentralised collective wage setting. The role of central joint institutions should be restricted to supporting negotiations at the decentralised level. Fiscal and monetary policies were the prerogative of the government. Labour market policies were the domains of both government and social partners (SER, 1992: 119).

The crisis of the consultation economy in 1992 and 1993, was compounded by other factors. Firstly, economic prospects darkened when in the aftermath of the German reunification, the economic recovery of the late 1980s stagnated. Especially the European recession due to the restricted monetary policies in Germany (with the Dutch guilder being pegged to the D-mark since 1983), played its role (Streeck, 1994; ILO, 1995). The European economic indicators showed negative signs, though in The Netherlands not as bad as elsewhere.

Secondly, wages did not adapt quickly enough to the emerging economic distress. Especially the CPB underestimated the depth of the economic crisis at that moment (with

about 1%) (CPB, 1999). As a consequence, the unions at first saw no reason for further wage restraint (interview). Similar to 1982, the government threatened to intervene in wage setting for 1992. The cabinet's attempt at a wage freeze, induced the social partners to recommend a 'breathing space' for a period of two months during which expiring collective agreements were to be prolonged and new bargaining was suspended (Visser and Hemerijck, 1997: 106).

Thirdly, the problems of the low level of labour market participation and the high degree of inactivity due to sickness and disabledness urgently called for a solution. These issues had repeatedly been discussed in the Social-Economic Council and the Cabinet, but decisions were postponed until the parliamentary inquiry committee Buurmeijer that reported its findings in 1993 (see De Jong and Vos, 1994; Visser and Hemerijck 1997). In a similar case as with wage moderation, collective bargaining again was not the place where the need for adaptation is most urgently felt. It took until 1993, when the government decided to restrict the access to sickness and disability schemes, before collective bargaining changed as well. After the government's intervention, the unions asked for compensation for the lower benefit levels and reserve some of the 'wage area' in collective bargaining for compensating the differences between the old and new benefit levels (Rojer, 1996).

Fourthly, in the political arena, there were critical voices with regard to the consultation economy and corporatism. The idea of a 'primacy of politics' over the decisions by interest groups in the consultation economy was above all presented by senior politicians such as Wöltgens (Labour Party) and Bolkestein (Liberal party). Their argument was that in the consultation economy the speed of adjustment was too low, that the division of responsibilities was unclear and that there was a lacking and insufficient commitment of lower levels with respect to central agreements. Within this debate the mechanism of general extension of collective agreements was also brought into the discussion. After severe critique by the professors Bomhof and Zalm (the latter being president of the CPB), supported by the Ministry of Economic Affairs and the OECD, the main argument was that sectoral collective wage setting was harmful to both competitiveness and employment. The argument was that collectively agreed minimum wage levels are substantially above the minimum wage levels and that firms (including those that are not affiliated with an employers' association) are -via the 1937 Extension and nullification act- legally obliged to accept higher wages than the market clearing wage. As a consequence of the extension of agreements, low-wage competition and the increase of low-productivity jobs are ruled out. This attack brought the social partners in the Foundation of Labour together in drawing up a joint defence of the 1937 Act, re-iterating the objectives of the law. Firstly, the act proposed to increase the coverage of collective bargaining to all employees; secondly, it proposed to protect the collective agreement against unfair competition (in particular from employers who try to dodge contractual obligations by discontinuing membership), and, thirdly, it proposed to encourage co-ordination in wage bargaining, thereby allowing the state to play a role in wage determination.

We observe that the innovation of collective agreements in the period from 1982 up to 1992 is moderate. The central trade-off in collective bargaining refers to the attempt of social partners to bargain on a moderate wage increase and labour time reduction. This exchange is omnipresent in the early 1980s, but fades away when in the second half of the 1980s the economy starts growing again. When the economic recession of the early 1990s emerges,

the CPB first underestimates the crisis. Only in a second stage, the trade unions change their behaviour and are willing to moderate their wage claims, but only after government threats. At that time, prominent issues that have been dealt with over the course of the 1990s, such as the contract law and dismissal protection for temporary personnel, the lowest wage scale, and early retirement are not yet brought under discussion. Also social security issues are not changed in this period, notwithstanding major public debates, polemic critique and public unrest. When the government in 1987, lowers the levels of several social benefits regulations of 80% to 70%, trade unions try to re-compensate this percentage in the collective agreement. In 1993, the unions collectively repair the ‘gap in the legal disability benefits’.

When talking about an innovation in collective bargaining, it can be mentioned that in the period up to 1992, several employment issues have slightly been taken up in collective bargaining. In the mid-1980s the attention for target groups appears on the agenda for collective bargaining. Also the decentralisation of the public employment service and the apprenticeship schemes are included in some agreements (construction, metal sector, printing). This results in concrete agreements within collective agreements. In sum however, the attention to these employment issues does not alter the general pattern that the trade-off between competitiveness and employment in collective bargaining is being formulated in distributional terms, under the guidance of the peak organisations of employers and employees.

#### 1.4.4 REVITALISING THE CONSENSUS ECONOMY AND THE CHANGE OF COLLECTIVE BARGAINING AFTER 1993

When in 1993 the government was preparing an intervention in wage setting by threatening to freeze wages, the social partners and major legal experts strongly protested and looked for a procedure to revitalise the central negotiations under the condition that collective wage setting is their and not the government’s responsibility. FNV and CNV issued a joint policy document ‘Jobs, jobs, jobs, and once more jobs’ (1993), in which they argued that unemployment rises in spite of positive benefit levels. The employers ignored this document and according to the interviews, were more pleased by another draft document, issued by the minor federation MHP ‘*The employee at the centre*’ (published in April 1994). That report argued that the employee of the 1990s, will be ‘*modern, flexible in mind, responsible, and well prepared to fulfil a job, and is able to operate in a fastly changing society and an increasingly dynamic, alert, and international labour organisation.*’ The MHP proposed to ‘flexibilise’ the ‘rigid’ labour patterns in firms and to adapt the content of work to the preferences and capabilities of employees. Examples included a change of the normal labour hours, part-time work, flexibilisation of hours, and the use of technological instruments, such as tele-working (MHP, 1994).

The employers’ associations and trade unions behind the scenes dealt with the crisis and managed to agree upon a new timetable for wage setting in the years to come: the ‘*New Course*’ Agreement of December 1993. Employers wanted a further decentralisation of wage setting, which would allow for tailor-made employment conditions within the firm as well as more flexibility in employment relations. Trade unions received a promise that the central employers’ organisation would lift its blanket of resistance against a reduction in

working hours and that local union representatives or works councils would be included in negotiations concerning local solutions.

This strategy differs from the Accord of Wassenaar, signed in November 1982, where the emphasis had been on the restoration of profits as a condition for job creation, and on the distribution of jobs by labour time reduction as a means to stem the rise in unemployment (Visser and Hemerijck, 1997). Ten years later, in 1993, job creation and job redistribution remained the prime objective for the trade unions, but the containment of labour costs was at first combined with a cautious scenario of macro-economic development in the preparation of the European Monetary Union. The interest organisations supported general target goals such as expanding domestic demand, low inflation, a large trade surplus, a strong currency and improved public finance. Secondly and more important for the present chapter, the *'New Course'* Agreement of 1993 contained three central elements that had a major impact on collective bargaining.

Firstly, the social partners agreed on the importance of continuity of a policy of responsible wage setting. The *'New Course'* Agreement took effect for two years and has been renewed in the *'Calendar for collective bargaining for 1996, and beyond'* (1995), and in the *'Agenda 2002'* (1997). It paved the way for a 'responsible wage increase', but was not specified by any specific figures. More interesting is that the union confederations FNV and CNV presented a maximum ceiling for wage bargaining, with a close margin on 'who should be the most responsible of the two' (Rojer en Van Rij, 1998). The employers associations on the other hand stopped their attempts to coordinate wage bargaining in 1993. It also stopped with the common front to block labour time reduction. According to the dissertation study of Van den Toren (1996), the coordination of wage bargaining continued due to the formal and informal, horizontal and vertical contacts and ties between the about 5,000 negotiators who bargain the almost 1,000 collective agreements of the country.

Nowadays, the trade union federations FNV and CNV annually publish a document on wage and employment conditions. In 1998, the employers' association VNO-NCW published its annual document for the first time to the general public. These documents give information to negotiators at lower bargaining levels and therefore to a certain extent serve as agenda setting for and co-ordination of collective bargaining. However, there are no formal sanctions that oblige the negotiators at sectoral and company level to negotiate according to the national documents. Informal pressures, however, are believed to be strong.

Secondly, the agreement addressed the differentiation in labour hours and labour time patterns. That is a major difference with the practice of the general labour time reduction of the early 1980s when collective days off were foreseen. Flexibilisation of labour and opening hours is widely accepted and more choice now is allowed in collective wage agreements. The 1993 *'New Course'* Agreement argues that a 'new equilibrium' is aimed at, which takes into account both the demands to enterprises and the juridical protection of employees. This means that for the first time the trade unions relax their objections against a further flexibilisation of labour whereas the employers accept the application of labour time reduction and the application of part-time work. The deal is that from the *'New Course'* Agreement onwards, the participants in the Foundation of Labour will discuss a major adaptation of contract and dismissal law, that has been laid down in the *'Flexibility and Security'* Agreement (1996). The explicit text of the agreement between the central

employers' and employees' organisations became the wording of the government bill under the same name that was accepted by parliament in the winter of 1998. The quintessence of the new legislation, that came into force on January 1, 1999, is to strike a new balance between flexibility and security by a reduction of dismissal protection of existing ("core") workers on the one hand, while on the other hand enhancing employment and social security for atypical workers (Wilthagen, 1998).

Following this agreement on 'flexicurity', the Foundation of Labour reached another innovative agreement that has a direct impact on collective bargaining: *'Towards tailored employment conditions. Increase of the possibilities of choice with regard to employment conditions'* of April 28th 1999. The document advises bargaining partners to introduce, within the framework of the collective wage agreement, the possibility of individual choice with regard to certain employment conditions. The idea is that in the standard collective wage agreement a number of provisions will be specified that may serve as medium of exchange, in order to introduce opportunities for employees to determine their own employment conditions. This trade-off will often involve the exchange of 'time for money' or of 'money for time'. The agreement speaks in this respect of 'sources' and 'goals', which an individual employee can determine in the personal negotiations with the employer. This system is referred to as a multiple-choice model of employment conditions. Examples of the application of this multiple-choice model include the participation of employees in flexible pension plans, (educational or care) leave, end-of-the-year bonuses and extra days off. The saving of money or time is an option as well. Employees would have to specify their choices each year again.

Thirdly, many policy target groups are being captured within the agreement, including the elderly, ethnic migrants, and women. Moreover there has been attention to the edge of the labour market where lower skilled people are employed. After the government threatened to do away with the general extension of collective agreements in 1994, the social partners must show good will. They must allow starting firms and firms in obvious economic difficulties the possibility to deviate from the sectoral agreement through the so-called 'dispensation clauses'. They should also create low wage scales for entrants and people with long spells of long term unemployment, lack of job experience, and other difficulties in the labour market.

In the different agreements at sector and enterprise level, many issues have been taken up that have been discussed at a national level. In a recent government report on collective bargaining, it is mentioned that of the largest 117 collective agreements covering almost 4.5 million employees, many contain clauses on different aspects that might enhance employment and competitiveness. Clauses with opportunities on training are available for 92.3% of the covered employees; clauses on leave for training for 88%, part-time work for 60%, personal training plans for 29%; performance related pay for 74%; annual assessments for 33%; work experience for 20%; employment plans for 69%; additional jobs for 35%; and labour pools for 3% of the employees. Moreover the collective agreements regularly contain specific employment plans for target groups: 34% of the employees under an collective agreement have in their agreement created an opportunity for long term unemployed, 31% for women, 28% for handicapped people, 48% for ethnic migrants; and 31% for younger people (MinSZW, 1999).

## 1.4.5 A SECOND CONCLUSION

Overall, in comparison with the 1980s, the policy agreements in the 1990s are more oriented to the long term and are qualitative in nature. The agreements of the 1990s start with referring to the general developments in society such as the internationalisation of the economy, the individualisation of social-cultural patterns and the decentralisation of decision making. In addition to the contents of bargaining, the framework and the process of the negotiations are also subject of negotiations and laid down in new agreements, especially in *'Werken aan je werkring'* ('Developing your work environment', 1996) and *'Overwegingen en aanbevelingen inzake arbeidsverhoudingen in ondernemingen'* (Reconsiderations and recommendations regarding employment relations at the workforce, 1997). So, no longer only tailor-made decisions and diversity are aimed at, but also attempts to include co-determination via trade unions activities in firms and works councils, are seen as helpful for a well functioning of the economy. In addition, the *'Flexibiliteit en zekerheid'* (Flexibility and security) agreement aims at protecting workers with temporary contracts.

Many outcomes of recent years were informal 'agreements to agree', but the Labour Foundation agreement is gaining a much wider implication. The *'Agenda 2002'* sets out the agenda for collective bargaining for the upcoming years as a continuation of the *'New Course'* agreement of 1993. The central aim remains the continuous investment in adaptability and competitiveness of the Dutch economy. The social partners stress as the most important themes for the upcoming years: responsible wage policy, education and training (employability measures), labour time and the combination of work and care, and policies for elder workers. Furthermore, attention should be paid to integrating the unemployed into the labour process, whereas working conditions and particularly stress factors also receive attention.

**TABLE 5. THEMES AND INTENTIONS IN THE AGENDA 2002 (FOUNDATION OF LABOUR)**

Themes	Intentions
Wages and working conditions	Responsible wage setting Decentralisation and differentiation towards sector/firm level Flexible/motivating pay policies
Employability	Shared responsibility Permanent education for all employees Development of employability policies
Labour time/ work and care	Differentiation Flexibilisation Stimulating part-time work Introducing (care) leave arrangements Realising child care facilities
Older workers	To keep older workers in the labour process To advance employability of older workers From VUT to pre-pension arrangements
Integrating the unemployed	Smaller margin between lowest scale/statutory minimum wage Introduction of low-wage scales Particular intention to disadvantage groups (e.g. ethnic minorities) Equal opportunities
Working conditions	More attention to anti-stress policies

*Source: Agenda 2002*

We conclude that the revitalisation of the consultation economy in the course of the 1990s is remarkable. In an interview it was mentioned that *'social partners are more busy than ever, and it is fun. Organisations of employers and employees now understand their mutual concerns. There are many solutions for many problems. We have a rich menu'* (interview).

## 1.5 CONCLUSIONS: BARGAINING UNDER A VEIL OF VAGUENESS

In the Dutch consultation economy, the two concepts of 'competitiveness' and 'employment' are related to each other at the level of the national consultation economy and in collective bargaining processes at sector and enterprise level. As we have seen in section 1, they literally play a prominent role in the texts of the most important agreements reached by the confederation of employers and employees in the Labour Foundation and the Social-Economic Council over the last two decades. Moreover, our case studies make clear that within collective bargaining at decentralised level the concepts of competitiveness and employment are being related as well.

Over the course of time, the concepts competitiveness and employment have been given different meanings. In the text we have captured these different dimensions within an operationalisation of 'competitiveness' and 'employment' into several dimensions. We have unpacked competitiveness into unit labour costs, flexibility, innovation and social peace. Employment has been distinguished in terms of employment, job guarantees and quality of labour. These dimensions have been useful for establishing a first general overview. We note that these concepts are loosely used in the national debate, and more specifically at the enterprise level. At the national level, the functioning of the economy may be understood and evaluated basically in macro-economic terms, such as GDP growth, level of employment, profit levels, unit labour costs, terms of trade, et cetera. Some aspects of competitiveness and employment are crucial, but issues such as productivity and innovation are less central in the analysis at central level. At the decentral level, however, especially in those sectors and enterprises that are open to international competition and to the introduction of labour-saving technologies, the concepts of competitiveness and employment may be interpreted in terms of quite precise and measurable dimensions, for example in market share, productivity, innovation, factor costs of capital and labour, and skills. The dimension of employment are in most cases just output indicators, whose levels depend very much on other aspects, such as the economic conjuncture, the use of technology and application of personnel policies.

We have also observed that over time the nature of the social dialogue at a national level has changed. Before the Wassenaar agreement of 1982, there was a large distrust between organisations of employers and employees. After Wassenaar (1982) until the tri-partite *Joint Policy Framework* (1989) there was a renovation of the consultation economy, under the threat of government intervention. In 1991 a crisis was the result when the employers terminated the partnership and the consultation with the government. Yet, in 1992 a new balance was reached with the *'Convergence and Consultation Economy'*-advice in the Social-Economic Council (1992). Social partners have found each other in the *'New Course'* agreement (1993), that has been updated several times. Ever since, social consultation seems to prosper.

It is hard to say whether the trade-off between competitiveness and employment on a national level is explicit or implicit in nature. Our interview partners on national level state that they apply several indicators in their analysis. When they refer to competitiveness they argue that both unit labour costs, the use of human and productive capital, flexibility and the social climate are *'of course'* important indicators. According to an employers' official *'the trade-off between competitiveness and employment is explicit, since improving the competitiveness level is always functional to employment'*. He added that *'implicit'* in the trade-off means that different aspects of employment are addressed: *'security, mobility, and the quality of labour, i.e. working conditions and work stress'*. The argument here is *'that in firms a good personnel policy is beneficial to competitiveness'*. Especially in the current period of emerging scarcity in the labour market, skills levels should be up to date, including those of groupings that participate to a lesser extent in the labour market, like people over 55 years, ethnic minorities, and the long-term unemployed. A union representative argued conversely, that for the union *'competitiveness as such is not an important indicator, it is only relevant in relation to employment'*. For example the issue of *'flexibility'* is supported by the unions only since they have been able to defend the *'security'* of work for people working under temporary contracts. Moreover for unions, *'in addition to employment, equal income distribution and fairness in society are also important goals'*.

Central in the joint analysis of both employers and employees representatives seems to be the indicator of the *'labour share in the national income'* (*arbeidsinkomensquote*). The argument -especially in the reports of the Central Planning Bureau and reproduced in the mid term studies of the Social-Economic Council- is that when the labour share in the national income is rising too sharp, profit levels and subsequently investment and employment levels will fall behind. In other words, the common believe is that when the annual rise of labour costs in collective wage setting is *'moderate'* or *'responsible'*, employment levels will increase. In the Netherlands, the trade unions argue that a *'responsible wage setting'* should be based on the wage norm that annual wage increases are equal to the sum of productivity increases and inflation levels. Employers' associations try to falsify this argument by arguing that productivity increases are not similar in all enterprises, so that even a *'responsible'* wage policy may be too *'generous'*.

In our interviews with organisations of employers and employees it was often argued that the policy of responsible wage setting is not the one and only outcome of the bargaining process: *'The trade-off between competitiveness and employment is abstract. In any trade-off between two issues something has to be given up, you'll have to tighten your belts, and always to sacrifice something'*. It would be a misunderstanding to believe that representatives always feel the need for wage moderation, or that they are convinced that something should be given in return. It appears that the social partners at any time give different meaning to their social economic context, so that the opportunities for trade-offs vary. The concept of wage moderation has served to reach different compromises. In Wassenaar, unions and employers' organisations compromised between wage moderation and working time reduction (1982). In the *'New Course'* Agreement, they have allowed a further differentiation of wage developments under the condition that workers have sufficient rights for co-determination over their employment conditions (1993). In 1996, they reached a compromise between flexibility and security.



Yet, the structure of the diffusion from national agreements to decentralised levels varies over time. In spite of the general trend that more decisions are being taken at the decentral level, the diffusion of the concepts of competitiveness and employment goes both ways: downwards from the top and from the bottom upwards. At the central level, there is a process of addressing issues that appear on the collective bargaining agenda in firms or sectors. Central organisations try to determine in which direction labour policies in firms should be developed. Social partners apply a form of indirect coordination and mediation in the common institutions of the STAR and SER. Moreover, the linkage of the different levels occurs within the umbrella organisations, in a process of intra-federal and intra-organizational bargaining with local negotiators. Until 1993 the largest union confederations and employers associations have tried to coordinate the whole process. On the unions' side, FNV and CNV aim at coordination, whereas MHP does not. Both FNV and CNV favour clear wage norms, such as price compensation and redistribution of productivity gains. Interestingly, they define a maximum -and not a minimal- figure as ceiling for the wage negotiations. Moreover these union federations try to promote certain issues in lower-level bargaining, for example: the attention to target groups and ethnic minorities. Some issues such as the attention to work load and stress are supported by large public relations campaigns that have been initiated at the national headquarters.

The employers associations VNO and NCW (which amalgamated in 1995) have attempted to co-ordinate the whole bargaining process until 1993. After 1993, VNO-NCW withdrew from explicit co-ordination. They argue that economic conditions in enterprises vary too much to effectively co-ordinate the wage setting. However, VNO-NCW's largest affiliates do provide strong instruments for monitoring and co-ordination of collective bargaining in their domains, covering nearly all industrial and larger service firms. The small and medium sized enterprises united in MKB-Nederland have neither the willingness nor the ability to coordinate wage setting. It does, together with VNO-NCW, support claims e.g. for further deregulation and tax relieve.

In the interviews, all organisations argue that in order to get things done, some '*massage from above*' is needed. '*Implementation should take place at lower levels in the organisation. There people have to manage to carry it off.*' Nevertheless, excessive intervention by the central confederations is no longer accepted by the rank and files of both unions and employers associations. Especially larger firms want to regulate employment conditions in a more autonomous way. In smaller firms, the collective agreement is still seen as a regulative framework for the determination of employment conditions. Transaction costs would be too high for them to negotiate individual employment conditions. These enterprises, though, sometimes raise lobbies for a further differentiation of working time, a deregulation of labour conditions, et cetera. The 1998 agreement in the Foundation of Labour on the trade-off between money and time within the preferences and opportunities of individual employers and employees is a clear manifestation of this trend. The multiple choice menu that was reached at the central level gives more options for differentiation and tailor-made employment conditions at decentral level. This process has been stimulated by the demand of companies for more flexible production processes and by the preference of employees for employment conditions that take into account individual circumstances. Social partners expect that this process of decentralisation will continue and that demands for more freedom within collective agreements will increase as well. The multiple-choice model of collective agreements would have to facilitate these developments.

Social partners however emphasise that the collective agreement must continue to fulfil its primary tasks: to advance the equality of rights and the security of employment conditions, and to discourage competition between employers on employment conditions. Therefore a balance must be struck between the individualisation of employment conditions while negotiating the regulatory framework of the collective agreement.

The social partners seem to be conscious of the mutual solutions that can be reached. An employers' representative argued: *'Without a revolution we have undergone a major transition. The general extension of wage agreements has survived. The old institutions have reached modern results. There now is an acceptable equilibrium: policy initiative is with the government, the institutions play a role in mediation of interests, and the outcomes are acceptable compromises: competitiveness, flexibility and security, and employability. What we have done is to reconcile the uncompromising'*.

This practice of consultation seems to be quite capable of anticipating new regulative questions in the modern service economy, where an increasing share of the work is fulfilled in part-time work jobs, where scarcity exists in certain segments of the labour market, and where the issue of work stress asks for a solution. Mr Blankert, the president of VNO-NCW, the largest employers' association in the Netherlands, argued that in 1994 the lack of flexibility in the labour market was an important handicap for enterprises that wanted to increase their employment levels. Four years later, flexibility is no longer an issue for Dutch employers: *'The recruitment of personnel would definitively have been more difficult if flexibilisation of the labour market had not taken shape to the extent it did'* (VNO-NCW, press conference, 2 September 1998, p.11).

In the early 1990s, the working desk of the Social Economic Council and the Foundation of Labour was almost empty. There were no issues on the agenda, politicians claimed the 'primacy of politics' over 'industrial relations', and withdrew from the SER the legal function of being obligatory advisory council for the government. Neither was there at that time any need felt for much coordination since wage setting was already decentralised since 1982. All this changed in the economic recession of 1991-92, when unemployment rose and the government showed its preparedness to intervene in the wage-setting process. Intervention was immediately blocked by social partners with the acceptance of a 'breathing space'. With the 'Convergence and Consultation Economy' report (1992), and the 'New Course' agreement (1993), the central organisations of employers and employees have changed their attitudes. They aim at controlling the procedures of wage setting, the contents and outcomes they cannot pretend to control or dictate any longer. They have withdrawn their objections to dealing at the national level with concrete economic indicators and targets, and adopted a procedural approach in which they shifted decision making to lower levels, while at the meantime giving up their corrective power in case of deviations. Government intervention in wage setting has become unthinkable. Even at moments of sharply increasing unemployment when the government threatens to intervene, the social partners see this behaviour as unacceptable. The government is condemned to having a monitoring function, and can do no more than give warning messages in the press.

The method of working includes social partners having a place where they meet and discuss a wide array of issues. Crucial to making these platforms productive is that personal relations show a good fit, people have to know each other well and invest in good

'chemical' processes. Moreover they have built a set with social-economic data and evaluation studies. The participants evaluate and learn from the strategies and approaches that have been applied, so that they have become conscious of the limitation of central steering. They share a norm of mutual concerns and responsibilities that result in writing recommendations and letters of intent. These agreements are published in press and directly addressed to the rank and file. The texts contain general intentions without concrete figures. For example, the 1990 agreement on the number of 60,000 new jobs to be created for ethnic migrants will not be repeated: *'We can try to convince others, to persuade enterprises, local governments, schools, the police, et cetera to change their recruitment, but we have no instruments to make it effective. When we stated to create 60,000 new jobs we made a major mistake: we regret mentioning numbers from the bottom of our hearts'* (employers' representative).

The consequence is that the social partners cannot effectively control what happens at a decentral level. They make arrangements, without having the opportunity to influence the implementation. The only resources available are press releases, lobbies and in an ultimate case, calling a strike. The effects of this general climate building and trust creation policy are difficult to guess in the short term, they have to be determined in the long run. Social partners are nowadays focusing on the process of bargaining and take the outcomes for granted. They want to go along with decentralisation of decision making and with applying tailor-made agreements in an economy that asks for flexibility. The solution for the uncertainty about the outcome of the wage-setting process is clear: social partners bargain under a veil of vagueness. By controlling the process, they enable space for flexibility and individual choice in employment conditions. The central organisations have neither power to compel nor resource to control the implementation. Even if central agreements are neglected, it may be that decision making at decentral level will be more in line of individual preferences of enterprises and their work force.

## 2 THE COLLECTIVE AGREEMENT OF STORK MOBILE

BY *MARTIJN VAN VELZEN*

### 2.1 INTRODUCTION

This chapter focuses on the contribution of collective bargaining to employment protection or creation and to competitiveness in the case of Stork in the Netherlands. This metal company introduced an innovative form of internal labour market pool in 1998. The chapter is organised as follows. In paragraph 1, the Stork-company is introduced. In paragraph 2, the process of collective bargaining is analysed. In paragraph 3, the origin of Stork Mobile is outlined. In paragraph 4, the employment conditions in Stork Mobile are compared with those in other Stork divisions. In the final paragraph the potential effects are interpreted.

### 2.2 PROFILE AND CONTEXT OF THE FIRM

Stork NV is a Dutch industrial technology group with global operations. The activities of the Stork Group are grouped into five strategic business units: textile and paper printing, food processing and packaging, industrial components, technical services, and engineering and contracting. Orders received by the Stork Group totalled over NLG 5.6 billion in 1998, with a net profit of NLG 189.2 million. Of the orders received, 66% came from countries other than the Netherlands. These orders relate both to exports from the Netherlands and orders received by operating countries based outside the Netherlands. The operating companies in the Netherlands exported 49% of the orders received. Worldwide the number of employees at the end of 1997 was 22,436, of whom 2,389 were employed on a temporary basis.<sup>6</sup>

Although the Stork Group is a multinational concern it is traditionally regarded as consisting of a wide range of small enterprises, which is indeed historically determined. In the course of the past 170 years the Stork Group has evolved into a large company after several mergers and now includes over 80 subsidiaries. The company culture is therefore characterised as being strongly decentralised.

Early 1998 the Stork group established a new subsidiary called Stork Mobile which has been introduced as a pilot project in a single Dutch region covering 3,200 Stork Group employees. In Spring 1999 Stork Mobile was extended to a second region including another 3,800 employees of the Stork Group. The concern aims to introduce Stork Mobile nationwide, thereby covering all 13,000 Stork Group employees in the Netherlands by the year 2000. The principal operations of Stork Mobile are the hiring and secondment of personnel between Stork Group subsidiaries in order to achieve a more efficient staff allocation. Furthermore, Stork Mobile provides training and education for the improvement of the employability of Stork personnel. Stork Group subsidiaries are obliged to immediately report vacancies to Stork Mobile, but they are not forced to hire Stork Mobile personnel.

In order to acquire expertise on secondment and training the Stork Group decided to have a temporary employment agency join the project of Stork Mobile. Start Holding, one of the

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<sup>6</sup> On 31 December 1998 the total number of employees of the Stork Group was 19,848 employees. The number of employees in the Netherlands amounted to 13,423.

main Dutch temporary employment agencies, entered into the joint venture and allocated its training and placement knowledge. The Stork Group holds 65 percent of Stork Mobile, while Start Holding owns the remaining 35 percent.

### 2.3 THE COLLECTIVE AGREEMENT AND PARTIES INVOLVED IN THE BARGAINING PROCESS

Since most of Stork Group's operations are carried out in the metal industry the collective agreement for this sector is applicable to the principal part of Stork Group. This collective agreement covers 1,000 firms and 180 000 employees in the metal industry. To some of the smaller Stork subsidiaries that are not operating in the metal industry collective agreements of the construction industry and the printing industry are applied.

Traditionally, trade unions in the metal industry are strongly rooted, with 'FNV Bondgenoten' (approximately 500,000 members) being the dominant union. Other unions involved in the collective bargaining process are 'CNV Bedrijvenbond' (roughly 90,000 members), 'VHP Metalektro' (for medium and higher salaried employees, with an estimated 2,000 members) and 'De Unie' (representing about 80,000 people in senior staff functions in the industrial and in the service sector).

Within Stork Group codetermination takes place at three levels: in the central works council for issues involving the entire concern, in so-called group works councils (at the level of the strategic business units) and in works councils for the individual subsidiaries. Trade unions hold the primacy with respect to the bargaining process on terms and conditions of employment.

A sectoral foundation for employment protection and creation was introduced through the metal industry collective agreement of 1997. The agreement stipulated that firms in the sector had to donate an amount of money corresponding to 0.5 percent of a firm's total wage sum for 1997. The principal aim of the sectoral foundation was to increase the employability of personnel in the metal industry. The foundation reallocated the money to firms that come up with plans for employment promotion in the metal industry. The project of Stork Mobile is an example of such plans. The key clauses of the collective agreement on the funding of training and vocational education for the period 1998-2000 are summed up in the Table 6. below.

**TABLE 6: KEY CLAUSES OF THE COLLECTIVE AGREEMENT ON THE FUNDING OF TRAINING AND VOCATIONAL EDUCATION**

- The contributions of 0.25 percent of the total wage sum in 1998 and 1999 for the benefit of the employment in the metal industry (as mentioned in paragraph 4 section 1 of the collective agreement on the funding of training and vocational education) should be applied for the realisation of employment projects at both sector and firm level.
- Firm level investments: The employer and trade union can mutually discuss and agree on the investment of (part of) the contributions mentioned in article 1 for the benefit of employment promotion schemes at the firm level. Employment promoting schemes that will be (partly) financed are:
  - mobility centres
  - working time reduction
  - work experience places
  - policies for elder employees
  - measures aimed at preventing forced dismissals
  - measures (such as training courses and education) aimed at improving the employability
- Sector level investments: The resources surplus available at the sectoral level should be applied for the realisation of measures aimed at employment promotion, such as work experience projects, training and placement activities aimed at job seekers and target groups.
- The employer who has concluded an agreement - as mentioned in section 2 - with the trade union may be (partly) reimbursed by the Training and Labour Market Foundation for the Metal Industry for the donated contribution mentioned in section 1. In order to be reimbursed employers have to submit the agreement to the Foundation.

## 2.4 THE ESTABLISHMENT OF STORK MOBILE: A JOINT PROCESS

The case of Stork Mobile may serve as a fine example of the industrial relations at Stork Group. During the entire road towards the final establishment of the new subsidiary the Stork Group board, the central works council and trade unions have sought for mutual co-operation and co-ordination (Nordbeck, 1998; 1999).

The very beginning of Stork Mobile dates from 1995, at the time when flexibility in terms of prompt responsiveness to fluctuations in the demand for products and goods had become a crucial factor in international competition. Simultaneously labour supply and demand strongly varied in time and place. 'Labour flexibility' became an issue at Stork Group: the concern's board promoted mobility of employees and emphasised the willingness and

ability of personnel to change both physical and functional places. In return Stork Group had to provide training to make employees more capable for job changes within the concern. By providing broader training, employees involved in a reorganisation at a Stork subsidiary should have better and more opportunities to be placed in a job with a subsidiary elsewhere within Stork Group.

The board of Stork Group had a clear financial interest in promoting the employees' mobility: the friction costs involved with the inability to adapt to the fluctuations in clients' needs constituted substantial annual expenditures for Stork Group. At times personnel in some Stork Group firms became redundant (annual costs estimated at NLG 60 million) while simultaneously other parts of the concern had to hire staff from temporary employment agencies (approximately at NLG 200 million per year).

A steering group consisting out of representatives of the board of Stork Group, trade unions and the central works council was established in order to determine the feasibility of 'organising' flexibility of Stork Group employees. The three parties in the steering group had a common interest here: improving employee flexibility would reduce the vulnerability of Stork Group subsidiaries with respect to changes in volume and the availability of skilled employees. The representative of 'FNV Bondgenoten' has been considered as a key player - if not the driving force - behind the establishment of Stork Mobile.

Within the steering group Stork Group's considerations include a redefinition of core tasks in coherence with the increased need for flexibility. Furthermore, the management intended to organise flexibility in an efficient, effective and social way. Divestment of invaluable knowledge due to reorganisation means destruction of capital. The costs that go with divestment of human capital might be reduced by flexible deployment of personnel. Trade unions and the central works council emphasised that the concern's flexibility would be organised at the lowest social cost possible. In their view (re)training and education - in connection with flexibility - would be fruitful means to safeguard job security.

On the basis of these considerations the steering group formulated two goals: firstly, reducing the vulnerability of Stork Group subsidiaries by improving flexible deployment both qualitatively and quantitatively, and ,secondly, preserving and improving adequate skill levels.

In the process towards the establishment of Stork Mobile the negotiating parties identified two obstacles. First, the central works council was reluctant to link the new subsidiary with the so-called 'Social Framework'. This framework is applicable in the case of reorganisations. When, in future reorganisations, redundant personnel would automatically flow into Stork Mobile the subsidiary would run the risk of becoming a dump, which was expected to negatively influence the quality of service delivery.<sup>7</sup> However, both trade unions and the Stork Group board were of the opinion that a certain link should exist between Stork Mobile and the Social Framework. Parties compromised by agreeing on a 'loose' connection between Stork Mobile and the Social Framework.

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<sup>7</sup> See Koppens & Goudswaard (1997); and Van den Meijenberg (1998) on the fact that job pools in the Netherlands are often considered as reservoirs for redundant employees.

A second issue that involved extensive discussion between the three parties was that of the desired profitability of Stork Mobile. On the one hand Stork Mobile was thought of as a subsidiary for the benefit of other parts of Stork Group. On the other hand however, establishing a firm with exclusively a facilitating task would not fit the company's culture. Therefore parties decided to make Stork Mobile a subsidiary with a limited profit goal.

## 2.5 TERMS AND CONDITIONS OF EMPLOYMENT AT STORK MOBILE

Inflow of personnel into Stork Mobile can be divided into the following groups: permanent available employees (e.g. employees willing to join Stork Mobile because they are threatened by unemployment), temporarily available employees (e.g. labour turnover in one subsidiary is underpinned by placing employees into another subsidiary), trainees with training agreements, flowing into Stork Mobile on a temporary base (in a latter stage, eventually offered a fixed contract), and personnel from outside the Stork Group concern. In order to determine the terms and conditions for these four groups of employees parties acknowledged that negotiations were difficult in this stage. Whereas trade unions referred to the conditions as laid down in the metal industry collective agreement, Stork Group wanted a more innovative system, corresponding to the new situation that was created with the introduction of Stork Mobile. From the reached agreement described below it may be derived that the Stork Group board was the more successful in the negotiations.

Stork Mobile operates more or less like a hybrid organisation: one the hand it is a subsidiary of a metal concern, while on the other hand it carries out placement and training activities. Although the temporary employment agency Start Holding participates for only 35 percent in the joint venture, Stork Mobile's nature seems to be strongly coloured by the temporary employment agency. This may be clear for instance in the application of two distinct collective agreements on the employment terms and conditions of Stork Mobile employees.

With respect to the principles for terms and conditions of employment the following situations can be distinguished in the case of Stork Mobile. First, an employee may be temporarily seconded - via Stork Mobile - by a Stork subsidiary A to another subsidiary B and remaining employed with subsidiary A. The terms of employment of subsidiary A will apply to the employee.

In the second place, staff may be employed by Stork Mobile either on a permanent basis or for a fixed term. Employees with a permanent labour contract are subject to the terms and conditions of employment that are based on the collective agreement of the metal industry. However individual contracts may deviate for the favour of the employee.

People permanently employed at Stork Mobile are offered on the one hand a fixed set of terms and conditions - basically corresponding to the general Stork Group standards. On the other hand, as a 'flexible worker' they can dispose over an optional set. Depending on their preferences, permanent Stork Mobile employees may receive an additional fixed amount of NLG 125 per month for 'being flexible'. Furthermore they are entitled to five paid working days yearly during which training programs can be followed. In addition employees will be compensated for half of the spare time they spent on studying. Other issues covered by the terms and conditions of employment for Stork Mobile personnel pertain to opportunities of saving for additional spare time or days off. The saved days can be used, for example, for sabbatical leave, parental leave or early retirement. Employees with a permanent labour



contract at Stork Mobile are offered an individual training program in order to improve their employability.

Employees with a fixed term contract can acquire broader skills both on the job with Stork subsidiaries to which they will be seconded as well as through training provided by Stork Mobile. If temporary employees successfully pass the term of work experience and training they may be permanently employed with Stork Mobile. To temporarily personnel of Stork Mobile the collective agreement for temporary employment agencies is applicable.

The reason to introduce two distinct collective agreements is that Stork Mobile wants to directly compete with temporary agencies, which also operate in the field of personnel secondment. Here Stork Mobile's feature of a temporary employment agency is evident. Furthermore Stork Mobile employs part of its personnel on a fixed term contract in order to remain flexible and allow itself a period to screen these employees on suitability for the company. The differences between the collective agreements of the metal industry and of the temporary employment agencies merely pertain to secondary terms and conditions of employment, such as early retirement schemes. Here the metal industry agreement offers a wider range of financial facilities for employees willing to go on early leave.

**TABLE 7. TERMS AND CONDITIONS OF EMPLOYMENT FOR PERMANENT AND TEMPORARY EMPLOYEES WITH STORK MOBILE**

Permanent workers at Stork Mobile	Temporary workers at Stork Mobile
<p>'fixed' set of terms and conditions:</p> <ul style="list-style-type: none"> <li>• collective agreement for metal industry applies</li> <li>• income according to Stork Group system</li> <li>• 1840 working hours annually</li> <li>• 20 holidays</li> <li>• Stork pension fund</li> <li>• extensive early retirement facilities</li> <li>• profit related bonus</li> <li>• 5 training days</li> </ul>	<ul style="list-style-type: none"> <li>• collective agreement for temporary employment agencies applies</li> <li>• gross income</li> <li>• 1920 working hours annually</li> <li>• 24 holidays</li> <li>• disability benefit of 70 percent of last earned income</li> <li>• 8 percent holiday allowance</li> <li>• tailor made training investments</li> </ul>
<p>'optional' set of terms and conditions:</p> <ul style="list-style-type: none"> <li>• compensation for cost and time involved with travelling</li> <li>• 5 additional holidays</li> <li>• overtime compensation and bonuses</li> <li>• monthly 'mobility allowance' of NLG 125</li> <li>• holiday allowance</li> <li>• bonus scheme</li> </ul>	

## 2.6 INITIAL EFFECTS OF THE STORK MOBILE PROJECT

The way Stork Mobile has been established through the joint efforts of the Stork Group board, trade unions and the central works council not only represents the industrial relations within Stork Group. It also manifests the essence of what is often referred to the Dutch system of consultation between employers' associations and trade unions (chapter one of this report). At the national level employers and employees, gathered in the Labour Foundation ('Stichting van de Arbeid' in Dutch), jointly recommended the parties involved in collective bargaining to promote participation in training in order to improve the employability of personnel.<sup>8</sup> Trade unions have also been preoccupied by the issue of mobility, flexibility and employability. Since 1997 trade unions have shifted their stance from 'employment security' towards 'job security' thereby focusing on training and education.<sup>9</sup>

In the case of Stork Mobile 'competitiveness' and 'employment' do not mutually conflict. The concern's competitiveness is increased by reducing the vulnerability of individual subsidiaries through labour flexibilization. By improving their employability in terms of skills and functional mobility, employees can cope with changing requirements of global competition. Interestingly, parties involved in collective bargaining at Stork Group choose not to make a trade off between 'competitiveness' and 'employment' but opt to mutually connect the two by such concepts as 'flexibility', 'mobility' and 'employability'.

All preconditions for a successful introduction of Stork Mobile seem to have been realised: the involvement of social partners in the entire process; the prosperous co-operation within the steering group; study results showing a substantial offer and demand for labour mobility; an extensive communication and information process aimed at managers and employees; and tailor made terms of employment. However, initial experiences after the introduction of Stork Mobile suggest the existence of a number of barriers for Stork Mobile in order to function properly. First, a substantial share of the personnel with Stork Group holds a suspicious view with regard to Stork Mobile. In general, 'labour flexibility' is negatively connoted by employees, involving low paid and low skilled jobs. Stork Mobile has already acknowledged that the mobility allowance of NLG 125 is too weak an incentive for attracting personnel.<sup>10</sup> In the second place, problems have been identified in matching labour supply and demand within Stork Group. On the one hand the demand for labour seems to be inadequately communicated while on the other hand appropriate personnel is lacking due to the current tight Dutch labour market. In addition to this, labour market tightness reduces the need for employees to be flexible.

Evidence of Stork Mobile's difficult start can be derived from personnel data: as of March 1999 54 people are employed at Stork Mobile - of which 37 come under the collective agreement for temporary employment agencies. These figures are said to be half the number of people expected to be employed at Stork Group. Especially elder employees, who constitute a principal target group in the national debate on employability, seem to be absent in Stork Mobile.

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8 Stichting van de Arbeid (1996), 'Werken aan je werkring', Den Haag.

9 See also Wilthagen (1998), p. 18; Lamers (1997b); Lamers (1997c).

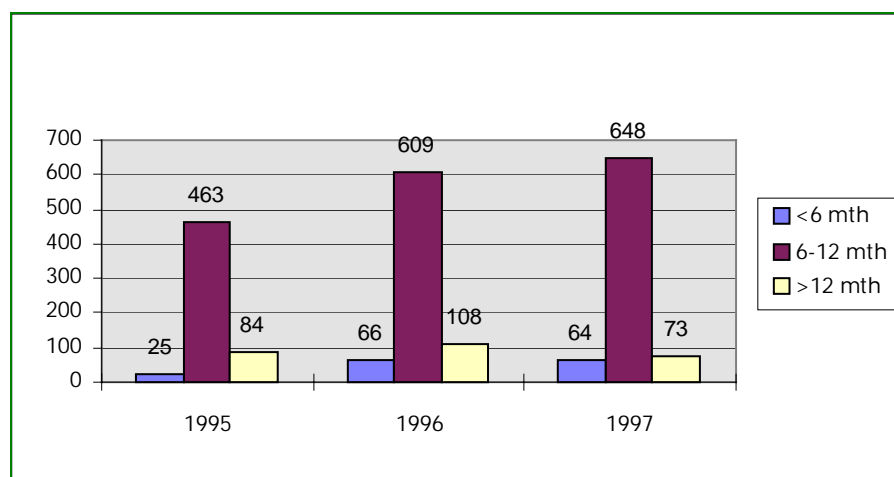
10 See Van Lammeren (1999).

The main problem with Stork Mobile seems to be that employers and employees regard the concept of 'mobility' in a different way. Employers wish to apply their personnel in a flexible way, adapting staff deployment to the required production level. Employees are willing to be mobile if this is a means to secure their employment within the firm. Also with Stork Mobile the traditional gap between employers' and employees' interests seems hard to be bridged.

Outcomes from the initial stage of Stork Mobile indicate that the idea of combining competitiveness, employment security and flexibility may be fruitful but at least needs some time to ripe. The disappointing evaluation outcomes have made the board of the Stork Group aware that short-term results should not be expected. Keeping this in mind Stork Mobile operations have been extended to a second region. With targets being redefined more modestly Stork Mobile will be given the time to legitimate its added value in the coming years.

#### Appendix

**Table 8: Temp Workers at Stork Group (absolute numbers)**



### 3 THE COLLECTIVE AGREEMENT OF PHILIPS ELECTRONICS NEDERLAND BV

BY MARC VAN DER MEER AND JELLE VISSER

‘Referring to the last three or four collective agreements, I conclude that this has been an important instrument for Philips to implement the desired adaptations within the organisation. Collective agreements are a means to make clarify and to radiate a new era’ (Personnel director De Haas quoted in ‘Het Financieel Dagblad’, February 28th. 1999).

#### 3.1 INTRODUCTION <sup>11</sup>

Philip Electronics Nederland BV is a world leading Dutch multi national corporation, in the field of lighting, consumer electronics, components and semi-conductors. The Philips headquarter is located in Amsterdam, although the company was founded in 1891 in Eindhoven and several Dutch divisions are spread over the rural parts of the country. After the Second World War, the company grew in terms of employment and output. Philips was called a ‘social factory’ because of its paternalist human relations management including life time employment and relatively well paid jobs, while the company took care of housing, health care, education and social-cultural services for its employees (Stoop, 1992).

Over the last three decades, employment levels at Philips have been under pressure due to automation and rationalisation processes. From 1975 onwards there has been a continuous restructuring and concentration of production in larger plants. After 1980, a process of decentralisation of financial and economic responsibilities from the top management to the management in the several divisions was begun. In the difficult world economic conjuncture of the early 1990s, serious financial problems compelled the company to rethink its whole company structure. The ‘Operation Centurion’ implied a complete reorganisation of the company. In four phases, the company attempted to become leaner and go back to its core competencies. First it stopped the bleeding, then it went to reduce fixed costs (housing, ground, machines), in the third fase it sold certain portfolio assets, and finally it attempted to revitalise its activities (see Metze, 1993; Dekker, 1996). In this period, 55,000 jobs were hived off, of which 13,000 in the Netherlands.

Overall, due to the innovation of new technologies, the reallocation of labour to other countries and the externalisation of some divisions and activities, the employment level declined over the last twenty years from 80,000 in 1970 to 65,000 in 1984 and 35,000 in 1998. However, job losses at Philips may have resulted in job growth elsewhere. The firm indirectly still employs two and half times more than its own staff due to continuous investment of currently 4 billion guilders in 14,600 suppliers. A substantial part of the outflow in the Netherlands is now employed in former Philips companies such as the pharmaceutical Duphar or the computer company Origin (see the chapter on Origin in this report). Moreover, during the Centurion operation, 95% of the redundant staff was

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<sup>11</sup> We express our gratitude to the persons allowing us an interview: the Philips management (1999 March 19<sup>th</sup>), the union for medium and higher qualified personnel operating at Philips, (1999 April 14<sup>th</sup>), a general trade union operating at Philips (1999, April 15<sup>th</sup>).

reallocated in the small and medium sized companies via pro-active reallocation policies, regional databanks in vacancies, job hunting and application talks. Therefore, there is a clear spill over of economic activity in the industrial district of the 'techno-town' Eindhoven, where in 1999 long-term unemployment appears to be non-existent.

In the light of the strong international competition, the company has faced with a continuous concern for competitiveness and cost levels. In 1995, a new governance system was introduced making the various divisions directly responsible for their benefit levels. This necessitated the reskilling of management staff and brought the human resource policy closer to the business process. Employment relations in the company are changing. There is a constant awareness of the management, reallocating people in the internal and external labour market. More than before, management recruits employees on a temporary basis. Part-time work is increasing as well. As we will see below, the position of the employees is less secure and the need to enhance 'employability' of employees and to introduce new remuneration policies is seen to be urgent.

The general argument in this chapter is that the industrial relations and especially the content of the collective agreements at Philips have undergone a major change since the reorganisation of the company. Collective bargaining will seem to be instrumental as a process of change in the relations between management and trade union representatives. In this chapter five different areas will be examined that each have shown a qualitative change. These may serve as an indication for the argument that collective bargaining is no longer distributive in nature only, but that collective wage setting may very well have a productive impact in labour relations.

The chapter is organised as follows. In section two, the industrial relations at Philips will be introduced. In section three, we take a closer look at competitiveness in the company. Section four is devoted to the internal labour market at Philips. In section five we present our arguments concerning the innovation of collective agreements. In section six we present our conclusions regarding the exchange between competitiveness and employment.

## 3.2 INDUSTRIAL RELATIONS AT PHILIPS

The central philosophy of personnel management at Philips has always been that of company-wide wage setting. The remuneration policy is based upon a number of explicit objectives: 'to create fair salary conditions by paying employees according to the value of their contribution', 'to offer a competitive salary level in order to be able to recruit and keep good personnel', 'to support employee motivation and to control wage costs'. All employees are ranked according to job grades in comparison to benchmark jobs. There are two types of collective wage agreements. One for the lower grades that include most of the blue collar workers (CAO-A) and one for the higher grades that include most of the white collar employees (CAO-B). The two collective agreements cover 98% of all standard contracts (full-time and part-time). The senior management (2%) is not covered by the agreement. Temp workers (10% of the staff) are also excluded from the collective agreement.

The collective employment agreement for the lower grades (CAO-A), originating in December 1949, is the more detailed of the two agreements. It covers all personnel in the admission grades A1, A2, A3 and A4 and the job grades 10, 15, 20, 25, 27, 30, 35, 37, 40,

45.<sup>12</sup> It serves for 20,304 persons (61.1% of the staff) spread over 31 departments over the whole country (data April 1999). It is signed between the Philips Electronics Nederland BV in name of a number of associated companies on the employers' side. On the trade unions side, three organisations are involved: FNV Bondgenoten, CNV Bedrijvenbond and De Unie.

The collective employment agreement for the senior staff (CAO-B) origins from 1972. It covers each person employed in grade B or to grade 50, 60, 70, 80, 90 or 100.<sup>13</sup> On the employers' side it is signed by the Philips Electronics Nederland BV and on the trade union side by FNV, CNV, De Unie and the VHP-Philips federation of Philips senior staff. It currently covers 12,906 employees (38.9% of the staff) in the same 31 plants in the whole country (data April 1999).

Trade union density at Philips is between the 20 and 25%. Union membership varies. FNV is the largest trade union among the blue-collar workers and the VHP-Philips is relatively large among white-collar employees. FNV and CNV mainly organise members in the grades 10-40, whereas De Unie above all organises members in the grades 40-50, and finally VHP is the largest union in the ranks of the white collar employees, in grades 50-100. In the most recent works council elections of 1998, FNV received 35.8%, CNV 4.6%, De Unie 3.4% and VHP-Philips 8.3% of the seats. Another 47.9% of the seats –a relatively large percentage- was occupied by independent members (internal letter Philips, January 12th. 1999).

Personnel management has always been relatively centralised, since the company wanted to direct labour relations and to quell internal wage competition. In recent years, though, human resource management has been moved nearer to the line organisation, closer to the business processes. In order to keep permanent good relations in the company, management and unions meet at several occasions during the year. In this respect, the collective agreement prescribes: 'the employer shall periodically inform the trade unions that take part in these central consultation meetings about the general state of affairs in his establishments. Particular attention shall be given to developments in the economic sphere, such as investment and employment (including the position of women, the employment plan and education and training)'. In addition there is consultation with the central works council (at national company level) and local works council (at establishment level). Works council elections were held most recently in 1989, 1992, 1995, and 1998. There are 76 works councils, 7 councils at group level and one central works council. After 1994, the works council plays a more important role on issues such as operating hours, time schedules, vacation, and working conditions (Tros, 1998). In a recent article, the Philips Magazine rhetorically decapitated however of whether Philips is 'Tired of co-determination?', to underline the low interest in the works council elections in the company (November 1998).

In contrast to other companies, the Philips management -when needed- prefers to deal directly with the unions representatives while keeping the works councils, within the margins of the 1979 works council legislation, at bay (Visser, 1995). For example in the

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<sup>12</sup> With the exception of helpers in the morning or evening shift, and participants in the Philips' employment plan (see below).

<sup>13</sup> With the exception of members of the managerial staff and those with whom a contract of employment other than for an unlimited period has been entered into, except for the employees in admission grade B.

Centurion Operation, the management cooperated with the unions in the externalisation of business unions and restructuring of certain plants by negotiating social plans, in which the unions tried *'to maintain employment and income levels'* (interview).

Within the national headquarter a 'plenary consultation' is arranged every two months between the management and the unions. Here the implementation and fulfilment of the collective agreement is considered. An union official argued that Philips normally presents more information than it is expected to do: *'Twice every year at 60 different places within the company, consultation is kept between management and the unions take place (of which 30 in Eindhoven, and another 30 outside Eindhoven)'*. These sessions take place in addition to collective bargaining and incidental talks between union representatives and the Philips management in case of mergers or plant closure. The regular talks deal with issues such as economic data, cash flow, sales, opportunities and risks, personnel flows, the employment plan, the women's employment, and incidental issues such as the notices on the pension system, organisational change, incapacity of labour, the salary system, and the consignment regulation. According to a union official: *'At Philips a large tradition of mutual shared concern exists, management and unions do know each other well. As a rule, collective bargaining takes place every two years, but cannot be seen isolated from the other talks: 'One knows each other well, talks are confidential, but information is transparent and communication results in trust relations'*. For the management it is important that the unions are well informed: *'they accept the economic analysis, and use their capacity to find solutions'* (interview).

Strikes at Philips are rare. The most recent labour conflict, that lasted half a week, resulted after the plant closure of the catering establishment in 1988. Ever since all reorganisations, including the social plans, have been intensively negotiated with the unions. In 1992, the Centurion Operation resulted in a Central Social Plan, later called 'RAP' (literally: 'Regulation adaptation of personnel use'). This agreement was signed at the level of the national headquarter rather than at individual plants in order to reduce transaction costs. For the purpose of information exchange, the management also applied the means of internal public relation programmes, feedback discussion groups and, at the time of Centurion, of management by speech by using the direct communication of the president of the company who via television screens spoke to an astonished work force. It should be added that the company has always been able to avoid forced collective dismissals, although within the Centurion Operation many aged employees have retired making use of the social plans.

### 3.3 COMPETITIVENESS AT PHILIPS

The Philips company is vulnerable as a cathedral in an earthquake when it concerns variations in economic demand. The introduction of new technology, consumers taste and the economic conjuncture directly influence the well being of the firm. Over the last few years, product life cycles for computers, hifi stereo, and television have been reduced and the life expectancy of some products lasts only several months. Under the conditions of the huge international competition, Philips is keen at reaching technological innovation and scale advantages through swift decisions.

In the Philips plants, different cost patterns exist with a variable weight of labour costs (see Table 9.). Wage costs in these plants do not necessarily reflect current Dutch labour market

developments, since there are several types of internal labour markets in different plants (source: interview):

A. R&D-departments: Philips is responsible for financing one third of all R&D in the Netherlands, and 60% of the researchers work in the Netherlands (De Haas, 1997). For these laboratories, wage costs are not the crucial price factor, though a British engineer at Philips in the UK may cost only 60% of his Dutch colleague in Eindhoven. Research and development doesn't move globally however and Eindhoven is a centre of the new knowledge economy where the added value is high and large spin-offs are created.

B. Assembly production: In assembling products labour costs are relatively important, especially when they involve 30% - 35% of the product price. This is for example the case in the assembly plants in Terneuzen and Drachten. The competitive advantage of these plants in comparison to those in Eastern Europe is very narrow. In Poland, for example, the labour costs are only 5% of the total cost price (i.e. is a difference of 6 times less than in the Netherlands). According to management, the company is permanently faced with the choice between international reallocation to Poland or further automation of the Dutch plants.

C. High value added plants: Some of the plants contain a high capital intensive, chemical production process, such as the Nijmegen plant. In this plant, a five-shift system occurs, though labour costs do not determine the competitive advantage. Crucial factors are the speed in production, flexibility and accurateness to achieve an optimal use of capital goods. Work effort is a necessity to increase productivity. In this plants there is a continuous production process during 6 months, in order to reach a comparable advantage over the main competitors. Benefit margins are very narrow and become even narrower once more competitors enter the market. The main strategy therefore is to introduce a product on the market just three months earlier than a competitor.

**TABLE 9. ECONOMIC FIGURES (1996)**

	<b>Philips in the Netherlands</b>	<b>Philips in the World</b>
Turnover (Millions guilders)	3,419	5%
Benefit (excl. Restructuring, millions of guilders)	423	17%
Personnel	46.464	18%
Number of plants	37	14%
R&D	Ca 1,800	44%
Number of researchers	Ca. 1,250	Ca.65%
Investment at suppliers (Millions guilders)	Ca 4,700	Ca.10.5%
Number of Dutch suppliers	14,600	-

*Source; De Haas, 1997*

### 3.4 THE INTERNAL LABOUR MARKET AT PHILIPS<sup>14</sup>

Philips in the Netherlands is spread out over 31 plants. In each of these plants a particular type of internal labour market exists. The public information on mobility and career patterns within and between divisions is scarce. Until recently, people were used to fulfil their whole working life within the Philips company. Lifetime employment assured the personnel the expectation of having a stable career with a reasonable salary and an excellent social benefit

<sup>14</sup> Data in this paragraph is taken from 'Informatie 1998 ten behoeve van de ondernemingsraad' (June 1999) and from more dated information bulletins to the works council.



regulation. The degree of internal mobility and career development varied per person. As a rule, many lower grades celebrated their jubilees in one single plant, whereas many senior managers rose to higher posts within several (inter)national divisions. In April 1999, the average age of the staff was 40.2 years for CAO-A and 41.3 years for CAO-B. Average tenure was 16.6 years for CAO-A and 15.3 years for CAO-B. For the future more mobility is expected, since job security within the internal labour market can no longer be guaranteed and forms of work security have to be created.

In December 1998, 35,249 persons were employed at Philips in the Netherlands, 28,285 men (80.2%) and 6,964 women (19.8%). Currently, less than two third of the staff is employed in the lower grades (CAO-A), more than one third is employed in the higher grades (CAO-B), and the relative weight of the higher grades is rising. From 1988 until 1998, the segment of employees with a university or high professional education degree rose from 21% to 31%. In the same period the part with secondary vocational training gained in importance by increasing from 6% to 13%. The lower skilled employees lost relative weight by declining from 74% in 1988 to 56% in 1998.

The number of staff reduces is mainly due to de-consolidation of divisions. In addition, each year a number of people leave and enter the company. In 1998, 2,842 employees (8.1%) left the company due to retirement and acceptance of other jobs, 3,562 new employees were recruited (10.1%). In the Dutch labour force, 2,988 persons are present of 91 nationalities. The major part of them are Belgian (36.8%), followed by Turkish (12.4%) and British (9.1%) employees.

In order to make the different plants beneficial, the labour costs per output ought to be lower than those of direct competitors elsewhere in the world. In order to increase productivity, the company nowadays needs labour use policies that are flexible. Since the early 1990s, the company increasingly is making use of temp work. In 1998, twelve percent of the labour force was temp worker (4,638 full time equivalents) and another four percent works with a temporary contract (1,570 full time equivalents). In 1993, this was only two respectively two percent. In 1996 7.3% of the personnel, in 1997 8.1%, and in 1998 8.7% was hired on a part-time basis (less than 40 hours a week). Of all men employed at Philips about 1.6% works part time, of all women this percentage is 37.7%. This division reflects in extremes the skewed distribution of part-time work in Dutch society (Visser, 1999). Of the regular staff, 8,506 employees (about 25% of the personnel) is employed in shift work. In several divisions there are two shifts (1,914 employees); three shifts (3,018 employees), four and five shifts (3,574 employees) (data for December 1998).

### 3.5 FIVE INNOVATIVE ASPECTS OF THE COLLECTIVE AGREEMENTS AT PHILIPS

According to the interviews with the Philips management and two union representatives, five aspects in the collective wage agreement have been innovated over the last decade: remuneration policy, allowance of a further reduction of labour hours, changes in the pension scheme, the introduction of a debate on employability and, finally, the functioning of the Philips employment plan. These aspects cannot be treated isolated from each other, since they are all related to the firm's internal debate on the use and price of labour and are all being discussed and dealt with by the management and unions in the realm of the collective bargaining process. The five aspects, which vary in relative weight and give reason to different opinions, are presented as examples of innovation of the collective wage

agreement. They therefore support an argument on collective bargaining that no longer can be seen as only distributive in nature, since all aspects have their productive gains in terms of competitiveness and employment. We begin with the presentation of the aforementioned topics. In the last section we will draw an over-all conclusion.

### 3.5.1 REMUNERATION POLICY

At Philips, the centralised personnel department in Eindhoven is operative since 1917. In the 1980s, a decentralisation of human relations policies has been implemented. Qualitative issues, such as recruitment, career planning and human development have been devolved to lower branches. Pay policy, however, is subject to negotiations with the unions is still located at central levels however. Yet, since the introduction of the new governance system in the company in 1995, the wish to relate remuneration policy more closely to performance has become manifest.

There are two major fundamental ways of determining wages.<sup>15</sup> First of all, each staff member is ranked in the company-wide wage structure on the basis of his own productivity. Productivity is determined per job. All jobs in the company are being based upon benchmark functions, so that every position in the company is compared to an ideal type. If an employee increases his performance within a certain job or when he starts in another job, the position of that employee within the whole wage structure is reconsidered. As we will see below, the flexibility in payments differs for the lower grades in CAO-A and the higher grades in CAO-B. Secondly, each year the central management negotiates with the trade unions the annual wage increase that are collectively applied over the whole wage system. The unions demand compensation based upon specific wage norms, i.e. a compensation for inflation and a collective compensation for the increase of labour productivity. When these annual increases are accepted they are applied for all employees.

How does this work in practice? Since 1986, when a so-called 'framework' agreement was signed, both collective agreements have the same structure, though with one important difference. The CAO-A for the lower grades includes explicit tables and scales for remuneration for both regular and shift work, whereas the CAO-B for the higher grades does not. Both contain agreed articles organised in eight chapters: general obligations, employment, contract of employment, working time, remuneration, other provisions, internal appeal procedure, and special regulations. The CAO-A also contains an additional chapter for 'company discipline and internal appeal procedures'. In both collective agreements particular appendices have been laid down regarding holidays, leave of absence, employment plan, decentralised consultation meetings, internal and external job placement, part-time working, and the saved-up leave system.

Since the early 1970s, the job classification scheme for lower grades personnel has not shown any fundamental changes. In the CAO-A there are ten scales, with a minimum and a maximum rate. For each employee, job classification points are determined on the basis of five criteria: 1. theoretical and practical skills, 2. responsibility, 3. leadership (both the number and the way of improving commitments of others), 4. influence and information exchange, and 5. physical capabilities. People are placed in certain categories based upon the level of the job, under the condition that they are able to perform the function well for a

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<sup>15</sup> In this section, the text of the collective agreement has been followed as much as possible.

longer period. Employees younger than 23 years old receive an age-related payment plus a contingent bonus. People in the age of 23 years or older, receive one out of three types of salaries. They at least receive the 'entry wage' (*'functie-aanvangssalaris'*), which is the minimal rate for the job. After he or she has shown to control the job, the worker will receive the 'job wage' (*'functie-salaris'*). The 'final wage' (*'functie-eindsalaris'*) is conceived when all functional requirements are met. The salary can increase over the years due to two influences: firstly due to age (for those under 23 years) and secondly by additional personal contribution to the company output (this is determined on the basis of quantity and quality of the work output and behaviour at work). The individual performance related pay is allowed by two, three or four per cent for those who have not yet reached the 'job wage'. After the job wage level is reached, there is also a possibility for wage increase, that reaches –depending on the managerial judgement- one, one and half, or two per cent annually.<sup>16</sup> When the final wage is reached, people can only earn marginal bonuses in case of extraordinary productivity.<sup>17</sup> These bonuses can reach a maximum of 12% of the final wage. The marginal bonuses are awarded temporary for the period of one year.<sup>18</sup>

For higher grades in CAO-B, less specific collective negotiations exist about job ranking and pay systems. Since 1990, more variable payments and bonuses have been allowed for the senior staff, to be determined by the head of the department. Allowances also exist for the execution of definite tasks, for labour in short supply in the labour market and for foreign employees. Currently, there are five wage scales, the structure of which is the result of consultation with the unions, but application is an individual concern. Each professional grade has a reference salary. The salaries of employees in a professional grade are expressed as a percentage of the reference salary. Payment may vary between 60 and 130% of a fixed reference point (in each of the scales 50-60-70-80-90).<sup>19</sup> Every year, the heads of the department and the personnel officer make an individual assessment of the job performance, the suitability and the continuation of the function. A reduction of the salary level can only take place if the way the employee performs his or her function gives conduct to this.<sup>20</sup>

The second procedure for wage growth, in addition to individual assessments, appraisal and remuneration, regard the annual collective wage setting with the unions. As stated above, Philips negotiates two collective agreements, usually for the duration of twenty-four monthly payments. Annually all employees receive a 8.33% holiday allowance, a thirteenth

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<sup>16</sup> These options exist since 1990, while at the same moment, profit sharing was halted, since the unions preferred fixed payments instead of variable rewards, due to uncertain market conditions.

<sup>17</sup> In 1998, 9.2% of the employees received less than the entry wage, another 37.2% received the job wage, and 51.2% received the final wage.

<sup>18</sup> By way of illustration: in the period April 1998-April 1999, 2,517 persons were promoted to higher grades, demotion to a lower grade was applied for 49 persons.

<sup>19</sup> All employees meeting the requirements of the function reach scale position of 90%. This is the minimal final salary level. If after reaching scale position 90, it is found that the employee's contribution and output for the company show further growth, the employee will move up beyond this scale position. This salary growth usually ends at a salary level corresponding to a scale position at around 100. Such growth can continue as far as the scale maximum.

<sup>20</sup> Once an employee has been assigned to a professional grade, he or she will never be placed in a lower grade, apart from situations in which there is 'prolonged lack of work' (...) 'a lower employees contribution' or 'a closure or fundamental change in the organisation. In the period of one year (April 1998-April 1999) 824 promotions and 8 demotions occurred, indicating that employees have the regular expectation of being ranked in a higher grade.

month payment and a 3% benefit of the sum of the designated elements of the income.<sup>21</sup> Central management does not leave much room for manoeuvre to unions negotiating separate wage increase in specific plants. The company management blocked these kind of demands, since it was afraid of rising labour costs due to a general 'knock on' effect of union claims. Moreover, it feared the undermining of the cultural and commercial homogeneity of Philips. Finally, one thought that divisional wage thrift might hinder the mobility of personnel in the internal labour market (Tros, 1998; interview).

To what extent do wage demands respond to national developments? The industry unions (FNV, CNV) at Philips have formulated their wage claims largely in line with the claims of the industry federation union in the national economy. Similar to the developments in other firms, trade unions have a broad agenda for collective bargaining. Several topics defined in the national agreements, reached between the confederation of employers and the national trade union confederations, appear on the bargaining agenda at Philips (see also the national overview in chapter one). Since 1982, the trade unions at Philips have followed a policy of moderate wage demands and labour time reduction in order to enhance employment. This policy is oriented on distributive wage norm of an equal wage increase for all. Since the late 1980s, more qualitative issues have emerged on the collective bargaining agenda, such as training, gender issues, employment services and programs for the unemployed. In general these issues are presented as general frameworks or intentions in the collective agreement, and not as strict rules that have to be unconditionally implemented (Tros 1998). For FNV and CNV, these wage norms are determined in accordance with the respective wage policies of the union confederations. In the case of De Unie and VHP-Philips, the unions have more freedom in bringing forward individual wage demands since the MHP-confederation argues that wage coordination is not its responsibility (see the national overview in chapter one, interview).

The Philips management in its turn anticipates national wage developments by opting for a further introduction of a pay system in accordance with individual productivity. After the Centurion Operation and after the subsequent signature of the national 'A new course' agreement (1993), further differentiation of wage increase has been brought into discussion. As we will see below working time reduction has been halted, the pension system has been changed and the issue of employability has been put on the agenda.

It is important to conclude that in near future the personnel management wants to screen, appraise and reward all personnel by ways of individual assessments instead of collective redistribution mechanisms. The underlying reasoning is that since lifetime jobs can no longer be guaranteed, there is a need to anticipate reorganisations. Redundant and malfunctioning employees should be traced and retrained in time. The collective wage agreements B, for the higher skilled workers, already contains an assessment method including a wide margin of performance related pay. For the lower degrees however, an appraisal of individual functioning and productivity within the company and a subsequent merit pay, has not yet been realised. In the near future, the management wants to disconnect automatic collective wage increases for these employees. 'We can no longer guarantee a collective wage increase of say three percent, because we want to screen the five percent of

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<sup>21</sup> From 1990 this payment may also be converted in a maximum of 7 days off (CAO-B), from 1994 this is also allowed for lower grades (CAO-A).

employees that is not performing well' (interview). An experiment with this approach has recently started in several departments spread over the company.

We observe that an innovation in pay policies into the direction of performance related pay would imply a major change in the philosophy of the until now widely used 'implicit contract models' in Dutch companies. Employees in lower grades are still used to work under the conditions of a rising salary over their careers. They have a model of rational expectations believing that they earn a moderate salary today, as an investment for a rising salary tomorrow. In the event of a philosophy of a performance related pay being introduced, especially rational expectations of employees and their commitments towards the organisation may change. Whether this leads to individual short-termism and hold-up problems due to a lack of firm specific training, has to be seen. In any case, the regional labour market is performing well and the employment conditions and training initiatives at Philips distinct positively from elsewhere. For these reasons, a change in pay policy will most probably lead to a situation where the major problems will be found not with new entrants in the internal labour market hierarchy but with the unions, whose old guard rank and file will feel threatened.

### 3.5.2 HALTING LABOUR TIME REDUCTION

For trade union organisations, the reduction of labour time is an old working class ambition. The contraction of a 45 to a 40 hours working week (including the introduction of a free Saturday) in the 1960s was seen as an improvement of labour conditions. According to De Haas (1996), this form of working time reduction was supported by Philips, since it did not harm the competitiveness of the company. At that time international trade was not yet globalised and within Europe similar working week patterns emerged.

In the 1970s and 1980s, the topic of working time reduction was put on the agenda by the trade unions. This instrument was at that time no longer seen as an answer to welfare growth, but as a solution to the emerging economic crisis. Reduction of labour time was believed to be instrumental for enhancing job growth due to the policy of sharing and redistributing work. In the Netherlands, the Wassenaar agreement of 1982, signed between the national confederations of employers and employees, marks a new period of adaptation of working time regimes. The central organisations agreed to exchange a moderation of labour costs for a reduction in labour time and a combat of youth unemployment (see chapter one of this report).

Nowadays, the Philips management is attempting to negotiate with the unions on an 'annual model of labour hours' (De Haas, 1996). In their approach, labour hours should no longer be determined per day or per week, but on an annual basis in order to allow variation in labour use during out the year, according to the specific needs of the company at certain moments. This concept would immediately allow a further flexibilisation of work patterns, since daily overtime and extraordinary work times would be redefined in terms of the annual labour time. The trade unions however rejected this proposal and successfully claimed a timetable with collectively predetermined and individually free options to choose days off. In 1985, the annual working time was determined with maximal working hours per month and per quarter (Van Klaveren en Tijdens, 1998). The compromise allows workers 26 half days off annually. Furthermore, the local management and works council are allowed to make another agreement. As a consequence, the 8 hours working day and the 40 hours working

week have been maintained, and labour time reduction is organised via longer holidays and releases.

The employment effects of this form of labour time reduction however are moderate. According to a survey held by the Philips management in 1985, the net job growth of labour time reduction is low. The survey showed that only for lower skilled employees the chances for recruitment had risen. For other, higher qualified groupings the effects perhaps are counterproductive, since the company makes less use of their skills so that the under-use of labour power results in sub-optimal benefit levels. In short: 'labour time reduction slows down product innovation and reduces sales'. As a consequence, production costs rise, innovation moderates and a loss of competitiveness occurs (Philips survey 1985, quoted in De Haas, 1996).

The desire of the trade unions for a further labour time reduction has not abated. In the early 1990s, the union confederations in the Netherlands started a new campaign for adaptation of working hours given the rising unemployment at that time. The response strategy of individual companies and of the national employers associations differs from that of the early 1980s (Tijdens, 1998). They now pinpoint at a lengthening of operating hours of individual plants and again at the introduction of 'annual labour time models'. In some companies a 36 hours working week is introduced with new models for labour time and operating hours, as in the banking sector (see the chapter on ABN-AMRO).

The Philips policy is the opposite of national developments. All proposals for a reduction of labour time presented by the trade unions in the collective bargaining round of 1986 were rejected. In contrast to the multinational AKZO Nobel, where an experiment is starting, and the government sector, where collective labour time reduction is implemented, the Philips management vetoed all collective reduction of the labour time (De Haas, 1996). The arguments brought forward include the fact that the survey of 1985 (as well as an update of the results) did not promise positive job effects, whereas a large part of the employees does not support the union proposals. The most important argument however was that the international market position of the firm does not allow a further slow-down of labour productivity, innovative capacity and therefore of competitiveness (De Haas, 1996). The central policy of the company went the other way around. The 40 hours working week was continued, a lengthening of operating hours and an increasing use of temp work, temporary and part-time contracts are allowed.

According to the management, this opposing trend, quite reverse to developments elsewhere in the Netherlands, was a major innovation for Philips in the collective wage agreement to achieve more flexibility and competitiveness in the company (interview). It is possible that the revelation of the economic conjuncture in the mid 1990s also increased production and economic perspectives for the company, and it showed first forms of scarcity in the regional labour market, so that a policy of collective labour time reduction would be redundant. This implied that in contrast to, for example, the German car factory, Volkswagen, working time models of a four times nine hours working week have not been discussed.

The collective agreement of 1996 was signed only by two out of four trade unions (which is allowed under Dutch law). The trade unions FNV and CNV rejected the agreement since they believed it to be harmful for both the job growth in the firm as for the internal cohesion of the trade union organisations. On the other hand, it should be added that many members

of these unions were not fully convinced of the labour time reduction. Some of them were working less than full time, and above all the members had paid for some wage moderation in 1992-1994 and were looking forward to earn a real wage increase in 1996. The unions De Unie and VHP-Philips regretted the internal split among the unions, but acknowledged the results of the collective agreement that allowed for a continuity of the 40 hours working week. Most of their members are senior employees with a job contract who are used to work full-time. This is a major difference with AKZO-Nobel where the senior grades mostly are not covered under a collective agreement at all. Moreover, the unions and their members in exchange, as will be discussed now, gained an individualisation of the pension plan (source: interviews).

### 3.5.3 THE PHILIPS PENSION PLAN

In the collective bargaining round of 1996, when the labour time reduction was blocked by the Philips management, a further flexibilisation of the wage system was sought in an adaptation of the pension fund (De Haas, 1996). Until that moment, an early retirement scheme operated in the company allowing individual employees to retire at the age of 60 years. Funded as a 'pay as you go' system, the active labour force at Philips collectively paid the social charges for employees that retired. The pension benefit was calculated over the last earned income of the retiree, which made the system relatively expensive.

In the collective bargaining round for 1996, the pensions system was made more flexible by introducing a capital funding system. Since then the contributions and benefits are borne by individual employees themselves. The financial foundation of the pension benefits is no longer based on the last earned income, but on an employee's average income during his career. Retirement is allowed at an age between 60 and 65 years, while 62,5 years is the target age. In order to retire before 62,5 years, employees will have the option to save payments, for example by saving up days off. As such, Philips opts for a better control of pension costs, allowing more differentiation in careers, and promoting part time work of older workers. It underlines the increasing need for employees to make their own retirement arrangements.

For the unions of the higher graded staff personnel (De Unie and VHP-Philips, that both signed the contract) this new regulation was more preferable to the old system, since it meant a higher individual responsibility to save financial resources to leave the company before the age of 65.<sup>22</sup> Moreover the workers that merely spent a short period of their working life in the company, in the new system can benefit from their own contributions (and will not lose their collectively paid premiums as a payment for the colleagues that retire). In addition, the introduction of an individual choice for employees to determine the moment of retirement themselves and the opportunity for part time work were seen as attractive.

### 3.5.4 THE CONCEPT OF EMPLOYABILITY

In October 1997, the Dutch prime-minister Wim Kok announced in public at a conference organised by the ministry of Economic Affairs, that lifetime employment in the Netherlands

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<sup>22</sup> The trade unions FNV and CNV didn't sign the collective agreement, although they did support the introduction of a more flexible pension plan. According to the Dutch labour law system, a collective agreement signed between a company and a union is valid for covering the whole personnel.

had moved to the past. The continuity of permanent jobs could no longer be guaranteed. In companies like Philips, Unilever and AKZO Nobel, the issue of 'employability' is placed at the top of the agenda. Philips published a document 'Employability, a necessity' that was written by the firm's personnel department and the trade unions (January 8th, 1998). In this document, that received national attention, 'employability' is defined as 'the ability for an employee to fulfil a function, now and in the future, enabling an increase of work security within and also beyond the actual organisation.'

At Philips, employability is seen as a concern for both employer and employee. In 1998 a new article 6a was agreed upon in the collective agreement for defining the joint responsibilities and the awareness of both employer and employee. The article reads that 'education and training' are defined as 'important instruments' for 'ensuring the ability to function now and in the future' and for 'promoting job security in the shorter and the longer term'. It also prescribes the company to jointly with the employee develop a training plan, in which 'the individual career' and the 'improvement of job security' is defined, as well as 'the effort, time and costs involved' of both the employer and the employee to invest in skills. The scarce available statistics show that Philips invests about six percent of the wage sum in firm specific skills, about three times as much as the sector average (De Haas, 1997: 59). Moreover, the collective agreement prescribes that the company will set up a 'vacancies bank' and 'a system that incorporates demand and supply' in order to enhance the internal job mobility. The collective agreement also foresees that individual labour contracts in the future contain an 'arrangement for internal job mobility' of the employee. Finally, 'the employee is entitled to receive structured feedback concerning his or her performance, in order to promote his or her employability'. According to an internal survey among employees, the attitude of the large majority is essentially neutral to positive towards the issue (De Haas, 1998).

### 3.5.5 THE PHILIPS EMPLOYMENT PLAN

Since 1982, Philips has developed a specific employment programme for long term unemployed. This plan, which includes a training and work experience programme, is being discussed as a (modest) issue at the collective bargaining table. The philosophy of this programme is that not 'redistribution of work' but 'concrete work experience' is helpful for target groups of job seekers, irrespective of whether they are unqualified or semi-qualified candidates. These plans are developed in close co-operation with the regional Public Employment Service. Philips annually offers 800 work experience places to unemployed people registered at the regional Public Employment Service. This number of places (2% of the labour force of the company) is stated in the collective agreement, and candidates are 'as close as possible to the hard core of the unemployed'. Candidates are trained for both the Philips internal labour market and the regional external market. Among them, 60% receive an individually tailored work experience place and 40% get a position in the directly labour market project oriented approach. Within this plan, the work experience place is defined as 'an additional work place in the operational field of an organisation, by means of which the long-term unemployed are given the opportunity to gain work experience that is relevant to the labour market'. These are jobs for persons over and above the official complement, and they may not displace existing employees. Participants to both programs receive work experience in different types of jobs such as process operator, micro-electronic operator, purchaser, shop assistant, multi media specialist, truck driver or secretary (Source: Philips employment plan, December 1997).



The employment plan is related to both the issues of competitiveness and employment for obvious reasons. For the Dutch trade unions the labour market problems are a serious concern since the early 1980s and their rank and files demand reasonable policies to resolve that. For the company the extent of youth unemployment in the early 1980s was a serious concern. The Philips employment plan radiates a philosophy on training that contravenes traditional matching policies delivering the company moreover the best candidates for the own plants. For these reasons, Philips reports twice every year to the trade unions on the progress of implementation of the plan. In addition, we should mention that management and trade unions have introduced an 'step-in wage grade' in the CAO-A, not earlier than mid 1994, in order to create job opportunities for new entrants in the internal labour market of Philips. This decision to allow people with less qualification and productivity levels to work at minimum wage level was mainly the result of the national attention for this issue (see the national overview in chapter one). In this respect the employment plan is no more than a work experience programme and an issue that is relatively separated from wage bargaining.

### 3.6 CONCLUSIONS ON THE EXCHANGE OF COMPETITIVENESS AND EMPLOYMENT AT PHILIPS

Collective bargaining processes at Philips have been changing over the last decade. In this text five examples of innovation of the two collective agreements at Philips have been presented. Within the collective wage agreement, aspects of both employment and competitiveness have been laid out. The general question of the relationship between these concepts should now be answered. It is a matter of fact that employment levels at Philips have declined. It has also become clear that competitiveness is a serious concern for the company since it was forced to implement the Centurion operation. For these reasons, the relation between competitiveness and employment is a negative one for employees and their representatives: *'the evidence is that in order to keep competitiveness levels, employment has been declining'*. The one is harmful for the other. *'We as trade union are busy dealing with social policies, in order to keep income and job levels stable'*.

For the management, however, the relationship between competitiveness and employment is more conditional: *'Employment levels can only be kept constant if the company is competitive'*. This argument is used both for the national economy as for the company itself. For the Philips management the argumentation reads that *'there is no employment without competitiveness'*. The reasoning is as follows: In collective bargaining facts and figures are being discussed against the background of international competition. The ideas about external adaptation to market conditions lead to consciousness and strategic behaviour. This means that there is not a clear trade off between competitiveness and employment, but it shows that employment is dependent upon the strength of the company. The main condition for the company to survive is to aim at a higher labour productivity due to R&D, to invest in technological innovation and to take leave of unskilled work. For this reason, no guarantees for jobs can be given. Employment levels firstly have to be earned. According to this reasoning however, job loss at Philips is not harmful for the economy as a whole. On the contrary, there is a spill-over from investment in R&D, since new companies are being created, privatised divisions now find their own way, and the Philips personnel may find a position in the external labour market as well. Nowadays long-term unemployment in the Eindhoven region is nil. De Haas: *'the regional public labour service can not offer the*

*annual agreed 800 job seekers for a work-experience project in the now 15 years operating employment plan of Philips. Since there are no unemployed anymore* (Financieel Dagblad, February 28th. 1998).

The evidence shows that under these conditions the skills of employees have to be up to date, in order to overcome an eventual situation of job loss so that the people involved are able to find a new work place when needed. Here the employability debate enters the discussion. The management and the unions have defined an employability policy in the collective agreement. The unions argue that for them *'employability means job security'*. The trade unions find employability still an empty concept. In their opinion there are not enough resources to invest in people working in the plants menaced with closure.

In press, De Haas argues that *'employability'* should be related to *'remuneration'*. There are two aspects of the same coin, on the one hand the ability to be employed, and on the other hand the differentiation in payment. *'We will have to find a new balance between payment of the chair on the one hand and the person on the other ... many time it is of less or no relevance- especially when an employee is at the final functional salary- whether he shirks or drudges. Within the remuneration structure there are almost no financial incentives to keep employability for the future up the usual mark'* (Financieel Dagblad, October, 9th. 1998).

The management has thus a clear agenda, which reaches further than the issue of the employability alone: *'We will have to give battle with the labour contract. In the future we will have to see the labour contract, to not call it employability, in partial periods. I mean not in a juridical sense, but in a way of approaching. At the moment we recruit a new employee, we do not know for how long that a certain function will exist. The uncertainty is greater than before and it is an asset if both sides at the bargaining tables are aware of that. We see this as a joint responsibility of employer and employee'* (De Haas, 1997: 58).

As follows from the quote at the beginning of this chapter, the personnel director of Philips estimates that collective bargaining processes serve as a method of implementing organisational change (Financieel Dagblad, February 28th. 1998). In the text five aspects have been mentioned. In addition to the change in remuneration, the halting of labour time reduction, the change of the pension fund, the employability debate and the Philips employment plan, there is also a new bargaining agenda included to anticipate an eventual reorganisation and job loss. On the longer run, training in time is the best guarantee for containing employment levels. Moreover, the personnel director is clear that there is no alternative by asking rhetorically, *'Will the collective agreement survive in the 21th century? (...) In the event that the trade unions can not or do not want to come along in collective bargaining, other forms of employment conditions will dictate the employment relation'* (Financieel Dagblad, February 28th. 1998).

## 4 THE COLLECTIVE AGREEMENT OF ABN-AMRO

*BY KEA TIJDENS*

### 4.1 INTRODUCTION

This chapter focuses on the competitiveness and employment trade-off at ABN-AMRO, the largest bank in the Netherlands. The 1993 agreement between the central employers' and employees' associations opted for differentiation of working conditions, while competitiveness should be strengthened (see chapter one in this report). This agreement gave way to the 1995-1998 collective bargaining agreement in the banking sector. The social partners agreed on a 36-hour working week and on flexibilisation of working time, aiming at both employment preservation and productivity increase. In 1996 ABN-AMRO changed to a 36-hour working week.

### 4.2 MARKET STRUCTURE

Emerging in the nineteenth century, there was a broad range of different types of banks up until the early 1960s, when retail banking broke through traditional barriers. Bank organisations were transformed, resulting in an expansion of both the number of local branches and the size of the workforce. A rapid concentration followed, resulting in three large listed banks: ABN, AMRO and NMB. In the early 1970s the co-operative banks for the agricultural sector merged into a fourth large bank, called RABO.

In the mid-1980s, the outsider position of the large state-owned Postgirobank changed when it was privatised. In 1990, NMB and Postgirobank joined forces. A year later, the new combination, holding the largest share in retail banking, merged with a large insurance firm to become ING. RABO, holding the largest share in the savings market, remained on its own, though it strengthened its alliances with an insurance firm and the largest Dutch investment fund.

In 1990, ABN and AMRO merged into ABN-AMRO. The bank is the leading financial intermediary and treasures for Dutch companies have branches all over the world. In 1998, the number of banks totalled 100, of which more than 90, mostly foreign banks, count less than 1,000 employees. Five medium-sized banks employ between 1,000 and 10,000 persons. The three large banks employ three quarters of total employment of 126,000 persons. According to the banks' reports, RABO employs 41,000, ABN-AMRO 34,000, and ING-Bank 20,000 persons (NIBE, 1999).

### 4.3 REPRESENTATIVE ORGANISATIONS

Since the first agreement in 1950, collective agreements in the banking sector are negotiated between the employers' association and trade unions. Although recently, decentralisation towards company bargaining is undoubtedly the trend, this has not happened in banking so far. The Employers' Association in the Banking Industry (WGVB) comprises all major and nearly all smaller banks. Density is near 100%, when taking into account the number of employees. WGVB runs a tight membership (Visser and Jongen, 1999).

At present, four unions are involved in the negotiations, of which the former FNV Service Union is the largest, organising about 10,000 staff (Visser and Jongen, 1999). In 1998, this union merged with three large unions of the Trade Union Confederation into FNV-Bondgenoten. The CNV Service Union is affiliated to the Protestant Christian Trade Union Federation (Dienstenbond CNV) and has some 3,200 members in banking. The Union of Clerical and Commercial Staff (Unie BLHP), which is affiliated with the MHP Federation for Middle and Higher staff, has 10,000 members in banking. Another MHP affiliate called BBV, that aims at bank staff only, totals 1,600 members. Altogether unionisation is now 25%, much higher than the 7% in the late 1970s.

After the Second World War, codetermination became highly codified. Under the 1950 Works Councils Act, workers were entitled to representation in joint councils, chaired by the employer. During the 1950s, all large banks set up Works Councils, but their role remained subservient until the 1979 Works Councils Act. This Act gave the councils a number of statutory rights that can be used in efforts to influence managerial decisions and transformed them into 'independent bodies' that can meet without management. Today, all large and medium-sized banks have a well-developed structure of works councils, both at local and central level. The unions have succeeded in getting members elected to works councils.

#### 4.4 COMPETITIVENESS

##### Labour costs

Labour costs make up a substantial part of total costs in banking. In the 1980s, the three large banks and their forerunners had followed cost-reduction policies. Since the expanding markets in the mid-1990s, the banks do not seem to care so much about labour costs. Compared to RABO and ING-bank, labour costs per employee are estimated to be highest for ABN-AMRO (Tijdens, 1998). This is predominantly explained by the workforce structure. ABN-AMRO has the highest share of male employees, the highest share of well-qualified staff, and the highest average age. Furthermore, during the 1996 working hours reduction, at ABN-AMRO the highest percentage of staff was excluded from reduction, which increased the annual labour costs of approximately 30% of the workforce with at most 10%.

##### Flexibility and productivity

In banking the extent of flexibility used to be small. Compared to other sectors, temporary employment is minor and less than 1% of the total workforce (CBS, 1998). Working time flexibility is regulated by collective agreements. For many years, there were five eight-hour days between 8 a.m. and 18 p.m. on weekdays and there were strict rules and high bonuses for working during the evenings and on Saturdays.

In the 1995-1998 agreement, the actors agreed upon a reduction of weekly working hours to 36. The major quid pro quo were limited wage demands, the rigid eight-hour five-day working week became more flexible and unsocial hours less expensive. Like the other large banks, ABN-AMRO has used the implementation for staff optimisation, and thus has increased productivity. Contract flexibilisation was not regulated in the agreement, but ABN-AMRO increasingly appointed new entrants on a one-year contract and not immediately on a permanent contract.

### Innovation

Dutch banks are highly computerised. In the early 1970s, the forerunners of ABN-AMRO set up centralised computerised networks, which were gradually improved. Amongst others, the 1990 merger was said to aim at reducing the substantial costs of computerisation. The computerised systems of the two banks have been integrated; the national network and the large database with data of millions of clients have been improved. This database is the core of the administrative processes and accessible from all local branches.

The large and medium-sized banks co-operate as far as innovation in payment transfers is concerned. In the late 1960s, a clearing bank and standardised payment systems were set up. EFTPOS and ATM were not introduced until the late 1980s, because of the requirement of fully interbank co-operation. Since, clients are able to use the equipment at all retail outlets and all banks throughout the country.

### A high trust environment?

When the 1995-1998 agreement was negotiated, industrial relations in banking were tense, in particular between the two most important players ABN-AMRO and the FNV Service Union. Moreover, in 1996, ABN-AMRO aimed to exempt certain categories of employees from the 36-hour week. The FNV-Service Union brought this case to the Arbitration Board for the Banking Sector, but the case was lost.

In 1998, the employers' association and the four unions did not come to an agreement regarding job security and rights for training. In August 1998, however, ABN-AMRO renewed its social program, guaranteeing the four unions that there would not be job losses for permanent staff until 2001. Industrial relations at decentralised level improved, in contrast to relations at sectoral level.

## 4.5 EMPLOYMENT

### The level of employment security

The forerunners of ABN-AMRO had shown continuous employment growth until the early 1980s. Then, employment declined, in particular for AMRO. In 1990, after the merger employment totalled 37,000, but within a few years this number declined to 31,000. In 1996, employment at ABN-AMRO had increased again, to 34,000.

For the past decades, like the other large banks, ABN-AMRO has been a sound employer. In the large banks, no mass redundancies have been observed. Money business depends heavily on the public's trust and therefore banks are reluctant to dismissals. On the other hand, most of the collective agreements in the past years hardly had any clauses job creation for young unemployed.

### Guarantees

Job guarantees have never been part of collective bargaining agreements, though the unions have tried hard. Typical job guarantees have been negotiated between separate banks and the unions. In 1990, ABN-AMRO agreed with the unions on the social aspects of the merger, including job guarantees. In 1994, this so-called social agreement was extended for another four years. At the same time, ING-bank did not come to an agreement. In 1998, in a new social agreement ABN-AMRO guaranteed the permanent staff a secure job until 2001 (FD, 1998).

According to the 1998-2001 social agreement, the employees on their part have to agree upon an individual development plan and, if necessary, they must be willing to change jobs within the bank. The bank is willing to pay all training costs involved. Moreover, there are leave facilities for schooling during working hours. Schooling outside working hours will be fully compensated in free time. When employees have to change jobs, a job in a lower grade has to be accepted. The bank's training effort primarily aims at poorly skilled employees. By increasing their initial schooling level to secondary vocational training-level, these employees will be more transferable at the internal labour market. ABN-AMRO's job security guarantee is dependent on the employees' willingness to train and to be mobile.

#### Qualitative dimensions

During the 1990s, ABN-AMRO rapidly changed from a large administrative bureaucracy into a commercially operating organisation. Due to ongoing computerisation, clerical tasks had diminished and low-skilled clerical staff became abundant, while commercial jobs had gained importance because of increased competition and IT staff were in short supply. Internal staff allocation became a serious problem (Van Klaveren and Van de Camp, 1994).

In 1996, the bank established a very active ILM-unit, acting as an internal employment agency. By doing so, the bank aimed to tackle the problem of unbalanced staffing. Very soon, the unit turned out to be very successful. To an increasing extent local branches used this pool both for temporary labour shortages and for vacancies. Thus, ABN-AMRO solved the problem of the unbalanced staffing by an increased effort to regulate the internal labour market and by an increased schooling effort for poorly skilled employees.

#### Strategic company policies

In its strategic decisions, the bank continued its policy to solve unbalanced staffing and to continue reducing low skilled work. Computerisation was firmly continued. It was not slowed down for reasons of job guarantees. Outsourcing of low skilled work was continued. For example, in the mid-1990s, some doubts raise about plans to outsource the in-house printing facilities. This department could employ poorly educated employees. However, the Board of Directors decided not to follow the advice and to continue outsourcing.

## 4.6 THE RATIONALES

Apart from the 1993 central agreement, the unions in banking had two reasons for their demand for working time reduction. Firstly, a survey among the membership of the FNV Service Union revealed a desire for shorter working hours, in particular for a four-day working week, even when these were nine-hour days. In 1994, these findings were supported by a survey that was held by the higher staff union Unie BLHP. Secondly, since 1992 employment rates in banking started to drop and an international research agency even forecasted employment losses of 10%. Working time reduction was a standard union reply to increasing unemployment. At the time of the deepest post-war recession, the 1983-1984 collective bargaining agreement in banking had clauses about working time reduction for ten days a year. Combining leisure time preferences and employment strategies, the FNV Service Union demanded a four-day working week and the other unions agreed with this demand.

Initially, the employers were fully against a four-day working week. Yet, by the end of 1994 they changed views about working time reduction, though not on the four-day week. There

were four major reasons. Firstly, the major quid pro quo - limited wage demands - was attractive, and so were the reduced bonuses for unsocial hours.

Secondly, reduced hours partly could solve the problem of unbalanced staffing. Initially, the banks therefore proposed working time differentiation: 40 hours for employees in short supply, 32 hours for employees whose jobs had become redundant and 36 hours for employees in between (Tros, 1997). The unions refused. The 36-hour week was a solution for this controversy.

Thirdly, the banks were eager to have longer opening hours on working days and to open branches on Saturdays. The growing number of dual-income families had changed the time-related demand for services. Meanwhile, the stores had extended their opening hours and because many branches are located in shopping centres, they had to follow. Furthermore, increased trade with North and South America gave rise to a demand for longer operating hours in order to overlap with the distant time zones for at least one hour a day.

Fourth, since the mid-1980s, the banks had shown growing awareness to optimising staffing arrangements by agreeing to requests from predominantly female employees for part-time jobs (Tijdens, 1997). By introducing the 36-hour working week while extending opening hours, the working hours of many employees could be revised and work scheduling introduced, allowing for staff optimisation.

#### 4.7 DETAILS OF THE AGREEMENT

The 1995-1998 bargaining agreement was signed in Autumn 1995. The banks had one year to implement the 36-hours working week. In all departments supervisors had to discuss working time preferences with their subordinates. According to the agreement, employees were free to choose their new working time patterns unless these conflicted with departmental needs. The banks had to set up committees that dealt with conflicts.

The major quid pro quo were limited wage demands: in 1995 there was no wage increase, and for 1996 and the years following, a minor wage increase of 2% was foreseen, just above inflation rates. The clauses limiting working hours during evenings and on Saturdays were mostly deleted, no bonuses were given anymore for working evening hours, and the Saturday bonus dropped from 50 to 25%.

According to the 1983-1984 agreement on working time reduction, up to 6% of the workforce could be excluded from reduced working hours. Yet, this clause was hardly used. In the 1995-1998 agreement, no percentage was specified as to the amount of workers who were excluded. It was agreed that on the employer's request, employees could continue to work 40 hours a week and be compensated to a maximum of 128 hours a year. If the employer agreed, part-time employees could retain their original hours. Furthermore, employees' requests for less than 36 hours in principle were fulfilled.

#### 4.8 ASSESSING THE EFFECTS

The 1995-1998 agreement will be assessed for three effects. Regarding competitiveness, focus will be on staff optimisation. Regarding employment, focus will be the job preservation for the poorly educated employees. Finally we will focus on working time

differentiation and its implications for the wage setting process. The analysis is based on document analyses, on telephone interviews with key players during the preparations and finally on a questionnaire that was held in Autumn 1996 (responded by 14,297 ABN-AMRO employees, which is a response rate of 45%, Tijdens 1998).

In Spring 1996, branch managers and supervisors critically assessed the opening hours and the required staffing levels per hour, per day and per week, as part of the strategy to optimise staffing. At ABN-AMRO nearly 70% of the employees reported changes in opening hours. In particular opening and closing time were set an hour later, and some branches opened at Saturdays. According to the agreement, branch managers and supervisors draw up an inventory of the employees' preferences; 45% of the employees reported that they were free to choose new working time patterns, the remaining group reported that they had had a limited choice. ABN-AMRO was not keen on the four-day working week and only in half of the cases this request was agreed upon. Given the required staffing levels, the employees reported to be satisfied about the matching process. The dominant model for the full-time employees was alternately a four- and a five-day eight-hour working week. Employees' preferences were predominantly based upon their desire for a free day every now and then. Other preferences, such as a long weekend or seasonal schedules, were not as popular. Employees showed commitment to the departmental staffing policies, as this came second in their preference ranking. In conclusion, for reasons of staff optimisation the working time reduction has contributed to competitiveness ABN-AMRO.

Not long after the setting of the agreement, working time differentiation unexpectedly became a major issue. An unforeseen expansion of business worsened the staffing problems, in particular the demand for commercial staff increased. By the end of 1995, ABN-AMRO aimed to exclude 18 percent of the work force from shorter working hours - the case that was brought to court by the FNV union, but was lost. By the end of 1996, business still expanding, ABN-AMRO had excluded 30% - a percentage much higher than in other banks, according to our questionnaire. Analyses of the data-set show that the commercial employees and the part-time employees were less likely to be assigned reduced hours, whereas the poor and middle educated employees were more likely to be so. Surprisingly, employees expecting their job to become redundant appeared not to be more in favour of a reduced working week than their counterparts. Nevertheless, the bargaining agreement has definitely contributed to job preservation for this latter group. ABN-AMRO changed its view, and is preparing these workers to take up other jobs within the bank.

Working time reduction obviously relates to the wage setting process, because limited wage demands are the *quid pro quo*. When the banks proposed working time differentiation, this implied working time differences and thus wage differentials between full-time workers. The Federation for Middle and Higher Staff MHP even launched a demand for a 42-hours working week for managerial staff and thus for a substantial wage increase for this group. Although the social parties did not grant this proposal, the 1995-1998 agreement has influenced the ongoing enlargement of the wage gap between high and low grades. In the 1998 bargaining round, the unions had accepted the working time differentiation; they demanded substantial wage increases for all employees, and they accepted performance-related bonuses. Within ABN-AMRO, the wage gap increased between employees in short supply and employees whose job had become redundant. This was an unforeseen effect of the agreement.



## 5 THE COLLECTIVE AGREEMENT OF ORIGIN BV

*BY ADRIAAN VAN LIEMPT*

### 5.1 INTRODUCTION

This chapter discusses collective bargaining in the sectors Information, communication and technology in the Netherlands. Collective agreements are of recent date and face the dilemma of regulating labour relations under the conditions of huge competition between firms and scarcity in the labour market. The chapter on Origin is organised as follows. First the sector is introduced, then collective wage setting processes in the company are explained, subsequently the issues of competitiveness and employment within collective bargaining are focused on, and finally some conclusions are brought forward.

### 5.2 CONTEXT OF THE FIRM

The Information Communication and Technology sector (ICT) is usually referred to as a young, innovative, and rapidly growing and expanding sector. Nevertheless, it is also a sector in which firms have to operate in a very competitive environment. IT-firms generate income by secondment of employees to various other firms in the need of IT-products. The competitiveness of the environment in which IT-firms have to operate has and had its effects on the 'sector' of pure IT companies. In the last decade the sector has felt the impact of take-overs and mergers and slowly a few major firms have started to develop. Origin is one of those firms that arose out of the ashes of this merger decade. Origin B.V. was formed in January 1996 with the merger of BSO/Origin and Philips Communications and Processing (C&P) Services. At the time of the merger, the combined resources of the two companies immediately established Origin as one of Europe's top-ranked information technology services providers. The merger brought together more than 10,000 professionals working in 27 countries in Europe, the Americas and Asia-Pacific regions. During 1996, its first full year of operation, Origin achieved US\$1.4 billion in net sales and grew by 26 percent. Today the company employs well over 15,000 people worldwide, and 6,000 people in the Netherlands. Origin Nederland B.V. is responsible for 40 percent of the total sales of the company.

During the last few years Origin encountered a number of problems, under which problems with cash flow, poor results and personnel leaving the company. Re-organisation processes have tackled most of these problems. This process however led to a certain increase (11 percent) in personnel leaving the company during the year 1997. Nowadays all of the divisions of the company are making profits once again.

### 5.3 THE PROCESS OF COLLECTIVE BARGAINING AND THE PARTIES INVOLVED

One of the most important factors underlying Origin's collective agreement, valid from May 1 1998 till December 31 1999, has been the merger of BSO/Origin and Philips C&P. The merger is responsible for the initiative of the consultation process and the relative power of the works council. Origin at the time had two works councils, of which Philips was used to having a collective agreement. For the former BSO/Origin employees, however, this was not the case. They were used to a less formal agreement with a more disputable legal status, and as a result were more mature as a works council. The company on the other hand

wanted to end the division created by having employees operating under two types of arrangements. Thus the process towards a new arrangement for all Origin employees was initiated.

The aim of the first discussions was not primarily a collective agreement in the traditional sense. The board of directors felt that collective agreements belonged to the past, and certainly did not fit into the type of business in which Origin was operating. The former works council of BSO/Origin however, thought it sensible to include the unions into the discussion. The unions with their experience and expertise could help the discussions become more professional. They had been trying to get a grip of the IT sector for a number of years because of its Wild West character concerning collective agreements. Several attempts of creating a general collective agreement for the whole sector however had failed, as both unions and employer's organisations could agree. This is why the unions had been adapting their strategy of getting a grasp of the IT sector to the level of organisations. The process of coming towards each other was not so easy however, since firstly the board of directors would have to be convinced. An important factor of success proved to be the conditions both parties stated before entering the bargaining process. Origin had two main conditions, one being the abolishment of collective wage increases. Origin felt they wanted a system that would reward individual achievements rather than collective achievements. This also included cutbacks in wages if an employee failed to achieve. Achievements would be measured by a personal development plan, which they were thinking of designing. A second condition was that there would be no reduction of working hours. The nature of the IT-business is that a firm gets paid by the hour. IT firms distinct direct employees (employees which are seconded to other firms) and indirect employees (which are 'home'-based). When direct employees work fewer hours, it means the company receives less income, since the direct workers are the source of income.

The unions' conditions and those of Origin differed in nature. One of the conditions of the unions was that the works council should be both a negotiating and a signing party. Secondly, the unions wanted the discussions regarding the collective agreement to be open to all employees, and by doing so to create more support (also by non-union members) for the agreement. Only 4 to 5 percent of the people working in the IT-sector is member of a union (cf. K. Schilstra, 1998, p. 205). A third condition was that they wanted the collective agreement to be a framework agreement, an arrangement providing room for tailor made arrangements. After all parties had stated their conditions, the collective bargaining started. The topics for the bargaining process were set by Origin, which held meetings on the subject prior to the bargaining process. A small group of staff members got together to talk about the situation of Origin and the possible developments that could take place in the dynamic environment the IT operates in. A number of modules were formulated, amongst which, working time, rewarding system, provisions, pension, employability, and the choice system (see below). These topics were discussed during a more public debate amongst all employees, and the gathered information was then used in the collective bargaining process. The bargaining process included two members of the works council, one member representing the unions and a number of staff members representing Origin's interests. Thus creating two parties, on the one hand a negotiating party of Origin – backed up by the president of the firm, and on the other hand representatives of the works council together with a spokesman for the unions. The latter party's internal relationship was rather ambiguous at times since both inside the works councils as inside the unions at times

experienced minor disagreements. At one time the works council spoke to Origin without consulting the unions, which also led to a minor dispute. Both parties (works councils and unions) at times felt overruled. On the whole however, both members of the same party were loyal to each other.

These internal affairs didn't effect the negotiations in a bad way since in interviews all parties remarked that the bargaining process took place in an informal atmosphere. Everyone openly expressed his or her objectives, and agreed that the initial conditions preceding the bargaining process had a positive effect on this openness. Through these conditions each party knew from what point of view the other party was operating. Both parties could therefore spend more time on the content of the agreement, rather than trying to find out the other party's agenda.

#### 5.4 COMPETITIVENESS IN ORIGIN'S COLLECTIVE AGREEMENT

IT-firms operate in a highly competitive environment where organisations not only compete for business, but also for employees. The growth of the sector has put an increasing strain on the demand for qualified personnel. Competitiveness demands that IT-firms have enough personnel to meet the demands of the market. When Origin considered the topics for the collective agreements, they decided they did not want to compete for employees in the height of wages, but rather in the fringe benefits. Both the tasks and skills of employees should determine the height of their wages. Changes in salary are then determined by two factors. Firstly there is a minimum increase in wage, which holds for all employees and is determined by macro economic developments and a benchmark of wages for IT-firms. Secondly, there is an individual component at work, which is determined by the progress an employee makes during a reference period. The unions were particularly active in this part of the collective agreement. Since Origin only wanted to reward those people that performed according to their position and development. Especially the system, by which performance was measured, was scrutinised and upgraded by the unions. The unions were also responsible for measures as maternity and parental leave.

Origin was one of the first IT-firms allowing part-time work. Roughly 8 percent of Origin's employees today consist of part-time employees. It is less likely for a firm that earns money by declaring hours to their clients, to have the personnel it seconds to work part-time. Fewer hours to declare mean lesser income for Origin. An employee can submit a request to work part-time to a manager. The manager however then determines whether this is possible or not, leaving the decision to the employer, rather than to the employee.

Another flexible component at Origin is a number of nine 'Origin days', which each employee receives at the beginning of a year. An employee can decide whether he or she wants days off, or wants to sell these days to Origin. The possibility of these Origin days was introduced because it suited both the former Philips and the BSO/Origin employees. The latter were receiving a bonus every year and the first were receiving reduction of a number of working hours per year.

A further aspect of the type of business Origin operates in is its use of secondment. Origin contracts people whom it then seconds to other firms, meaning that a large segment of employees is almost never in-house. This creates a peculiar relation of developing commitments between employee and employer. In order to establish a more direct link with

the firm, special gatherings are set up in which employees can talk to each other and see what their colleagues are doing.

Origin is rather attractive for starters in the labour market. This is why it has been capable of retaining its number of employees during the last years. Origin rewards personal development, within certain limitations is open to part-time work, and compared to other IT firms in 1997 had relatively good collective arrangements compared. Origin is losing this position however, since other IT-firms are in the process of developing their own collective agreements. In this sense the co-operation between the unions and the IT-sector can be regarded as micro (level of organisations) and macro (national level) reaching out for each other.

## 5.5 EMPLOYABILITY IN ORIGIN'S COLLECTIVE AGREEMENT

Origin defines employability as: 'the combined actions of employer and employees regarding the preservation and development of those skills that improve the personal availability of the employee during his or her career.' Origin regards employability as a means by which the employee ensures his current and future position within the corporation, and ensures the possibility for Origin to be more flexible in the deployment of personnel. Currently the IT-sector is dealing with two national and international problems: the introduction of the single European currency and the Millennium-bug. Both problems have been dealt with within Origin and an entire service group previously working on these problems will be shut down. The people working in this service group are already being retrained and are capable of switching to a different segment within the firm. The firm cannot afford to lose valuable personnel at the moment. This is why given the current market conditions everything is centred towards the maintenance and expansion of the current labour pool. In this sense Origin's current employability strategy is somewhat overshadowed by the tightness of the labour market.

In order to guarantee the preservation and development of skills, Origin has set up a programme called the 'individual development plan (IOP)'. The IOP is a plan in which all necessary activities are included to ensure an optimal, functioning employee. Every employee is expected to draw up an IOP. Origin distinguishes seven paths of development, which can be abstracted to a service path, an accounting path, and a support path. Within an IOP training is an important segment. Origin distinguishes three types of training: First is the training aimed at the development of skills concerning one topic, problem or task. The other two types of training are increasingly broader in specificity. The agreement however does not specify to whom the several types of training are open. Although all training expenses are borne by Origin, some special arrangements are made for those types of training that are less firm specific. In any case any employee leaving the firm within two years after finishing some form of training has to reimburse a share of the training expenses. It is determined individually whether training takes place during or outside working time.

In the collective agreements no specific references are made regarding strategic company policy. During the phase, though, in which the topics of the collective agreement were decided upon, the company's future position was specifically taken into account. The company's agenda reflects the focus on personal development (creation of skilled and flexible employees) which is directly connected to the personal reward system (pay for achievement).

The unions succeeded in making these topics attractive, not only to the employer, but also to the employees.

## 5.6 THE EFFECTS OF THE COLLECTIVE AGREEMENT

The last point mentioned above is perhaps the best indication of a trade-off between employability and competitiveness. Both parties, employer and employees, profit from the employability deal in the sense that both get what they wanted. At first Origin wanted a very rudimentary version of the pay for achievement system, the unions however strove for a wage system that was more transparent and objectively controllable. In the end both parties had to settle and meet each other's terms. Origin had to accept some general wage rises per year, while the unions had to accept a variable wage component. This acceptance of a variable component in Origin's wages is relatively new to the unions in the Netherlands. The unions however, for a long time having had the luxury of representing a relatively homogeneous group, are beginning to accept changes. Nowadays the union's rank and file is becoming more heterogeneous and more demands have to be met. This attitude implies implications, because the unions only accept these kinds of arrangements in the ICT-sector. Representatives of other sectors are puzzled by this and wonder why they cannot make these kinds of deals with the unions (Hooiveld & Catz, 1998: p. 25-26).

This brings us to another point of interest, i.e. the competitiveness of the collective agreement. At the time of its introduction, the collective agreement of Origin was rather new and attractive to the sector and for a while it made Origin stand out. Since then however, unions have been negotiating with other IT firms as well, which is being reflected in the collective agreements in the sector as a whole. Perhaps this should be regarded as an ever-growing effect of developments at the level of organisations, although similar movements in the opposite direction can be discerned. For instance the aspect of flexibility, which in Origin's collective agreement is explained more in terms of employability for the employer. The national dialogue refers more to the possibility for employees to work part-time – from the viewpoint of the employee.

**TABLE 10. THE NUMBER OF EMPLOYEES IN SERVICE OF ORIGIN ON DECEMBER 1998 IN FULL TIME EQUIVALENTS AND PERCENTAGES (SOURCE: ORIGIN)**

	FTE	%
Total number December 1998	6,277,55	100.00
Total number of men	5,164,85	82.27
Total number of women	1,112.70	17.73
Total number of part-timers	503.55	8.02
Total number of part-timers	503.55	100.00
Total number of part-time men	211.85	42.07
Total number of part-time women	291.70	57.93
Total number of women	1,112.70	100.00
Total number of female managers	20.25	1.82
Total number of female IT-experts	634.03	56.98
Total number of indirect female personnel	421.47	37.88
Total number of female students on work placement	36.95	3.32

When looking at the employment statistics of Origin (see table 10) one can see that the share of part-time workers is relatively low (8 percent), while the share of women working part-time is relatively high compared to the share of women in total personnel. This might indicate that women in general qualitatively have less demanding jobs, but when we look at Table 10 we can see that this is not entirely the case. Perhaps it is easier, or more acceptable, for women to work part-time than it is for men. Then again, exact figures for males are missing so any statements made are to be moderated.

The near future will show what the next developments in the sector will be. Negotiations are being planned for a new collective agreement for Origin. There will have to be dealt with a lot of vagueness surrounding some of the topics in the first collective agreement. Furthermore, both parties are preparing new input for the discussions. For the unions this will be the augmentation of the possibilities for part-time work. Although employees in the IT-sector seem to have a strong negotiation position due to the tightness of the labour market at the moment, they still don't have the strength to negotiate on the amount of time they are supposed to work. Moreover, Origin will be carrying its own topics for the agenda. Due to stiff competition, the near economic future does not look as bright as it has for some while. This will obviously reflect on what terms the company is willing to settle this time.

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