

Development of the german industrial relations system



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“ The management of employees, both individually and collectively, remains a central feature of organizational life (Blyton & Turnbull, 2004).” This statement, taken from the book ‘ The Dynamics of Employee Relations’, generally reflects the necessity organizations are facing. Regarding the central role employees are playing in business, the implementation of systems which regulate the working process in order to protect and restrain both – employees and employers – by installing rules, policies, and guidelines are essential. These systems are called employee relations and are put in place globally. Yet, these systems differ accordingly among different economies according to nation and culture. The subsequent is divided into three major pillars: First, it will provide a description of the core characteristics of the German employment relations system. The second pillar regards the existing systems of collective bargaining and participation and discusses their development since the 1980s. The third and last part gives an outline of the major recent trends and will focus in detail on the most significant recent issue of the German employment relations system.

Main Body

Core characteristics of the German human resource management/employment system

Being one of the most successful economies in Europe (Müller-Jentsch, Keller, & Jacobi, 1998), the German industrial relation system is regarded to encourage workplace cooperation in high-quality production and the economic prosperity contributes in general to a peaceful and collaborative work-environment. According to Müller-Jentsch, the German model of industrial relations is based on five pillars, which will be explained in the

following. The most significant pillar is regarded to be the dual structure of interest representation. This implies a separation of workers' representation at the workplace-level from the collective bargaining system. " Hence structural conflicts between labor and capital are dealt with in two arenas, separated according to interests, actors, and modes of enforcement (Müller-Jentsch, Keller, & Jacobi, 1998):" While collective bargaining deals with issues such as working-hours and wages on a more general level and therefore follows a quantitative approach, in the workplace these are specialized and more of qualitative nature. Although both parties are legally independent from each other in formal terms, they reveal certain interdependencies in reality. Keller (1998) states that unions and works councils are reliable partners within a network of stable co-operation. It is for example often the case that Unions train members of the works-council and provide them with legal advice, while works councilors are in many cases also trade unionists and participate in policy-making and recruiting members for their Union. The two institutions of trade Unions and Works Councils, as well as collective bargaining, will be described in more detail in the following and at a later stage. As the second pillar, Müller-Jentsch (1998) reveals the importance of the law. Existing on a profound legal basis, the dual system of Germany's industrial relations puts emphasis on a detailed regulation of labor conflicts on the one hand and industrial relations at the workplace on the other. For instance, this implies the fact that works councils do not have the right to strike. Penalties for breaches are high, which calls legal experts to action, who therefore gain more and more influence on the worker's side. The third pillar mentioned is the degree to which the institutions of collective representation encompass their constituencies. As the unions and works

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councils are able to make decisions in the name of the whole workforce, they are obliged by law to represent the interests of all employees. Next and fourth important feature is the fact that the named institutions are of ‘intermediate character’ (Ferner & Hyman, 1998). According to its legal constitution, the works council follows explicitly the economic goals of the company. Trade unions have become so called ‘mediators’ “between the interests of labor and capital, and bulwarks of the tradition of social partnership (Müller-Jentsch, 1998). The fifth and final major pillar of the German model of industrial relations is the relative centralization of collective bargaining and the according coordinated bargaining policies, which will be explained in greater detail in the second part of this essay. The two parties of the German dual system are, as already described above, the trade unions and the works councils. In Germany, trade unionism goes back to 1945, when the German Trade Union Confederation (“Deutscher Gewerkschaftsbund”) was put in place, providing a single organizational structure for workers of different status. In 1995, the confederation had a total of 9, 354, 670 members coming from sectors such as the metal industry, public service, chemicals, construction, banking, rail, police, wood and plastics, media, textiles, food drink and tobacco, or education and science for example. Although German unions are not formally affiliated to any political party, the German trade Union Confederation shows links to the Social Democratic Party of Germany (SPD). These patterns of political alignment result from tradition, yet they appear to be weakening more and more over time. In addition, there are two other significant confederations in Germany: the German Salaried Employees’ Union (DAG) and the German Civil Servants’ Federation (DBB), which resulted from the Weimar Republic.

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The trade union density in Germany in 2007 was at 19. 9% (OECD. 2008). In comparison, the UK shows a density of 28%, whereas the United States reveal 11. 6%. The second part of the German dual system are the works councils. In Germany, works councils are mandatory for in all private firms with five or more employees. They “ possess rights of information, consultation, and co-determination (Müller-Jentsch, Keller, & Jacobi, 1998).” Co-determination implies ‘ social matters’ such as principles of remuneration and payment methods, performance related pay, daily and weekly work schedules, regulation of overtime, holiday arrangements, or the use of technical devices to monitor employees’ performance. In specific circumstances there is even the right of veto over individual cases of hiring, grading, transfer, and dismissal. Additionally, the employer is obliged to inform the works council about the economic situation and financial affairs. Works councilors are elected for four years and are by law independent from the unions, representing the whole workforce. In general, works councils deal with the following employment relations: technological change, functional and numerical flexibility, as well as influencing the formal company structures. As already pointed out above, technological change implies for example the implementation of new technological instruments or methods to monitor employee performance. Concerning the functional flexibility, an article from the ‘ Industrial Relations Journal’ can be stated: “ Works councils are constituted on the basis of working together with the respective employer/management in a spirit of mutual trust to reinforce the achievement of functional flexibility (Lumley, 1992).” The numerical flexibility roots in a legal event. The ‘ Employment Promotion Act’ was introduced by the German government in 1985. After successful lobbying of <https://assignbuster.com/development-of-the-german-industrial-relations-system/>

employers, legislative changes in employment relations were introduced, facilitating an increase in fixed-term contracts, temporary employees, and part-time workers in a mixed way. This enabled employers to be able to react more promptly to economic crises or peak-times, for example. Especially times of economic pressure generate a demand for more flexibility by organizations in how work is conducted. There is a need for flexible structures and work processes, allowing companies to adjust their labor resources to meet rapidly changing market demands, for instance the current global economic crisis which also strongly hit the German economy. “ Competitive conditions are leading to a decentralization of the German employment relations system on multiple levels, particularly within enterprises (Berg, 2008).” At the same time, workers desire more flexibility in when, how, and where they work. The increase in female labor, the rise of dual earner couples, and the cost of child rearing have altered the balance between work- and non-work roles and contributed to a variety of flexible work arrangements, especially in Germany (Berg et al. 2004). Another significant aspect of the German employment relations system is how business in the country is organized. “ There are three basic types of organization which can be distinguished: The chambers of Industry and Commerce, Business Associations, and Employers’ Associations (Harzing & Van Ruysseveldt, 2004).” The Chambers of Industry and Commerce are local organizations with a formal legal status, which makes membership necessary for all affected firms. The term ‘ affected’ implies all firms belonging to the respective field of operations of the Chambers. The task carried out by the Chambers are for example licensing and regulating trade practices and managing occupational training programs such as

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apprenticeships. These are a popular instrument for German high-school graduates who are willing to directly enter into working or simply do not have the possibility to go to university. “ Business Associations are organized by industry, in local associations affiliated to sectoral peak associations (Müller-Jentsch, Keller, & Jacobi, 1998).” They are concerned with such matters as technology, production, marketing, and research. In Contrast, Employers’ Associations are responsible for negotiating the multi-employer collective agreements, which, according to Müller-Jentsch (1998) are covering the vast majority of employees. Finally, the following facts about the German economy and its industrial relations will provide a further insight on how the country’s relations look like. The information is taken from the ‘ European Industrial Relations Observatory’. The trade union density in Germany, where the number of trade union members is compared relative to the overall number of employees, is at around 22%. The employer organization density is at 63%. Here, the number describes the percentage of employees employed by companies who are members of an employer organization. In 2007, the country employment rate, regarding people from 15-64 years, was at 6. 4%, whereas the unemployment rate for the same age-group reached 8. 4%. Another significant figure is the number of working days lost through industrial action, per 1, 000 employees. Here the average from 2004-2007 was at 5. 62 days. The European average was at 37. 47 days, which shows that Germany is significantly below the average (EIRO, 2009). Furthermore, the industrial relations in Germany, in cooperation with many other factors of course, result in a stable and advanced economy, which is to be regarded as very advanced and on a high level. Yet, there is still room for improvement left, also in industrial relations. Here, the <https://assignbuster.com/development-of-the-german-industrial-relations-system/>

cooperation of trade unions, works councils, and employers could still be further improved.

Existing systems of collective bargaining & participation and their development since the 1980s

Collective bargaining can be defined as “ a process of decision-making between parties representing employer and employee interests. Its purpose is the negotiation and application of an agreed set of rules to govern the substantive and procedural terms of the employment relationship (Windmüller. 1987).” In detail, the functions of collective bargaining are determining the terms and conditions of employment, as well as the allocation, distribution, and transaction of cost-saving issues. Furthermore, it also aims at countervailing the power of management and conflict-resolution. A significant prerequisite is the mutual recognition of the actors as representatives and the general willingness to bargain. The parties need to be aware of the fact that, within a defined area, future problems and issues are to be resolved jointly. Collective bargaining takes place within the field of the terms and conditions of employment. Specific topics are the price of labor, work rules, individual job rights, enforcement procedures, and the issue of management and union rights. (Zagelmeyer, 2010) The relationship between the two parties (employers and employees), can significantly influence the outcome of the bargaining. This accounts on a general as well as on an individual level. The probability to achieve a win-win situation throughout the bargaining process is certainly higher if the overall climate between management and employees in the company is positive and if the individuals get along with each other. It also affects the respective strategies

and tactics and determines the general atmosphere of the whole process. Another important aspect is the term of bargaining power. According to Chamberlain and Kuhn (1986), it is defined as “ the ability to secure another’s agreement on one’s own terms.” It is the driving force underlying the bargaining relationship. The structure of collective bargaining can be either formal or informal. In a formal structure, the participants are legally bound by the terms of the agreement, whereas an “ informal bargaining structure is defined as the employers or employees who are affected by the results of a negotiated settlement through either pattern bargaining or other non-binding processes (Zagelmeyer, 2010).” The process of collective bargaining can take place on different layers. Starting at a work group, department or company level, the single-employer bargaining functions in a decentralized way. Multi-employer collective bargaining embodies the local single industry, regional economy, or even a national economy, which reveals the highest possible degree of centralization. To draw the line to the German system of collective bargaining, Berg (2004) states the Germany shows a trend towards a further decentralization of collective bargaining, meaning that employment relations issues are increasingly being resolved on a single-employer level. Keller and Jacobi (1998) refer to the German Collective Agreement Act, where “ the parties to a collective agreement must be unions on the workers’ side and single employers and or employers’ associations on the other. Company collective agreements are mainly to be found in smaller firms and cover a small minority of employees. Yet, the overall collective bargaining coverage in Germany ranked at 61% in 2007 (EIRO, 2009). In comparison to 2004 (68%), this percentage has decreased by 7% and can probably be drawn back to the current trend of <https://assignbuster.com/development-of-the-german-industrial-relations-system/>

decentralization of collective bargaining in Germany, which, on average, does not cover as many of the overall number of employees than the centralized approach including multi-employer collective bargaining. “ Industry wide and sectoral agreements contribute to a high degree of standardization of wages and other working conditions, as does state regulation (Müller-Jentsch, Keller, & Jacobi, 1998).” It is also the case that, although sectoral bargaining is taking place at a regional level, collective bargaining in Germany is centrally directed by the national organizations on each of the two sides. Several pilot-agreements, especially from the engineering industry, function as role models for influence all other industries. An example is the so called IG Metall, which therefore enjoys a high degree of awareness in the German economy. According to the ‘pacemaker’ of IG Metall, there are three different kinds of collective agreements to be distinguished: First, there are wage agreements. These set the level of wages and periodic alterations. Next there are the so called framework agreements, specifying wage-payment systems. Last, there are ‘umbrella’-agreements, which regulate all other conditions of employment such as working time, overtime, holidays, and dismissals. Another significant aspect of the German way of bargaining is described by Tallard (1988): “ The German collective bargaining process follows a certain sequence. A more or less extended period, depending on the industry and complexity of the issue to be discussed, leads to agreement in the majority of the cases. If negotiations fail, both parties try to resolve the conflict through mediation procedures. These are established by union-employer agreements instead of government interventions. If mediation also fails, the conflict might result in a strike or in a lockout, which are the two last legal ‘ weapons’ of the union

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side in order to achieve their goals (Keller. 1997). Although there is a trend towards decentralization of collective bargaining, the system still needs mechanisms to “ adapt general conditions of collective agreements to the circumstances of individual establishment (Berg, 2008).” Furthermore, it needs to be pointed out that civil servants are excluded from collective bargaining. The conditions of employment for this group of employees are set by legislation. Still, there is an influence of the relevant unions who function as consultants for the government. Another aspect of German industrial relations is that the scope of industrial regulations is not closely related to union membership, as it is the case in other countries (Ferner & Hyman, 1998). Roughly eighty percent of the employees are covered by collective agreements, which is three times the number of union members. Currently, the majority of collective negotiations is concerned with pay. This has been a development over the past decades and the focus of collective bargaining has changed over time. During the 1970s for instance, non-wage issues have received the most attention. During the late 1970s, for example, there had been a trend in bargaining across industries which considered the protection of employees against rationalization. During the 1980s, working-time arrangements played a dominant role (Ferner & Hyman, 1998), where collective bargaining mostly aimed at regulating the working-time of employees as a strategy for job-creation. In the focus of discussion between unions and employers was the claim that the effect of shorter working hours results in an increase in employment. Since the early 1990s, especially after the Unification of Eastern and Western Germany, collective bargaining turned to the issue of wages. Since the efforts of the unions have not been very successful (Müller-Jentsch, Keller, & Jacobi, 1998), strikes emerged over

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several industries. Müller et al. (1998) also make the point that collective bargaining seems to have had only a limited impact on income differentials. It was not a subject of priority to German unions. Yet, through the introduction of common pay scales, the gap between management employees ('white-collars') and manual employees seems to be closing. In order to demonstrate the development and the outcome of collective bargaining in Germany, two other aspects need to be taken into consideration. During the 1950s annual holidays in Germany were two weeks, on average. Until the 1990s, this was increased to a total of six weeks, due to constant union-efforts (Ferner & Hyman, 1998). The other aspect considers the amount of weekly working hours. Again during the 1950s, employees worked on average 48 hours per week. In the 1990s the efforts of the unions resulted in a total of 37.5 hours per week, on average. Taking a closer look on the development of collective bargaining in Germany, the following conclusion can be drawn. Due to the historically more nationwide structure of bargaining, which had been introduced to a certain extent already in the Weimar Republic, the main process of bargaining happens at a more nation-wide, multi-employer stage. The development since the 1980s has shown that most bargaining-procedures follow the role model of the above described IG Metall and the major issue has become the topic of remuneration. A current example was the ongoing, publically held discussion about minimum-wages in several industries. Yet, there is a certain trend towards the decentralization of bargaining on a single-employer level which will be further discussed in the following. It is also of a high significance that the nationwide role-models are carried out to the single-employer levels, where often adjustments are made and the centralized

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outcome is often adapted to individual situations of companies. As a last aspect to be discussed referring to collective bargaining is the extent to which political parties in Germany take influence on the bargaining process. The IG Metall for example has an obvious affinity to the Social Democratic Party of Germany (SPD), whose major target group are people belonging to the general workforce. This can certainly be of advantage for the majority of employees in case that the SPD takes legislative influence in favor of issues the IG Metall is concerned with.

Current major trends and the decentralization of the German human resource management relations system

The following part of the essay will provide an outline of current trends regarding the human resources management relations system in Germany.

The previously described trend of the decentralization of bargaining structures will be regarded in greater detail, since it seems to be a significant development in German employment relations over the past years. One trend, which is not only occurring in Germany but in nearly all major industrial economies of Europe, is described by Streeck and Kluge (1999). In their study, it becomes evident that employers are tending to have a growing interest in a reliable and constructive relationship with trade unions on a company level. They state that the aim is to get along in a more productive manner than as it had always been the case. “ Being aware of the fact that this saves time and efforts, employers try to act more on a partner-level (Streeck & Kluge, 1999).” In case of Germany, the employee-side has the opportunity to react on static negotiations with the employer by introducing strikes and lockouts. Yet, regarding the fact that employers are

now obviously showing an increased compliance, at least on a perceived level, unions also tend to adopt a higher potential of compromise and push back a strike as the last opportunity since it harms the company on a general level. Another notable trend over the past years in Germany has been the growth of temporary work. With growth rates that are significantly higher than the rates of standard employment (Mitlacher, 2008), temporary work has attracted both public and academic attention. This trend can obviously be drawn back to times of economic recession and a certain divergence in business fluctuations. Employers, especially small and medium-sized enterprises, are often depending on the ability to react to the current situation. In peak-times they are able to adjust their workforce upwards, whereas in times of crisis they can easily downsize their workforce accordingly. This situation surely comprises a negative connotation towards employee rights, yet it is a very useful application for employers although it might be regarded as exploitation of the workforce. To go a bit more into detail, it can be stated that on the one hand, temporary or triangular employment relations offer the possibility to reduce labor, hiring, and training costs. On the other hand it might also be stated that agency jobs are also associated with low wages, minimal benefits, negligible job security, little training, and no job prospects (Mitlacher, 2008). Here it becomes clearly evident that the advantage of triangular work is on the employer's side, whereas employees have to get along with it. In general, Jahn (2005), who is quoted by Mitlacher (2008), states that the proportion of young people and foreigners is much higher among temporary agency workers than in the overall economy. Furthermore, 30% of the temporary workers are low-skilled and only a quarter of all temporary workers are women (Federal <https://assignbuster.com/development-of-the-german-industrial-relations-system/>

Employment Service, 2005). A further trend which can be regarded in Germany is the issue of privatization. It is an issue since the 1970s when the Social Democratic Party was governing and refused privatization on grounds of political principle (Ferner & Hyman, 1998). Due to the issues of the perceived increase in profitability and flexibility coming along with privatization, the trend has developed during the 1980s, when the Christian Democratic Party of Germany came to power and created the legal grounds for privatization. Although “all public sector unions and major interest organizations have offered strong and coordinated resistance to privatization and have caused serious social conflicts (Müller-Jentsch, Keller, & Jacobi, 1998)”, the trend kept on developing over time. A famous recent example for privatization is the Deutsche Bahn AG. Apart from the above mentioned current issues, there is another significant trend in Germany's employment relations. According to a study of the Max-Planck-institute, the employment relations in Germany undergo a change which can be allocated to a steady increase in internationalization, which has started to grow considerably during the 1990s. Besides the danger of facility-shifts to ‘financially more feasible’ countries, employment relations are mainly affected by another aspect. The increasing degree of ‘Americanization’ brings along a growing shareholder-orientation. “Industrial Relations and codetermination are reacting on the competitive environment of international markets by adapting to a decentralization of collective bargaining (Max-Planck-Institut-für-Gesellschaftsforschung, 1999). This development is also supported by the unification of Germany, when two independent economies were merged together. “The area wide-wage agreement has been in the centre of

Germany's system of collective bargaining. Individual wage agreements
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have led to more moderate wage developments, whilst collective agreements with individual firms, and agreements at the production unit level, have not had this moderating effect. On the other hand, collective bargaining has become more flexible, leading to greater pay differentiation. The further decentralization of collective bargaining, although desirable, has given rise to objections based in constitutional law and to resistance from employees and employers (Ochel, 2005).” As already described above, there is a trend from multi-layer collective bargaining to a decentralized structure, with a single-employer structure, taking place from work unit-levels to corporation-levels. As revealed by Müller-Jentsch et al. (1998), there is no necessary interconnection between deregulation initiated by the government and flexibility, which is pursued by assertive employers. Yet, both coincide in practice and contribute to the process of decentralization of labor relations. Therefore the actors at the company level gain importance, whereas the actors on a sectoral level, unions and employers’ associations lose some of their former power. Coming along with the above described shift of competence and influence, a new “ institutionalized balance of power (Ferner & Hyman, 1998)” has developed. Still, nationwide pacemakers such as the IG Metall are still powerful and maintain a significant influence. Referring to this issue, an example is presented by Ochel (2005) is provided, who basically refers to so called ‘ Wild-Cat Co-Operation’. In detail , this means that works councils often agree to overtime working, which enhances the earnings of their constituents while allowing the company to increase production without the long-term commitments involved in taking new workers. This contradicts with the policy to which the unions are strongly committed, to restrict overtime and encourage additional recruitment in <https://assignbuster.com/development-of-the-german-industrial-relations-system/>

order to reduce unemployment. The divergence between interests is the following: Unions, having a nationwide, multi-employer perspective aim reducing the overall unemployment. Works Councils instead aim at achieving the most suitable solution for the individual company, since they have a more decentralized focus and a single-employer point of view.

Conclusion

To come to a final conclusion it can be stated that the German industrial relations system has undergone a constant development over the last decades. The dual system, embodying unions and works councils, is based on tradition and represents the two parties of collective bargaining. Due to internationalization and other ‘globalizing’ aspects, a major development in the German system is a shift towards decentralization, laying more decision power on the individual employers’ perspectives. As pointed out above, this bears opportunities as well as challenges.