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**The Trade-Off between Competitiveness and Employment in Collective  
Bargaining:  
The National Consultation Process and Four Cases of Company Bargaining  
in the Netherlands**

**Marc van der Meer (ed.)**

**in cooperation with:**

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Kea Tijdens  
Martijn van Velzen  
Jelle Visser**

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## Preface

**BY MARC VAN DER MEER**

The content 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 the past, collective bargaining was seen as 'distributive' in nature, especially since the trade-off between wages and benefits determined income distribution and levels of employment. The International Labour Organization (ILO) invited the Amsterdam Institute for Advanced Labour Studies (AIAS) to study the 'productive' aspects of collective bargaining. More precisely, the analysis in this report is focused on the trade-off between competitiveness and employment in collective bargaining. It presents an overview of the consultation economy at national level and four case studies of collective bargaining in companies in the Netherlands.

The national overview will provide an assessment of the relative importance, spread, methods, rationale, success and prospects of agreements in terms of competitiveness and employment. The basic question to be answered in this national overview is: 'Under what conditions do interested organizations exchange competitiveness for employment in social dialogue at national level, and does this practice enhance both competitiveness and employment levels in local collective bargaining?' In addition to the national overview, four case studies of collective bargaining at company level are presented. The case studies also examine the question of how collective bargaining tackles certain aspects of employment in a changing market and against a background of technological constraints faced by companies.

The study draws on several sources. In order to focus on both the process and the framework of consultation and wage-setting, use is made not only of statistics but also texts of agreements, laws and legislation, as well as interviews. It is important to analyse the factors on which those involved in bargaining base their demands: the information available, their mutual concerns, and their economic analyses. The research is based on textual analysis of both primary and secondary documents, including 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 are based on the texts of various collective agreements, primary and secondary documents, interviews with negotiators of collective agreements, company personnel officers and employees' representatives (trade unions or works councils). Additional information was gathered in interviews with key informants in Spring 1999, halfway through the 1999 collective bargaining round, at a time of economic growth and stability in industrial relations. Representatives of seven organizations that play a role in the national consultation industry were interviewed. On the employers' side, these include representatives of VNO-NCW and MKB-Nederland, on the trade union side FNV, CNV and MHP and, finally, staff members of the Social-Economic Council (SER) and the Central Planning Bureau (CPB).

In addition, collective bargaining processes in four different firms were studied, with innovative agreements linking employment and competitiveness. Two firms in the industrial sector and two firms in the service sector were analysed. Two of the firms faced labour market shortages; the other two were over-staffed. The company bargaining case studies provide examples of companies that face increasing competition, both in national and international markets, and that need to upgrade the skills of their staff. The four cases are seen as typical in setting a new pattern.

Table 1. Overview of case studies

Company	Competitiveness	Employment	Trade-off between competitiveness and employment	Material effect
ABN-AMRO Bank	Increasing international competition and expansion	Due to automation, abundant and outdated skills in part of the labour force	Yes	36-hour 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 skilled workers, high costs due to increased internal flexibility	Yes	Internal labour pool

First, the reorganization of the internal labour market model in the Stork NV metal company was studied. 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 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, the case of the banking sector was examined, where in 1995 an ambitious programme of shorter working-hours and increased flexibility was agreed, aiming both at employment growth (or preservation) and competitiveness. The sectoral agreement will be discussed in relation to ABN-AMRO, one of the major banks.

The fourth case, an IT firm, provides an example of a collective agreement in a growing and expanding sector of activity, which used to be a non-unionized green field site. The relevant debate concerns how in companies with unstable employment contracts and labour market shortages, a personnel policy of investment in skills can be developed. Relevant to this contract is the range of choices that have been formulated for employees to negotiate their own employment conditions.

In all the case studies, the following issues will be discussed: the market structure; the level of technological innovation; the representative organizations (personnel department and trade unions)

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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 parties' rationale or specific motives in negotiating the agreement come into consideration. The effects are discussed by distinguishing perceptions of the agreement and the effects as evaluated. The focus is on the quid pro quo between competitiveness and employment. Where possible, data about the type and number of jobs (both quantitative and qualitative), as well as competitiveness are included. This is rounded off by an evaluation of whether pro-active (creation of new jobs or reduction of unemployment) or defensive strategies (avoidance or limitations of lay-offs) have been the approach pursued.

The analysis in the report is relevant for three empirical reasons. Firstly, the concepts of competitiveness and employment are a major public concern at both European and national level, and it now needs to be analysed 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 situation in the Dutch labour market where labour shortages and long-term unemployment have occurred simultaneously. 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 sectoral and company level.

Overall, this working paper leads to a number of conclusions. Firstly, collective bargaining proves to be a crucial social and economic institution for the understanding of the organisation and reward of work processes. Secondly, collective bargaining should be analysed not only by studying its structure and contents, but also by looking at the processes, which result in the structure and contents of these agreements. Thirdly, it appears that in the Netherlands an explicit and implicit trade-off between competitiveness and employment occurs not only in national economic consultation, but in the companies under study as well. The nature of the trade-off depends on the application of the concepts of competitiveness and employment, which differ from national to company level. Fourthly, the nature of the trade-off between competitiveness and employment also changes over a period of time. It appears that the concepts of competitiveness and employment are most interconnected under conditions of emerging, or rising, economic problems under discussion in the national arena. Under these conditions, people become clearly aware of the potential trade-off between competitiveness and employment for the economy and society at large. At company level, similar concerns arise when representatives of management and labour face emerging or rising economic difficulties. Fifthly, in the Netherlands, a process of decentralization of decision-making from national to sectoral and company level is occurring. The multiple-choice agreements concluded after the 1993 New Course Agreement, differ both in content and impact from the single choice agreements after the 1982 Wassenaar Agreement. At local level, social partners nowadays bargain behind a 'veil of vagueness', that enables them to conclude far-reaching agreements in sectors and companies in order to improve competitiveness and employment patterns in firms.

The data for this report was collected between Spring and October 1999. This research report is organized as follows. Chapter one introduces the national overview, concluding with an assessment of the changing nature of collective wage-setting in the Netherlands. The case studies are presented in chapters two, three, four and five.

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# Chapter 1 – The Impact of the National Consultation Process 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), concern with wage-setting, competitiveness and jobs growth has been manifest in many European countries.<sup>2</sup> In the Netherlands, however, notably in consultation between the social partners at national level, the ‘structural coupling’ between competitiveness and employment was already on the agenda from the early 1980s onwards. The subject of this chapter is to what extent there has actually been a trade-off between competitiveness and employment at national level.

In the Netherlands, immediately after the Second World War, the central employers' and employees' organizations and the Government created various national platforms to discuss social-economic developments and draft agreements, recommendations and reports. In the bi-partite Foundation of Labour (1945), employers' and employees' organizations meet to discuss social-economic developments and to advise on wage developments. In the tri-partite Social-Economic Council (1950) employers, trade unions and independent government members meet to develop and advise on policy 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 relatively moderate wage increases (below the rise of labour productivity). In the period between 1959 and 1982, the Government's central wage policies 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 employers' and employees' representatives in the Foundation of Labour formulated a direct relationship between competitiveness and employment. In the very first sentence they stated that ‘structural improvement in employment requires: recovery of economic growth; stable prices; improved competitiveness of companies coupled with better rewards’ (November 24, 1982, p.1). The central recommendation, only one and a half pages long, later came to be known as the ‘Wassenaar Agreement’, after the place where it was signed. The agreement marks a turning point in the fight against economic misery and unemployment in the 1970s and early 1980s, and the starting point for the recovery of labour market and employment performance in the late 1980s and 1990s (Visser and Hemerijck, 1997).

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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).



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

In December 1993, the central employers' and employees' organizations signed another far-reaching agreement: 'A New Course: Agenda for collective bargaining in 1994'. This agreement was reached at a time of increasing unemployment due to the international economic recession in the wake of the 1992 and 1993 crisis in 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' agreement opted for differentiation and tailor-made employment conditions, while both social partners realized that competitiveness should be strengthened. The 'New Course' agreement became the most influential national agreement concluded in the 1990s in the Netherlands. It was renewed by the 'Declaration regarding consultation on employment conditions, 1996 (and beyond)' (October 1995) and '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 link between employment and competitiveness and indicate that the central employers' and employees' organizations believe in the value of national consultation. The joint talks and meetings resulted in specific agreements, recommendations, advice and reports. This approach is a continuous process of consultation and exchange of information, which has become a clear feature of the Dutch labour system.

In this paper, the trade-off between competitiveness and employment at national level will be related to collective bargaining at sectoral and company level. A basic question to be answered is how and to what extent central policy recommendations at national level are being implemented and followed by bargaining agents at the lower level, in sectors and companies. According to Van den Toren (1996) the whole process of collective bargaining in the Netherlands is 'coordinated' by the central employers' and employees' organizations. Heertum-Lemmen and Wilthagen (1996) published an initial study of the continued effect of central agreements. The authors came to the ambivalent conclusion that some issues dealt with at 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 more flexible working hours, were actively discussed and implemented to a considerable extent in sectors and companies.

This suggests that there is an awareness in the Netherlands 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 paper analyses the empirical relation between competitiveness and employment in the process and outcomes of collective bargaining in the Netherlands. It deals only with contracts that both implicitly and explicitly address the concepts of competitiveness and employment together. Policies, recommendations, covenants and contracts that deal with either competitiveness or employment alone are not considered.

The question is how different companies 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 should add that this trade-off may be both implicit and explicit. The hypothesis is that when firms develop innovative and strategic investment programmes, 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

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different companies, this trade-off will be of a more implicit nature. For this reason, both implicit and explicit agreements, in their development over time, at different levels, need to be considered, seeking out their continuing upstream and downstream effects.

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

In this chapter the Netherlands is suggested as a typical case of ‘organized decentralization’ (Traxler, 1996), where collective wage-setting increasingly takes place decentrally, in conditions of a mutual balance of power between trade unions and employers’ associations. It is argued that decentralization of decision making contains two important factors. First, not only the outcome but also the pattern of negotiations is a relevant bargaining issue for these interest groups if they want to keep up a positive sum game over time. Interest groups at 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 to follow. Secondly, the general point underlined by the chapter is that social dialogue serves the renewal of collective agreements by creating through public debate a general climate favourable to innovative change. Employers and employees at company level can argue in favour of differentiated and decentralized regulation of labour. Such an innovation in collective agreements enables them to respond to the new internal labour market patterns that have emerged over the recent years. It will be argued that the social partners bargain behind a ‘veil of vagueness’. Their mutual trust enables them to make far-reaching deals in collective bargaining, whereas they cannot oversee and control the effects of implementing them.

This chapter is organized as follows. Section two briefly presents an application of the two central concepts of this chapter. Section three is an overview of social dialogue and collective bargaining processes in the Netherlands. Section four discusses the development of 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 number of dimensions. Competitiveness may be expressed in terms of trends in unit labour costs, flexibility, innovation and trust in employment relations in a particular company or sector, in comparison to others. Labour market performance may also be expressed in terms of different indicators such as employment levels, jobs 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 across sectors and countries.

The concepts of competitiveness and employment are both positive and normative in nature, since their definitions include different elements that are open to interpretation and debate. Whether competitiveness or employment is more important for wage-setting and the development of an economy is a general question open to dispute in the field of industrial relations. For it should be assumed that interest groups, such as employers’ associations or trade unions in general have only partially similar interests and therefore will interpret ‘standard’ socio-economic statistics and figures in different ways. In the Netherlands, however, interest groups and the Government engage in a harmonious dialogue that gives them a notable competitive advantage (Visser en Hemerijck, 1997; Streeck, 1997). These groups exchange information on a regular basis and make sense of all kinds of social-economic data that have been gathered in a data bank with common interpretations and analyses of social and economic policies. Since they are used to evaluate the determinants of successful policies jointly, they can subsequently prepare strategic choices and policy advice. In other words, in the event of major economic change,

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policy makers are better informed and may waste less time in determining the depth of a recession or the height of a boom. They are prepared to align their social and economic policies to the new situation, whereas social partners without a common set of indicators are condemned to first define the world they live in.

In the Netherlands, the social partners have such a database which can show the nature of social and economic trends. Unlike Germany, for example, where different research institutes compete in presenting the most appropriate data and where the social partners do not regularly evaluate social economic developments from a joint perspective, in the Netherlands data evaluation is more homogeneous.<sup>3</sup> In spite of the existence of a large array of research institutes presenting basic data on social and economic trends, interest groups mainly base their analyses on the economic forecasts of three bodies, the Central Planning Bureau, the Central Bank and the Ministry of Finance. The data from these state organs appear in the reports of employers' and employees' organizations and form the basis of their annual evaluations and joint policy advice for the medium term, which they prepare in cooperation with independent government representatives in the Social-Economic Council. In addition, separate research bureaus exist in certain multinational firms, such as Philips or Rabobank, and some sectors, such as the construction industry, the retail sector or the metal industry, and in certain regions, and for specific objectives, such as the Institute for small and medium-sized enterprises.

The status of the available data set means it does not result in general controversy. In an interesting exercise, 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. Interest groups and government agencies every now and then put emphasis on certain indicators and developments. This chapter will first review how the concepts of competitiveness and employment are dealt with in social dialogue and then analyse possible trade-offs between the two concepts.

### **1.2.1. Competitiveness**

In the study, 'competitiveness' will be conceptualized 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 length of working time, flexibility in working time, contract flexibility and organization of work. The third indicator refers to 'innovation', including aspects of organization of work, introduction of new technologies, product innovation, and research and development. The fourth dimension looks at the introduction of a high trust environment in employment relations. In summing up these four dimensions, an attempt will be made to indicate, if relevant, the relative impact, the interrelationship, 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, which 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 neighbouring 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

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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, 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.

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 emphasis 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 distribution. The economist Kleinknecht (1998) argues that wage moderation hinders innovation (see below). However, it seems that on an aggregated scale, shown Table 1 below, the results are a clear indication of a cost advantage.

**Table 1. Unit labour costs (for industry) (1985-1998)**

<b>Country</b>	<b>Average wage growth 1985-98</b>	<b>Average wage growth 1985-93</b>	<b>Average wage growth 1994-98</b>
USA	10.7	26.7	-16.0
Japan	4.6	10.6	-6.0
Germany	30.0	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	27.0	-7.5

Source: CPB, 1999, pp. 222-223.

## **b Flexibility and Productivity**

Productivity levels in the Netherlands used to be high in comparison with other Western countries. The Dutch workforce is highly educated, but over a number of years several criticisms of the performance of the education system have been voiced (for an overview see Visser, Van Lieshout, Van der Meer, 1999). The application of new technologies and the use of the human factor obviously vary with the company, sector and region (Atzema and Van Dijk, 1996). Labour productivity, calculated as gross domestic product per labour hour, may be high due to both a high output level per head or to changes in company strategies for utilization of labour.

Over the last decade, productivity levels in the Netherlands have declined in 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 of stimulating labour market participation (CPB, 1998). When the number of lower-skilled people in the labour market increases, average productivity levels tend to decline. According to estimates by the Central Planning Bureau, 20-40 per cent of the decline in increase in productivity can be explained by the jobs growth among lower-skilled employees (CPB, 1998). In addition, the increasing use of part-time work and temporary 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, due first to variations 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, congestion on Dutch roads creates a particular national need for a further increase in flexible labour contracts since firms wanted to start earlier or continue later. But changing patterns have also emerged on the supply side of the labour market, since people seem more willing than before to work not only the regular five days from nine to five, but also at irregular hours (see Visser, 1999a). As a consequence, labour productivity can be increased due to job-sharing and improved matching of jobs.

## c Innovation

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

The Social-Economic Council (SER) argues that the decrease in labour productivity can be explained not only by the increase in labour participation of the less skilled. It argues that reluctance to embrace technological innovation in the production process may be important as well. The Council adds, however, that such statements should be treated with caution: labour productivity is not the one and only indicator for evaluating 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 in 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 to the declining growth rates in value added per employee in the Netherlands in comparison with other countries. According to his reasoning, policies of restricted wage increases postpone capital investment to replace obsolete 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, in the absence of wage competition, less competitive firms stay in business without innovating. 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 the long-term effects are more positive than Kleinknecht expects, pointing to 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. Indices of BIP per labour hour (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.

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## d Industrial peace

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

Industrial peace does indeed seem 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 demonstration). Secondly, strikes are a weapon for trade unions to exert pressure when collective bargaining over contract renewal has deadlocked (most recently in construction, and on a number of occasions in the public services: transport, postal service, city cleaning). In any case, public labour disputes are regarded as taking place outside the direct employment relationship.<sup>4</sup>

### **1.2.2. Shortages and Surplus in the Labour Market**

In this research, 'employment' is conceptualized by focusing on three dimensions. Firstly, the quantitative aspects are studied. Within this dimension, the number of employees is classified according to the level of employment security and the provision of job creation for individual employees. The second focus is on guarantees to individual employees or groups of employees that they will keep their jobs if a company starts making losses. Thirdly, the focus is on the qualitative dimensions such as varying forms and intensity of training provision, as well as the possible transformation of precarious employment into more stable employment. Here, companies' strategic policies are examined, 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. Its economic growth and labour market developments compare positively with experience in other European countries, whereas equality of income and social cohesion seem to be less fragile than elsewhere in the Western world. According to the most recent OECD economic survey of the Netherlands (1998), the Dutch economy 'clearly outperformed' other European countries in terms of average GDP growth in the 1994-1997 period. Unemployment is declining. The standardized unemployment rate is currently lower than 300,000, with a decline from 8.7 per cent in 1994 to 5.5 per cent in 1998. This is the lowest level since 1981, and one of the lowest levels among OECD countries. The official number of unemployed 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 those in receipt of unemployment benefits calculated by the public employment service remained at 605,000 in 1999.

In the summer of 1999, the press talked of shortages in some segments of the labour market, especially skilled workers, nurses and office workers (NRC-Handelsblad, 8 July 1999). According to the Central Planning Bureau, vacancies that are difficult to fill are appearing in the chemical, metal, and

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

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construction industries for specialists with a basic or higher vocational qualification. In trade and services there are vacancies for higher skilled personnel, for example machine hire and intermediate products, and for architects, engineers, tax and legal specialists (CPB, 1998: 81).

The extent of employment growth since the early 1980s depends upon the measurement and the criteria used. It should be added that labour market participation, which used to be low in comparison with other European countries, has risen over the last decade. Dutch women, especially, who used not to go out to work, have entered the labour market en masse, mainly as part-time workers (Visser, 1999a).

Job creation, in terms of persons, has been ‘markedly better’ than in most other countries, except the US (OECD, 1998). Table 3 below shows employment patterns for 1992-1999 (CPB, 1998). Job growth expressed as the number of persons shows the highest increase, followed by the number of jobs over 12 hours a week, and the rise in the number of employment years. However, employment growth is mainly due to an increase in part-time employment, which accounts for two-thirds of the new jobs created (Bosselaar, 1996). Younger people with the latest skills and women entering the labour market filled most of the part-time jobs.

According to the CBS-Arbeidskrachtentelling 1997, 37 per cent of employees, or 2.3 million people in the Netherlands work part-time, (see Visser, 1999a). A part-time job is a regular job for less than 35 hours per week. Excluding smaller jobs for pupils, students, and employed family members, and jobs of less than 12 hours per week, 30 per cent of the employed labour force works part-time. On average, twice as many people in the Netherlands work 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 per cent of all men work part-time, which exceeds the European average of five per cent. Apart from the 30 per cent part-timers, and 60 per cent full timers, a further 10 per cent of the labour force is employed under some kind of flexible contract.

Notwithstanding the relative labour market success, two kinds of employment problems have appeared. Firstly, the persistent long-term unemployment issue has not been fully resolved. It should be borne in mind that the most vulnerable groups are the long-term unemployed, among them many ethnic minorities and school leavers. In addition, a substantial number of people, such as those who retire early, receive benefits or participate in subsidized employment programmes, are not seeking employment. Secondly, firms have to deal with the growing labour shortage. Here, the real question is why insufficient numbers of people have been trained for jobs that cannot be filled. At the same time, firms have announced that their workers’ ‘employability’ should be improved, because they no longer guarantee ‘life-time employment’.

Table 3. Supply and demand in the labour market, 1992-1999

	1992	1993	1994	1995	1996	1997	1998	1999
	<i>Level</i> <i>*1,000</i>	<i>Change</i> <i>*1,000</i>						
Employment in years	5,328	-6	-18	76	106	143	151	96
Number of people (totals)	6,458	-3	46	103	144	185	203	139
Number of people over 12 hours/week	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>Level</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, it has been shown that, according to the available statistics, employment growth in the Netherlands is better than in other countries. Labour market participation used to be low, but has risen for men and even more so for 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 shortages are 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).

Whether job growth can be related to competitiveness is a question that cannot be answered without analysing collective bargaining processes. One argument is 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. Social harmony is relatively good in comparison to larger European countries such as France (Bout, 1999). Income distribution is less skewed than in Anglo-Saxon countries, especially the United Kingdom (SCP, 1999).

Before analysing collective wage-setting, this conclusion is worthy of some comment. Firstly, it should be noted that the various dimensions of employment and competitiveness mentioned above are not mutually exclusive. For example, the qualitative dimension of employment may also be ranked as an additional dimension of competitiveness. There is an assumption that capacity and skills training helps firms to innovate and compete in the market, as well as improve employment opportunities for workers made redundant in periods of economic decline. Moreover, strategic investment and innovative policies of firms have so far been ranked under both dimensions of competitiveness and employment.



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Secondly, these dimensions may carry different weight in the collective bargaining process both across and within various sectors of economic activity. The relationship between national economic consultation and collective bargaining will be discussed below. Thirdly, there is very little statistical information available on changes in employment patterns within firms. The statistics point to a general increase in skill levels, so it may be assumed that qualification levels within firms have changed over time. That suggests that the content of collective bargaining may also have changed.

### **1.3 The Linkage between National Consultation and Collective Bargaining in the Netherlands**

Collective bargaining in the Netherlands should be placed in its proper context, allowing for the impact of the consultation economy. Since 1982, collective wage-setting has been free of government intervention. The Government refrains from intervening in wage-setting, although the 1970 Wages Act (amended in 1987) permits specific wage freezing measures in the event of significant economic decline. At 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 the social partners to take account of the “general interest”, i.e. government policy. In the event of significant economic decline, the Government may impose a wage freeze for a maximum of six months twice. The Government performs three functions in the wage-setting process. 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, inter alia via the national minimum wage. Thirdly, it is the main employer in the country.

In the Netherlands, employers’ associations and trade unions are addressed as “social partners” or “social parties”. They are broadly representative interest groups, although the level of membership may be modest. The social partners have their own private, bi-partite Foundation of Labour (Stichting van de Arbeid- STAR) that has proved to be the most important inter-sectoral consultation platform for policy coordination and wage-setting in the Netherlands (Van Bottenburg, 1995). The Foundation of Labour’s mission is to promote permanent good relations in Dutch industry and society. They seek to do this by stimulating consultation between employers and employees and their organizations; by giving advice to employers’ and employees’ organizations; by promoting the establishment of various social and economic regulations; and by performing certain legal functions. STAR is a relatively small organization, with only 5 staff members, but with various committees.

The tri-partite Social-Economic Council is a statutory body (Industrial Organizations Act, 1950). The SER’s main function is to advise the Government on social and economic issues. Until 1995, when it was rescinded by Parliament, this was a prerogative of the SER (the Government had to consult it before enacting new legislation). The advisory reports do not need to be unanimous and are not binding, but when the advice is unanimous, it is hard for the Government to ignore it. 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 exchange of information and acts as supervisor to a series of consultative bodies at industry and trade group level, as well as monitoring the implementation of the Works Councils Act. Discussions in the SER have more often proved to be a platform for setting the agenda for public policy, rather than problem solving. The fact that major groupings in society meet and talk may help to put issues on the political agenda. Between 1972-1982, the SER’s function as advisory council to the Government was eroded, and the Council was internally so divided that during those ten years it was never able to render unanimous advice on macro-economic policy. As a consequence, the SER was accused of being a cause of delay or postponement instead 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 resides at the same address, and in part consists of the same trade union and employers’ representatives.

The SER defined the principal objectives of social economic policy in the Netherlands as follows: 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 medium-term social and economic trends; industrial policy; social security; employment and industrial law; worker participation and co-determination; the relation between the labour market and education; transport; consumer affairs.

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

Table 4 gives an overview of collective wage-setting. Almost 5 million wage earners in the private sector are covered by collective agreements (82 per cent). Since union membership is much lower (20 per cent in the private sector), the high coverage rate can only be due to three other factors: firstly, the high level of 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 per cent. Total coverage for employees in the private and public sector is about 85 per cent.

**Table 4. Collective bargaining, types of agreement and coverage in 1997**

<b>Type of agreement</b>	<b>Workers covered</b>
Covered by company agreements	600,000
Covered by industry agreement	4,300,000
-direct coverage by agreement (extended)	-3,300,000
-coverage through extension	-500,000
-direct coverage by agreement (not extended)	-500,000
<b>Total coverage private sector</b>	<b>4,900,000</b>

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 other agreements, though nowadays wage leadership is less obvious than in the past (Rojer and van Rij, 1998). The larger multinational companies continue to negotiate their own agreements. At Philips, AKZO-Nobel, and Unilever, pay bargaining continues at company level, under head office control, in order to keep unions and distribution disputes out of the workplace. These agreements include a framework agreement that is valid for different plants. Very few employers want to switch from unions to works councils as bargaining partners. They usually appreciate the professionalism and reliability of union negotiators, and fear that bargaining with the works council would jeopardize consultation with the latter (see Hartog and Teulings, 1998). Exceptions to the rule are Royal Dutch Shell, where there are individual management/staff agreements, IKEA and Adriaan Koren where the works council has a prominent role in negotiating pay rises. In the late 1990s, about 10 per cent of all works councils were involved in wage issues (Van het Kaar, 1999).

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Collective agreements provide a framework that prescribes the procedural rights and obligations of the contracting parties as well as the employees in the companies 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, many topics are discussed in collective bargaining such as working time, quality of work, organization of the firm, co-determination, additional social security benefits, 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 company levels have an impact on both employment and competitiveness.

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 sectoral level. Secondly, there is also a direct relationship between the national consultation level and the company, if collective bargaining is a matter of negotiation at company level between the personnel management and employee representatives (trade unions and, to a far lesser extent, works councils).

## **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 post-war period. After 1945, spokesmen of interest groups in the Foundation of Labour advised the Government on wages and incomes policies. In the Netherlands, longer than in any other country in the western world, the Government fixed annual wage increases centrally through a statutory wages 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 unions and employers' organizations, which in turn kept their members on a tight rein.

This system, which worked well from 1945-1959, and on paper even up to 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 the hands of unions and employers. This was recognised in the new 1970 Wages Act, though the Government retained the power to order a temporary wage freeze or impose a ceiling on wages if, in its view, the economic situation justified such a step. Despite the statutory freedom of collective bargaining, the Government intervened in 1971, 1974, 1976, 1979, 1980, 1981 and 1982. Negotiations in this period took place between the central federations at 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'. Just when wage moderation was desperately needed to solve the soaring unemployment, unions and employers proved unable to coordinate their policies and deliver wage restraint (Albeda, 1987).

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### 1.4.2 *Beyond Wassenaar 1982*

The 1982 Wassenaar Agreement 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 (to a maximum of 12 per cent in 1984) and all economic indicators had set alarm bells ringing: rising interest rates and inflation, increasing public debt and job losses. It was, as the employers' president Rinnooij Kan said later 'to put it bluntly, the 'lowest ebb' for the Dutch economy' (1993: 40).

Secondly, relations between interest groups were hostile. The 1982 agreement was therefore astonishing, especially since in 1979 a similar draft agreement on wage moderation and labour time sharing had not been signed at the last minute 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 the support of other FNV members (Visser, 1998: 279). The CNV Union, as its president, Westerlaken, said later, was prepared to sign, but the FNV blocked the agreement. He maintained that in 1979 the talks were premature due to the mutual distrust between the social partners. Moreover the unions at that time were still of the opinion that wages should be determined at national level. For the employers there was no doubt that wage-setting should be decentralized, and they were only prepared to sign an agreement when wage moderation was added to the union proposals on working time reduction (source: Giebels, 1997).

The third explanatory variable concerns the role of the Government. While during the period 1979-1982 the social partners held each other in a stranglehold, the Government was divided over the need for intervention in wage-setting. This led to stagnation in the corporatist system and left it unable to respond the needs of society (Hemerijck, 1995). The new centre-right no-nonsense austerity government coalition under Mr. Lubbers, who took office in mid-1982, immediately threatened to intervene in wage-setting. Compelled by the looming shadow of state intervention, the social partners got together and accepted each other as bargaining partners (Visser and Hemerijck, 1997; see the comments of the then Prime Minister Lubbers in Giebels, 1997).

The surprising, though at first sight minor, agreement at Wassenaar had a major impact on collective bargaining and Dutch industrial relations in general. The basic trade-off for the interest groups was between wage moderation and reductions in working time. 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 in the pasts, the Wassenaar and subsequent agreements did not contain a specific figure for desired or expected wage trends. The proposal was only to keep wage rises lower than increases in productivity while the unions were to refrain from demanding compensation for inflation. This offer would then become the basis for a so-called 'cost-neutral' reduction of working hours and job-sharing. 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 per cent. The unadjusted share of income imputed to labour, which had risen to 91 percent in 1980, fell to 81 per cent in 1985. At the same time, a five per cent reduction in the working week emerged, from 40 to 38 hours over the period, 1983-1986 (Visser, 1989). The perceived impact of the Wassenaar Agreement on competitiveness and employment was however moderate, especially since the effect could only be measured over a longer period of years. In one of its 'what if' studies, the CPB estimates that during the 1980s, 265,000 jobs were created by wage moderation, another 250,000 were due to part-time work and only 30,000 to 40,000 were due to reductions in working time (CPB; 1991).

Wassenaar has become the basis for de facto 'Tarif Autonomie' (freedom in wage setting) (Visser, 1999b: 42). Since 1982, no more government wage measures occurred and the Wages Act was

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<sup>5</sup> Many of the following arguments were put forward in a public discussion of this book on 1 October 1997 (see Giebels, 1997). Many arguments were also raised again in interviews.

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amended in 1987, restricting the possibility of government intervention. Over the course of the 1980s, collective bargaining changed slightly in nature.

Firstly, trends in the private sector and the public sector diverged after the Government broke the automatic link between them, so that wage increases in the public sector were no longer tied to those in the private sector. In 1983 the Government's announcement that it would cut public employee wages by 3.5 per cent brought a substantial number of the 850,000 employees out on to the streets, but this dispute was ignored by their main employer, the Government. Abandoned by the other unions and under siege by a hostile public opinion, the public sector unions gave in. In 1985, the 'trend-based mechanism' in the subsidized sector was legally abolished. In a subsequent phase, wage negotiations for the public sector as a whole were broken down into eight different sectors (this process was completed in 1993). The result was that labour relations in the public sector became independent of the private sector. Civil servants lost several privileges in the field of pensions and protection from dismissal protection, but they 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, much policy advice was issued by the Social-Economic Council, on youth unemployment (1984, 1986), training (1986, 1987), long-term unemployment (1986, 1987), minimum wage costs (1988), part-time work (1989), female labour (1990, 1991), reintegration of disabled people (1990), and reduction in sickness leave (1991) (Rinnooij Kan, 1993: 41). Some of these issues appeared on the collective bargaining agenda, especially initiatives aimed at target groups such as younger people, women, ethnic minorities, and the disabled (SER, 1998).

The impact of this emphasis on collective bargaining should not be overstated however. The content of collective agreements changed slightly, the structure and process of collective bargaining did not. As we have seen, wage growth was moderate and a five per cent reduction in working time was introduced, but case studies in the 1980s, show that sectoral initiatives for innovation in collective bargaining had only moderate effects. In the construction industry for example, the labour market reform that was discussed in the course of collective bargaining in the aftermath of the Wassenaar Agreement, was implemented only after several years of discussion and did not have any short-term effects (Van der Meer, 1999). In one of our interviews, it was observed that in the 1980s there was a strong, probably over-optimistic, belief that one instrument, i.e. wage moderation and reduction in working time, would be the key to all problems on the labour market. The effects of working time reductions, however, appear to have been marginal, especially since the reduced 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 in the Consultation Economy***

After 1989, social concertation struck a new deadlock. When the new centre-left coalition under Mr. Lubbers took office, the cabinet together with the social partners (with the exception of the MHP) agreed a so-called 'Joint Policy Framework' (GBK, *Gemeenschappelijke Beleidskader*). This was a broad all-embracing approach to economic management. In 1991, halfway through the Government's term of office, just when it was delivering disappointing macro-economic results, the employers ended the cooperation in the GBK and, for the first time since the Second World War, abandoned the tripartite consultations in the Foundation of Labour with the Government for that year.

The employers, united in the Central Council for Employers' Organizations (RCO), had two main criticisms. Firstly, they rejected the economic policy of the Government, a Christian-Social Democrat coalition (1989-1994), which in their opinion was not sufficiently interested in further tax relief, lowering public debt, addressing problems of rising costs of sickness and disability schemes and the need to drop 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

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Government ignored unanimous recommendations by the Social-Economic Council. In short, the employers wanted the social partners to have greater bipartite autonomy and freedom from 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') 'generally prejudices Dutch competitiveness within Europe and therefore adds to the already bleak economic development' (RCO-letter to the Government, March 15, 1991). Trade unions were also critical. The FNV and CNV argued that the GBK did not do enough for social benefit claimants and those employed in the public sector. The middle and higher-grade staff union, the MHP, on the other hand, stood aside, since it had already rejected the GBK in 1989. The result was a double breach 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 the cabinet six months to ask the Social-Economic Council (SER) for advice on overcoming the impasse. It made its request in June 1992, during 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 piece of policy advice. Firstly, it sought its views on the future of the process of European Monetary Unification. Secondly, it was interested to hear ideas on the division of labour between the Government and the social partners in attaining policy objectives. In a unanimous report 'Convergence and Consultation Economy', produced in record time, the SER combined two pieces of policy advice. Firstly, the Council was in favour of Economic and Monetary Union (EMU), on the basis of a study by the CPB (1991). In answer to the second issue, the Council pleaded for a clearer division of labour both between the Government and the social partners, and within their respective organizations. 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 was the responsibility of the social partners. The argument was that major trends such as internationalization, individualisation and decentralization should be translated into a policy in which decisions were made at individual sector and company level. This implied a continuation of the practice of decentralized collective wage-setting. The role of central joint institutions should be restricted to supporting negotiations at the decentralized level. Fiscal and monetary policies were the prerogative of the Government. Labour market policies were the domain of both the Government and the social partners (SER, 1992: 119).

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

Secondly, wages did not adjust quickly enough to the emerging economic misery. The CPB, especially underestimated the depth of the economic crisis at that time (by some one per cent) (CPB, 1999). As a consequence, according to one interview, the unions saw no reason at first for further wage restraint. As in 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 problem of the low level of labour market participation and the high degree of inactivity due to sickness and disability called for an urgent solution. These issues had been discussed repeatedly in the Social-Economic Council and the Cabinet, but decisions were postponed until the Buurmeijer parliamentary committee of inquiry which reported its findings in 1993 (see De Jong and Vos, 1994; Visser and Hemerijck 1997). Just as with wage moderation, collective bargaining was not the place where the need to adjust was most keenly felt. It took until 1993, when the Government decided to restrict access to sickness and disability schemes, for collective bargaining to change too. After the Government's intervention, the unions asked for compensation for the lower benefit levels and

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earmarked 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, critical voices were raised against the consultation economy and corporatism. The idea of a 'primacy of politics' over decisions by interest groups in the consultation economy was presented above all 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 lack of commitment at lower levels to central agreements. Within this debate, the mechanism of general extension of collective agreements was also questioned. After severe criticism by professors Bomhof and Zalm (the latter 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. It was argued that collectively agreed minimum wage levels were substantially above the minimum wage levels and that under the 1937 Extension and Nullification Act, firms (including those that were not affiliated to an employers' association) were legally obliged to accept wages above market rates. As a consequence of the extension of agreements, low-wage competition was ruled out and there was an increase in low-productivity jobs. This attack brought the social partners in the Foundation of Labour together in drawing up a joint defence of the 1937 Act, reiterating the objectives of the law. Firstly, the Act was intended to extend the coverage of collective bargaining to all employees; secondly, it sought to protect collective agreements against unfair competition (in particular from employers seeking to circumvent contractual obligations by discontinuing membership), and, thirdly, it also sought to encourage coordination in wage bargaining, thereby allowing the State to play a role in wage determination.

In summary, it was observed that there was but moderate innovation of collective agreements in the period from 1982 up to 1992. The central trade-off in collective bargaining refers to attempts by the social partners to negotiate moderate wage increases and reductions in working time. This trade-off was omnipresent in the early 1980s, but faded away when the economy started growing again in the second half of the 1980s. With the onset of the economic recession of the early 1990s, the CPB at first underestimated the crisis. Only later did the trade unions change their behaviour and showed willing to moderate their wage claims, but only after government threats. At that time, prominent issues addressed during the 1990s, such as contract law and protection against dismissal for temporary workers, the minimum wage, and early retirement were not yet brought into the discussion. Neither was social security provision changed in this period, notwithstanding major public debates, critical polemics and public unrest. When, in 1987, the Government lowered the level of several social benefits from 80 per cent to 70 per cent, trade unions tried to compensate for this percentage in collective agreement. In 1993, they collectively repaired the 'gap in the statutory disability benefits'.

When talking about innovation in collective bargaining, it should be mentioned that in the period up to 1992, several employment issues were, to a limited extent, taken up. In the mid-1980s emphasis on target groups appeared on the agenda. Decentralization of the public employment service and apprenticeship schemes were included in some agreements (construction, metal sector, printing). This led to specific provisions within collective agreements. Overall, however, the emphasis on these employment issues did not alter the general pattern whereby the trade-off between competitiveness and employment in collective bargaining was formulated in distributional terms, under the guidance of the main employers' and employees' organizations.

#### ***1.4.4 Revitalizing the Consensus Economy and the Change in Collective Bargaining after 1993***

When, in 1993, the Government was preparing to intervene in wage-setting by threatening to freeze wages, the social partners and top legal experts strongly protested and looked for a way of revitalizing central negotiations on the basis that responsibility for collective wage-setting was theirs, not the Government's. The FNV and CNV issued a joint policy document 'Jobs, jobs, jobs, and yet more jobs' (1993), in which they argued that rises in unemployment occurred despite positive benefit

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levels. The employers ignored this document, and according to people interviewed, preferred another draft document, 'The employee at the centre' published in April 1994. by the minor MHP Federation. That report argued that the employee of the 1990s, would be 'modern, flexible, responsible and well-trained for the job, able to operate in a rapidly changing society and an increasingly dynamic, vital and international organization of labour.' The MHP proposed to bring flexibility to 'rigid' work patterns in firms and to adapt work content to the preferences and capabilities of employees. Examples included a change in normal working hours, part-time work, flexible working time, and the use of technology, such as tele-working (MHP, 1994).

Behind the scenes, the employers' associations and trade unions dealt with the crisis and managed to agree on a new timetable for wage-setting in the years to come: the 'New Course' agreement of December 1993. Employers wanted a further decentralization of wage-setting, which would allow for tailored employment conditions within the firm as well as more flexibility in employment relations. Trade unions received a promise that the central employers' organization would lift its blanket resistance to a reduction in working hours and that local union representatives or works councils would be included in negotiations for local solutions.

This strategy differs from the Wassenaar Agreement, 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 reducing working time as a means of stemming 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 combined at first with a cautious scenario of macro-economic development in the preparations for Economic and Monetary Union. The interest groups supported broad goals such as expanding domestic demand, low inflation, a large trade surplus, a strong currency and improved public finances. Secondly and more important for this present chapter, the 'New Course' agreement of 1993 contained three core elements that had a major impact on collective bargaining.

Firstly, the social partners agreed on the importance of continuing a policy of responsible wage-setting. The 'New Course' agreement was to last for two years and was renewed in the 'Calendar for collective bargaining for 1996, and beyond' (1995), and in 'Agenda 2002' (1997). It paved the way for a 'responsible wage increase', but was not tied to any specific figures. More interesting is that the FNV and CNV union confederations submitted a maximum ceiling for wage bargaining, with not much to choose between them as to 'who was the more responsible of the two' (Rojer en Van Rij, 1998). The employers' associations, on the other hand, abandoned their attempts to coordinate wage bargaining in 1993. They also abandoned their common front to block reductions in working-time. According to Van den Toren (1996), coordination of wage bargaining continued due to the formal and informal, horizontal and vertical contacts and ties between the 5,000 or so people involved in negotiating the 1,000 collective agreements in 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 to the general public for the first time. These documents give information to negotiators at lower bargaining levels and therefore serve to some extent to set the agenda for and coordinate collective bargaining. However, there are no formal sanctions that oblige 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 working hours and patterns of working time. That is a major difference from the general working time reduction practised in the early 1980s, which envisaged collective days-off. Increased flexibility of working and opening hours became widely accepted and more choice was now allowed in collective wage agreements. The 1993 'New Course' agreement argued for a 'new equilibrium', taking into account both the demands of companies and the legal protection of employees. This meant that for the first time the trade unions dropped their objections to further flexibility of labour while the employers accepted the introduction of working time reductions and part-time work. From the 'New Course' agreement onwards, the deal was that the



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participants in the Foundation of Labour would discuss a major change in the law on contracts and dismissals, laid down in the 'Flexibility and Security' agreement (1996). The actual wording of the agreement between the central employers' and employees' organizations was drafted into the government bill of the same name and passed by Parliament in the winter of 1998. The quintessence of the new legislation, which came into force on 1 January 1999, was to strike a new balance between flexibility and security by reducing protection from dismissal 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 had a direct impact on collective bargaining: 'Towards tailored employment conditions. Increased opportunities for choice with regard to employment conditions' of 28 April 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 bargaining counters, in order to introduce opportunities for employees to determine their own employment conditions. This trade-off will often involve swapping 'time for money' or 'money for time'. The agreement speaks in this respect of 'sources' and 'goals', which an individual employee can determine in his 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, annual bonuses and extra days off. Saving up money or time is an option as well. Employees would have to renew their choices each year.

Thirdly, many policy target groups were captured within the agreement, including the elderly, ethnic migrants, and women, and emphasis was placed on the fringes of the labour market where lower skilled people were employed. After the Government threatened to do away with the general extension of collective agreements in 1994, the social partners had to demonstrate their good faith. They must allow newly established firms and firms in obvious economic difficulties to deviate from the sectoral agreement through so-called 'dispensation clauses'. They should also create low wage scales for new entrants, the long-term unemployed, those without job experience, or facing other difficulties in the labour market.

In the different agreements at sector and company level, many issues already discussed at national level were taken up. A recent government report on collective bargaining mentioned that of the 117 largest collective agreements covering almost 4.5 million employees, many contained clauses on different ways of enhancing employment and competitiveness. Clauses with training opportunities were included for 92.3 per cent of the employees covered; training leave for 88 per cent, part-time work for 60 per cent, personal training plans for 29 per cent; performance-related pay for 74 per cent; annual assessments for 33 per cent; work experience for 20 per cent; employment plans for 69 per cent; additional jobs for 35 per cent; and labour pools for 3 per cent of the employees. Moreover the collective agreements regularly contained specific employment plans for target groups: 34 per cent of the employees were covered by collective agreements which created opportunities for long-term unemployed, 31 per cent for women, 28 per cent for disabled people, 48 per cent for ethnic migrants; and 31 per cent for young people (MinSZW, 1999).

### **1.4.5 A Second Conclusion**

Overall, in comparison with the 1980s, the policy agreements of the 1990s were more oriented towards the long term and qualitative in nature. The agreements of the 1990s start by referring to general trends in society such as the internationalization of the economy, individualization of social and cultural patterns and decentralization of decision making. As well as the substance of collective bargaining, the framework and process of the negotiations are also subject to negotiation and laid down in new agreements, especially in 'Werken aan je werkkring' ('Developing your work environment', 1996) and 'Overwegingen en aanbevelingen inzake arbeidsverhoudingen in ondernemingen' (Review

and recommendations on employment relations in the workplace, 1997). Thus the aim is no longer only tailor-made decisions and diversity, but attempts to include co-determination through trade union activities in firms and works councils are also seen as helpful for a well-functioning economy. In addition, the 'Flexibiliteit en zekerheid' (Flexibility and security) agreement sought to protect workers with temporary contracts.

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

**Table 5. Themes and goals of Agenda 2002 (Foundation of Labour)**

Themes	Goals
Wages and working conditions	Responsible wage-setting Decentralization and differentiation at sector/firm level
Employability	Flexible/motivating pay policies Shared responsibility Continuing training for all employees Development of employability policies
Working time/ work and welfare	Differentiation Increased flexibility Promoting part-time work Introducing (family care) leave arrangements Providing child care facilities
Older workers	To keep older workers in work To promote 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 disadvantaged groups (e.g. ethnic minorities) Equal opportunities
Working conditions	More attention to anti-stress policies

Source: Agenda 2002

The conclusion is that the revitalization of the consultation economy in the course of the 1990s is remarkable. In an interview with a national employers' association it was mentioned that the 'social partners are busier than ever, and it is fun. Employers' and employees' organizations now understand their mutual concerns. There are many solutions for many problems. We have a rich menu'.

## **1.5 Conclusions: Bargaining Under a Cloak of Obscurity**

In the Dutch consultation economy, the two concepts of 'competitiveness' and 'employment' are related to each other at national level and in collective bargaining processes at sectoral and company level. As seen in Section 1, they have contributed prominently to the texts of the most important agreements reached jointly by employers and employees in the Labour Foundation and the Social-Economic Council over the last two decades. Moreover, the case studies in the following chapters show clearly that the concepts of competitiveness and employment are also being linked in local collective bargaining.

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In the course of time, the concepts of competitiveness and employment have been given different meanings. In the text the various dimensions of 'competitiveness' and 'employment' have been broken down into unit labour costs, flexibility, innovation and social peace. Employment has been defined in terms of employment, job guarantees and quality of labour. These dimensions have been useful as a basis for a broad overview. It should be noted that these concepts are used loosely in the national debate, and with greater precision at company level. At national level, the economy is understood and evaluated in macro-economic terms, such as GDP growth, level of employment, profit levels, unit labour costs, terms of trade, etc. Some aspects of competitiveness and employment are crucial, but issues such as productivity and innovation are less central in the analysis at national level. At local level, however, especially in sectors and companies open to international competition and to the introduction of labour-saving technologies, the concepts of competitiveness and employment may be interpreted in quite precise and measurable terms such as market share, productivity, innovation, factor costs of capital and labour, and skills. The dimensions of employment are in most cases just output indicators, whose levels depend very much on other aspects, such as the economic situation, the use of technology and personnel policies.

It can also be observed that the nature of the social dialogue at national level has changed over time. Before the Wassenaar Agreement in 1982, there was considerable distrust between employers' and employees' organizations. From Wassenaar (1982) until the tri-partite Joint Policy Framework (1989) there was a revival of the consultation economy, under the threat of government intervention. In 1991 a crisis resulted 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' - in the Social-Economic Council (1992). The social partners came together in the 'New Course' agreement (1993), which has been updated several times. Ever since, social consultation has apparently prospered.

It is hard to say whether the trade-off between competitiveness and employment at national level is explicit or implicit in nature. Those interviewed at national level say that they use several indicators in their analysis. In referring 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' representative 'the trade-off between competitiveness and employment is explicit, since improving the level of competitiveness is always a function of 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 stress at work'. The argument here is 'that a good personnel policy in firms is beneficial to competitiveness'. In the current period, especially, of growing shortages in the labour market, skills levels should be up to date, including those of groups that participate less 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 because they have been able to defend 'security' of work for people working under temporary contracts. For the unions, moreover, 'in addition to employment, equitable income distribution and fairness in society are also important goals'.

Central to the joint analysis of both employers' and employees' representatives seems to be the indicator of '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 sharply, profit levels and subsequently investment and employment levels will lag behind. In other words, the common belief is that when the annual rise in labour costs in collective wage-setting is 'moderate' or 'responsible', employment levels will increase. In the Netherlands, the trade unions argue that 'responsible wage-setting' should be based on the norm that annual wage increases are equal to the sum of productivity increases and inflation levels. Employers' associations try to distort this argument by arguing that productivity increases are not similar in all companies, so that even a 'responsible' wage policy may be too 'generous'.

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In interviews with employers' and employees' organizations, 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 have to tighten your belts, and always have 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 meanings 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' organizations compromised between wage moderation and working time reduction (1982). In the 'New Course' agreement, they allowed a further differentiation of wage patterns provided that workers had sufficient rights of co-determination of their employment conditions (1993). In 1996, they reached a compromise between flexibility and security.

Yet, the pattern of the spread of national agreements to local level varies over time. In spite of the general trend to more decisions being taken locally, the spread of the concepts of competitiveness and employment goes both ways: downwards from the top and from the bottom upwards. At central level, issues that appear first on the collective bargaining agenda in firms or sectors are addressed. Central organizations try to determine in which direction labour policies in firms should be developed. The social partners apply a form of indirect coordination and mediation in the joint institutions, STAR and SER. Moreover, the linkage between the different levels occurs within the umbrella organizations, in a process of intra-federal and intra-organizational bargaining with local negotiators. Until 1993 the largest union confederations and employers' associations tried to coordinate the whole process. On the union side, the FNV and CNV seek coordination, whereas MHP does not. Both the FNV and CNV favour clear wage norms, such as price compensation and redistribution of productivity gains. Interestingly, they define a maximum, and not a minimum figure as the ceiling for 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 workload and stress, are supported by large public relations campaigns initiated at the national headquarters.

The employers' associations VNO and NCW (which amalgamated in 1995) attempted to coordinate the whole bargaining process until 1993. After 1993, they withdrew from overt coordination. They argued that economic conditions in companies varied too much to coordinate wage-setting effectively. However, VNO-NCW's largest affiliates do provide strong instruments for monitoring and coordination of collective bargaining in their domains, covering nearly all industrial and larger service firms. The small and medium-sized enterprises in MKB-Nederland have neither the will nor the ability to coordinate wage-setting. It does, however, together with VNO-NCW, support claims for further deregulation and tax relief, for example.

In interviews, all organizations argued that in order to get things done, some 'message from above' is needed. 'Implementation should take place at lower levels in the organization. There people have to manage to carry it off.' Nevertheless, excessive intervention by the central confederations is no longer accepted by the rank and file of both unions and employers' associations. Larger firms especially want to regulate employment conditions in a more autonomous way. In smaller firms, the collective agreement is still seen as a regulatory framework for the determination of employment conditions. Transaction costs would be too high for them to negotiate individual employment conditions. These companies, though, sometimes lobby for a further differentiation of working time, deregulation of labour conditions, etc. 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 adopted at central level offers more options for differentiation and tailor-made employment conditions at local level. This process has been stimulated by the demand by companies for more flexible production processes and by the preference of employees for employment conditions that take into account individual circumstances. The social partners expect that this decentralization process will continue and that demands for more freedom within collective agreements will increase as well. The multiple-choice model of collective agreements would need to facilitate these developments. The social partners however emphasise that the collective agreement must continue to fulfil its primary task: to advance equality of rights and security of

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employment conditions, and to discourage competition between employers on employment conditions. A balance must therefore be struck between the individualization of employment conditions and 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 produced modern results. There is now an acceptable balance: policy initiatives lie 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 irreconcilable'.

The practice of consultation seems to be quite capable of anticipating new regulatory issues in the modern service economy, where an increasing share of the work is performed in part-time jobs, where there are shortages in certain segments of the labour market, and where the issue of work stress demands a solution. Mr. Blankert, president of the VNO-NCW, the largest employers' association in the Netherlands, argued that in 1994 the lack of flexibility in the labour market was a considerable handicap for companies 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 without the increased flexibility in the labour market to the extent that occurred' (VNO-NCW, press conference, 2 September 1998, p.11).

In the early 1990s, the in-tray 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 statutory function of mandatory advisory council to the Government. Neither was any need felt at that time for much coordination since wage-setting had already been decentralized since 1982. All this changed in the economic recession of 1991-92, when unemployment rose and the Government showed its readiness to intervene in the wage-setting process. Intervention was immediately blocked by the social partners with the acceptance of a 'breathing space'. With the 'Convergence and Consultation Economy' report (1992), and the 'New Course' agreement (1993), the attitude of the central employers' and employees' organizations changed. They sought to control the wage-setting procedures, since they could no longer pretend to control or dictate the content and outcomes. They withdrew their objections to dealing at national level with specific economic indicators and targets, and adopted a procedural approach in which they shifted decision making to lower levels, meanwhile giving up their power to take corrective action in the event 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 confined to 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 people get on with each other, they have to know each other well and the "chemistry" must work. They must also have built up a set of social and 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 limitations of central management. They share mutual concerns and responsibilities which result in writing recommendations and letters of intent. These agreements are published in the press and are directly addressed to the rank and file. The texts contain general intentions without specific figures. For example, the 1990 agreement on 60,000 new jobs to be created for ethnic migrants will not be repeated: 'We can try to convince others, to persuade companies, local governments, schools, the police, etc. to change their recruitment patterns, but we have no way of forcing them. When we said we would create 60,000 new jobs we made a major mistake: we deeply regret mentioning numbers' (employers' representative).

The consequence is that the social partners cannot effectively control what happens at local level. They make arrangements, without having the opportunity to influence their implementation. The only resources available are press releases, lobbies and in the last resort, strikes. The effects of this policy of creating a general climate of trust are difficult to estimate in the short term; they have to be

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determined in the long run. The social partners nowadays focus on the process of bargaining and take the outcomes for granted. They want to go along with decentralization of decision making and tailor-made agreements in an economy that demands flexibility. The solution to the uncertainty about the outcome of the wage-setting process is clear: the social partners bargain under a veil of vagueness. By controlling the process, they leave room for flexibility and individual choice in employment conditions. The central organizations have neither the power to compel nor the resources to control their implementation. Even if central agreements are neglected, it may be that decision-making at local level will be more in line with the individual preferences of companies and their workforces.

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## Chapter 2 - Stork Mobile's Collective Agreement

*By Martijn van Velzen*

### 2.1 Introduction

This chapter focuses on the contribution of collective bargaining to employment protection or job creation and to competitiveness in the case of Stork in the Netherlands. This metal company introduced Stork Mobile, a subsidiary with an innovative form of internal labour market pool in 1998. The chapter is organized as follows. Section 1 introduces the Stork-company; Section 2 analyses the process of collective bargaining is analysed; Section 3 outlines the Stork Mobile's background , while Section 4 compares the employment conditions in Stork Mobile with those in other Stork divisions. The final Section is an interpretation of the potential effects.

### 2.2 Profile and Context of The Firm

Stork NV is a Dutch industrial technology group with global operations. Stork Group's activities 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 per cent came from countries other than the Netherlands. These orders relate both to exports from the Netherlands and orders received by operating companies based outside the Netherlands. The operating companies in the Netherlands exported 49 per cent of 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, for historical reasons, as consisting of a wide range of small enterprises. Over 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 characterized as being strongly decentralized.

Early in 1998 the Stork Group established a new subsidiary called Stork Mobile which was 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 company aims to introduce Stork Mobile nation-wide, 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 more efficient staff allocation. Furthermore, Stork Mobile provides training and education to enhance the employability of Stork personnel. Stork Group subsidiaries are obliged to report vacancies immediately 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 Stork Mobile project. Start Holding, one of the main Dutch temporary employment agencies, entered into the joint venture and contributed its training and

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

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placement knowledge. The Stork Group holds 65 per cent of Stork Mobile, while Start Holding owns the remaining 35 per cent.

## **2.3 The Collective Agreement and Parties 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 majority of the Stork Group. This industry-wide collective agreement covers 1,000 firms and 180,000 employees in the metal industry. In some of the smaller Stork subsidiaries not operating in the metal industry, the collective agreements for the construction and 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 middle and senior management, with an estimated 2,000 members) and 'De Unie' (representing about 80,000 people in senior staff functions in the industrial and service sector).

Within Stork Group, co-determination takes place at three levels: in the central works council for issues involving the entire company, in so-called group works councils (at the level of 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 1997 metal industry collective agreement. The agreement stipulated that firms in the sector had to donate the equivalent of 0.5 per cent of the firm's total payroll for 1997. The principal aim of the sectoral foundation was to increase the employability of personnel in the metal industry. The foundation reallocates the money to firms that come up with plans for employment promotion in the metal industry. The Stork Mobile project 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 summarized in Table 6 below.



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**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 payroll in 1998 and 1999 for the benefit of 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 realization of employment projects at both sector and company level.
- Company 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 company level. Employment promotion schemes that will be (partly) financed are:
  - mobility centres
  - working time reduction
  - work experience places
  - policies for older employees
  - measures aimed at preventing compulsory redundancies
  - measures (such as training courses and education) aimed at improving the employability
- Sector level investments: The resources surplus available at sectoral level should be used to implement measures aimed at employment promotion, such as work experience projects, training and placement activities for job seekers and target groups.
- An 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 from the contribution mentioned in section 1. In order to be reimbursed, employers must 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 industrial relations at Stork Group. All along the way towards the final establishment of the new subsidiary, the Stork Group Board, the central works council and trade unions sought mutual co-operation and coordination (Nordbeck, 1998; 1999).

The very beginning of Stork Mobile dates from 1995, at a time when flexibility in terms of prompt response to fluctuations in the demand for products and goods had become a crucial factor in international competition. Simultaneously labour supply and demand varied strongly in time and place. 'Labour flexibility' became an issue at Stork Group: the Group's Board promoted mobility of employees and emphasized the willingness and ability of personnel to re-locate both geographically and functionally. In return Stork Group had to provide training to make employees better equipped to change jobs within the company. Broader training should give employees involved in a reorganization at a Stork subsidiary, with better and more opportunities to be placed in a job with a subsidiary elsewhere within Stork Group.

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The Stork Group Board had a clear financial interest in promoting employee mobility: the friction costs involved in the inability to adapt to fluctuations in customers' needs resulted in substantial annual costs to the 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 Group had to hire staff from temporary employment agencies (approximately NLG 200 million per year).

A steering group consisting of representatives of the Stork Group Board, trade unions and the central works council was established in order to determine the feasibility of 'organizing' flexibility among 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 to changes in volume and the availability of skilled employees. The representative of 'FNV Bondgenoten' was considered a key player - if not the driving force - behind the establishment of Stork Mobile.

Within the steering group, Stork Group's considerations included a redefinition of core tasks consistent with the need for increased flexibility. Furthermore, the management intended to organize flexibility in an efficient, effective and social way. Loss of invaluable knowledge due to reorganization meant destruction of capital. The costs that went with loss of human capital might be reduced by flexible deployment of personnel. Trade unions and the central works council emphasized that the Group's flexibility should be organized at the lowest social cost possible. In their view (re)training and education, in connection with flexibility, would be fruitful ways of safeguarding 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 skill levels.

In the process of establishing 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 reorganizations. When, in future reorganizations, redundant personnel would automatically flow into Stork Mobile, the subsidiary would run the risk of becoming a dump, which was expected to have an adverse influence on the quality of service delivery.<sup>7</sup> However, both trade unions and the Stork Group Board were of the opinion that there should be some link between Stork Mobile and the Social Framework. The parties compromised by agreeing on a 'loose' connection between Stork Mobile and the Social Framework.

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 an exclusively facilitating task would not fit the company's culture. Therefore the parties decided to make Stork Mobile a subsidiary with a limited profit goal.

## **2.5 Terms and Conditions of Employment at Stork Mobile**

The intake 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, coming to Stork Mobile on a temporary basis (later, perhaps offered a fixed-term contract), and personnel from outside the Stork Group. In order to determine the terms and conditions for these four groups of employees, the parties acknowledged that negotiations were difficult at that stage. Whereas the trade unions referred to

<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.

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the conditions laid down in the metal industry collective agreement, Stork Group wanted a more innovative system, corresponding to the new situation created with the introduction of Stork Mobile. From the agreement described below, it may be inferred that the Stork Group Board was the more successful in the negotiations.

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

With respect to 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, while remaining employed by 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 if more beneficial to 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, as a 'flexible worker' they have 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 for training programmes. In addition employees will be compensated for half of the spare time they spend on studying. Other issues covered by the terms and conditions of employment for Stork Mobile personnel pertain to opportunities to save up 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 programme 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 are seconded as well as through training provided by Stork Mobile. If temporary employees successfully pass the work experience and training stage they may be permanently employed with Stork Mobile. The collective agreement for temporary employment agencies is applicable to Stork Mobile's temporarily personnel.

The reason for introducing two distinct collective agreements is that Stork Mobile wants to compete directly with temporary agencies, which also operate in the field of personnel secondment. Here Stork Mobile's nature as 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 as to their suitability for the company. The differences between the collective agreements of the metal industry and 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 wishing to take early retirement.

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 days holiday</li> <li>• Stork pension fund</li> <li>• extensive early retirement facilities</li> <li>• profit-related bonus</li> <li>• 5 training days</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 days holiday</li> <li>• overtime compensation and bonuses</li> <li>• monthly ‘mobility allowance’ of NLG 125</li> <li>• holiday allowance</li> <li>• bonus scheme</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 days holiday</li> <li>• disability benefit of 70 per cent of last earned income</li> <li>• 8 per cent holiday allowance</li> <li>• personalized training schemes</li> </ul>

## 2.6 Initial Effects of the Stork Mobile Project

The way Stork Mobile was established through the joint efforts of the Stork Group Board, trade unions and the central works council does not only illustrate the industrial relations within Stork Group. It also manifests the essence of what is often referred to as the Dutch system of consultation between employers’ associations and trade unions (chapter one of this report). At 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 concerned with the issues 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 Group’s competitiveness is increased by reducing the vulnerability of individual subsidiaries through increased labour flexibility. By improving their employability in terms of skills and functional mobility, employees can cope with the changing requirements of global competition. Interestingly, the parties involved in collective bargaining at Stork Group choose not to make a trade-off between

<sup>8</sup> Stichting van de Arbeid (1996), ‘Werken aan je werkkring’, Den Haag.

<sup>9</sup> See also Wiltshagen (1998), p. 18; Lamers (1997b); Lamers (1997c).

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‘competitiveness’ and ‘employment’ but opt to interlink both by such concepts as ‘flexibility’, ‘mobility’ and ‘employability’.

All preconditions for a successful introduction of Stork Mobile seem to have been realized: the involvement of the social partners in the entire process; the productive cooperation within the steering group; study results showing substantial supply and demand for labour mobility; an extensive communication and information process aimed at managers and employees; and personalized terms of employment. However, initial experiences after the introduction of Stork Mobile suggested the existence of a number of barriers to be overcome if Stork Mobile was to function properly. First, a substantial proportion of the personnel with Stork Group were suspicious of Stork Mobile. In general, ‘labour flexibility’ had a negative connotation for employees, involving low-paid and low-skilled jobs. Stork Mobile has already acknowledged that the mobility allowance of NLG 125 was too weak an incentive to attract personnel.<sup>10</sup> In the second place, problems were identified in matching supply and demand for labour within the Stork Group. On the one hand, the demand for labour seemed to suffer from poor communications while on the other, there was a shortage of appropriate personnel due to the current tight Dutch labour market. In addition to this, the tightness of the labour market reduced the need for employees to be flexible.

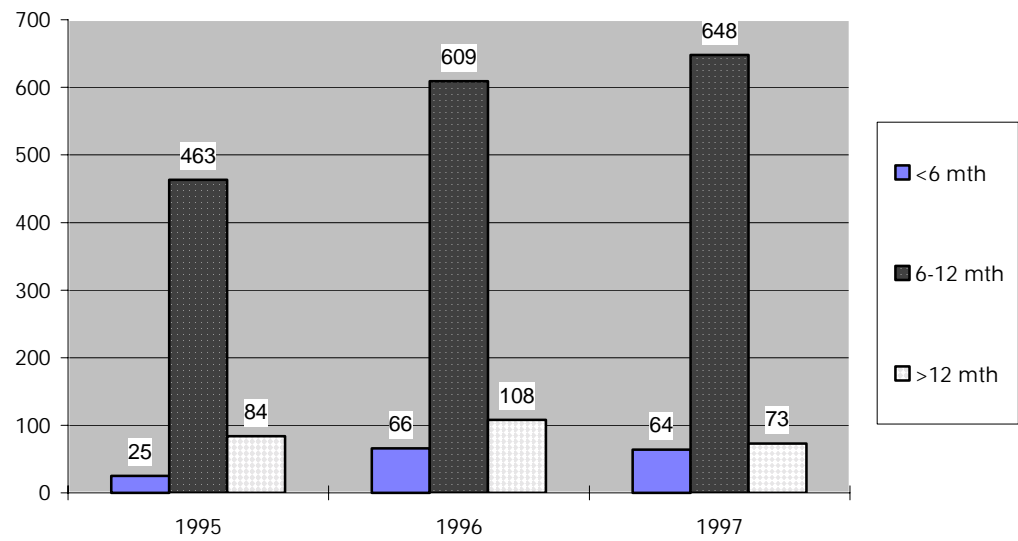
Evidence of Stork Mobile’s difficult start can be found in the personnel data: as of March 1999, 54 people were employed at Stork Mobile, 37 of whom came under the collective agreement for temporary employment agencies. These figures are said to be half the number of people expected to be employed at Stork Group. Older employees, especially, a major target group in the national debate on employability, seem to be absent in Stork Mobile.

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 use their personnel in a flexible way, adapting staff deployment to the required production level. Employees are willing to be mobile if this is a way of securing their employment within the firm. With Stork Mobile, too, the traditional gap between employers’ and employees’ interests seems hard to bridge.

The results of the initial stage of Stork Mobile indicate that the idea of combining competitiveness, employment security and flexibility may be productive but needs time to bear fruit. The disappointing evaluation results have made the Stork Group Board aware that results should not be expected in the short term. Bearing this in mind, Stork Mobile’s operations have been extended to a second region. With targets redefined more modestly, Stork Mobile will be allowed time to demonstrate its added value in the years ahead.

<sup>10</sup> See Van Lammeren (1999).

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



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## Chapter 3 - The Philip's Electronics Nederland BV Collective Agreement

*By Marc van der Meer and Jelle Visser*

'Looking at the last three or four collective agreements, I conclude that they have been an important instrument for Philips in implementing the desired changes within the organization. Collective agreements are a means of clarifying and illuminating a new era' (Personnel Director De Haas quoted in 'Het Financieel Dagblad', 28 February 1999).

### 3.1 Introduction<sup>11</sup>

Dutch multinational corporation, Philips Electronics Nederland BV is a world leader, in the field of lighting, consumer electronics, components and semi-conductors. Philips' Head Office is located in Amsterdam, although the company was founded in 1891 in Eindhoven and several Dutch divisions are scattered over rural areas 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 lifetime employment and relatively well paid jobs, while the company took care of housing, health care, education and social and cultural services for its employees (Stoop, 1992).

Over the last three decades, employment levels at Philips have been under pressure due to automation and rationalization of processes. From 1975 onwards there has been a continuous restructuring and concentration of production in larger plants. After 1980, a process of decentralization of financial and economic responsibilities from senior management to management in the several divisions was begun. In the difficult world economic situation in the early 1990s, serious financial problems compelled the company to rethink its whole company structure. 'Operation Centurion' involved a complete reorganization of the company. In four phases, the company attempted to become leaner and go back to its core businesses. First it stopped the bleeding, then went on to reduce fixed costs (buildings, land, equipment). In the third phase it sold certain portfolio assets, and finally it attempted to revitalize its activities (see Metze, 1993; Dekker, 1996). In this period, 55,000 jobs were shed, 13,000 of them in the Netherlands.

Overall, due to the introduction of new technologies, the relocation of labour to other countries and the outsourcing of some divisions and activities, employment levels 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 jobs growth elsewhere. The firm still indirectly 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 number of the people laid off in the Netherlands are 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 Operation Centurion, 95 per cent of the redundant staff were re-employed in small and medium-sized companies through pro-active re-employment policies, regional databanks of vacancies, job hunting and application talks. There is, therefore, a clear spill-over of

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<sup>11</sup> The authors express their thanks to the persons who agreed to an interview: the Philips management (19 March 1999), the union for middle and senior technical personnel operating at Philips, (14 April 1999), and a general trade union operating at Philips (15 April 1999).

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economic activity in the industrial district of the ‘techno-town’ Eindhoven, where in 1999 long-term unemployment appeared to be non-existent.

In the face of strong international competition, the company was constantly concerned with competitiveness and cost levels. In 1995, a new management system was introduced, making the various divisions directly responsible for their profit 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 management awareness, reallocating people in the internal and external labour market. More than ever before, management recruits employees on a temporary basis. Part-time work is increasing as well. As shown 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 as urgent.

The general argument in this chapter is that industrial relations and especially the content of collective agreements at Philips have undergone a major change since the company's reorganization. Collective bargaining is seen as instrumental in the process of change in the relations between management and trade union representatives. In this chapter five different areas will be examined, each of which shows a qualitative change. They may serve to support the argument that collective bargaining is no longer distributive in nature only, but that collective wage-setting may very well have a productive impact on labour relations.

The chapter is organized as follows. Section two introduces industrial relations at Philips; Section three takes a closer look at competitiveness in the company; and Section four is devoted to the internal labour market at Philips. Section five presents arguments concerning innovation in collective agreements, and Section six sets out conclusions regarding the trade-off 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 per cent of all standard contracts (full-time and part-time). The senior management (2 per cent) is not covered by the agreement. Temp workers (10 per cent of the staff) are also excluded.

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 entry grades A1, A2, A3 and A4 and the job grades 10, 15, 20, 25, 27, 30, 35, 37, 40, 45.<sup>12</sup> It covers 20,304 persons (61.1 per cent of the staff) spread over 31 departments throughout country (data April 1999). It is signed between Philips Electronics Nederland BV on behalf of a number of associated companies on the employers’ side. On the trade union side, three organizations are involved: FNV Bondgenoten, CNV Bedrijvenbond and De Unie.

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



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

Trade union density at Philips is between the 20 and 25 per cent. 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 organize members in grades 10-40, whereas De Unie primarily organizes members in 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 per cent, CNV 4.6 per cent, De Unie 3.4 per cent and VHP-Philips 8.3 per cent of the seats. Another 47.9 per cent of the seats, a relatively large percentage, was occupied by independent members (Philips internal letter, 12 January 1999).

Personnel management has always been relatively centralized, 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 line management and closer to the business processes. In order to maintain permanent good relations in the company, management and unions meet several times 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 its companies. 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 plant 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. Since 1994, the works council has played a more prominent role on issues such as working hours, shifts, holidays, and working conditions (Tros, 1998). In a recent article, the Philips Magazine wondered, however, whether Philips was 'Tired of co-determination?', to underline the low interest in works council elections in the company (November 1998).

In contrast to other companies, the Philips management, when necessary, prefers to deal directly with union representatives while retaining the works councils, within the margins of the 1979 works council legislation, at bay (Visser, 1995). For example, it was explained in an interview, in Operation Centurion, the management cooperated with the unions in the externalization of business units and the restructuring of certain plants by negotiating social plans, in which the unions tried 'to maintain employment and income levels'.

At national head office 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. A 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, consultations take place between management and the unions (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 the event of mergers or plant closures. The regular talks deal with issues such as economic data, cash flow, sales, opportunities and risks, personnel flows, the employment plan, women's employment, and incidental issues such as notices concerning the pension scheme, organizational change, incapacity of labour, the salary system, and the rules on assignment. According to a union official interviewed: 'At Philips there is a long tradition of mutually shared concerns, 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: 'We know each other well, talks are confidential,

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<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.

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but information is transparent and communication results in a relationship of trust'. For the management it is important that the unions are well informed: 'they accept the economic analysis, and use their abilities to find solutions'.

Strikes at Philips are rare. The most recent labour dispute, which lasted half a week, resulted after the closure of the catering establishment in 1988. Ever since, all reorganizations, including social plans, have been intensively negotiated with the unions. In 1992, Operation Centurion resulted in a Central Social Plan, later called 'RAP' (literally: 'Regulations on Adaptation of Personnel employment'). This agreement was signed at head office level rather than at individual plants in order to reduce transaction costs. For the purpose of information exchange, the management also used internal public relations programmes, feedback discussion groups and, at the time of Centurion, direct communication from the president of the company who spoke to an amazed work force via closed-circuit television. It should be added that the company has always been able to avoid compulsory mass redundancies, although many older employees took advantage of the under Operation Centurion social plans to retire.

### **3.3 Competitiveness at Philips**

The Philips company is as vulnerable as a cathedral in an earthquake when it comes to variations in economic demand. The introduction of new technology, consumer tastes and the economic situation directly influence the firm's well-being. Over the last few years, product life cycles for computers, hi-fi stereo, and television have been reduced and the life expectancy of some products is only several months. Against a background of enormous international competition, Philips is keen to achieve technological innovation and economies of scale 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, it emerged in one interview, do not necessarily reflect current Dutch labour market patterns, since there are several types of internal labour market in different plants:

A. Research and development departments: Philips is responsible for financing one third of all research and development in the Netherlands, and 60 per cent 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 per cent of his Dutch colleague in Eindhoven. Research and development is not globally exportable, 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 per cent of the product cost. This is the case, for example, in the assembly plants at Terneuzen and Drachten. The competitive advantage of these plants in comparison to those in Eastern Europe is very slender. In Poland, for example, labour costs are only 5 per cent of the total cost (i.e. 6 times less than in the Netherlands). According to management, the company is permanently faced with the choice between international relocation to Poland or further automation of the Dutch plants.

C. High value added plants: Some of the plants contain a highly capital intensive, chemical production process, such as the Nijmegen plant. This plant operates a five-shift system, though labour costs do not determine the competitive advantage. Crucial factors are speed of production, flexibility and precision to achieve optimal use of capital goods. Work rate is essential to increase productivity. In this plant there is a continuous production process lasting 6 months, in order to achieve a comparative advantage over the main competitors. Profit margins are very slim and will become even slimmer once more competitors enter the market. The main strategy, therefore, is to bring a product to market just three months earlier than a competitor.

Table 9. Economic figures (1996)

	Philips in the Netherlands	Philips in the World
Turnover (Millions guilders)	3,419	5%
Profit (before Restructuring, millions of guilders)	423	17%
Payroll	46.464	18%
Number of plants	37	14%
Research and development	c. 1,800	44%
Number of researchers	c. 1,250	c. 65%
Investment in suppliers (Millions guilders)	c. 4,700	c. 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 between 31 plants. Each of these plants has a particular type of internal labour market. Public information on mobility and career patterns within and between divisions is scarce. Until recently, people were used to living out their whole working life within the Philips company. Lifetime employment assured the personnel of a stable career with a reasonable salary and excellent social benefits. The degree of internal mobility and career development varied from person to person. As a rule, many lower grades reached retirement in one single plant, whereas many senior managers rose to higher posts within several national or international 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 other 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 per cent) and 6,964 women (19.8 per cent). Currently, less than two thirds of the staff are employed in the lower grades (CAO-A), more than one third being employed in the higher grades (CAO-B), and the relative weight of the higher grades is rising. Between 1988 and 1998, the proportion of employees with a university degree or high professional qualification rose from 21 per cent to 31 per cent. In the same period, the proportion with secondary level vocational training rose from 6 per cent to 13 per cent. The proportion of lower-skilled employees declined from 74 per cent in 1988 to 56 per cent in 1998.

The level of staff reductions is mainly due to breaking up of divisions. In addition, each year a number of people leave and enter the company. In 1998, 2,842 employees (8.1 per cent) left the company due to retirement and acceptance of other jobs, 3,562 new employees were recruited (10.1 per cent). In the Dutch labour force, 2,988 persons representing 91 nationalities. The majority of them are Belgian (36.8 per cent), followed by Turkish (12.4 per cent) and British (9.1 per cent) employees.

In order to make the different plants profitable, the labour costs per output need to be lower than those of direct competitors elsewhere in the world. To increase productivity, the company nowadays needs labour policies that are flexible. Since the early 1990s, the company has increasingly made use of temp work. In 1998, twelve per cent of the workforce were temp workers (4,638 full time

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

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equivalent) and another four per cent workers with temporary contracts (1,570 full time equivalent). In 1993, this was only two per cent for each. In 1996 7.3 per cent of the personnel, in 1997 8.1 per cent, and in 1998 8.7 per cent were hired on a part-time basis (less than 40 hours a week). Of all men employed at Philips about 1.6 per cent work part time, of all women this percentage is 37.7 per cent. This division reflects to an extreme extent the skewed distribution of part-time work in Dutch society (Visser, 1999). Of the regular staff, 8,506 employees (about 25 per cent of the personnel) are employed on shift work. In several divisions there are two shifts (1,914 employees); some have three shifts (3,018 employees) and others, four and five shifts (3,574 employees) (data for December 1998).

### **3.5 Five Innovative Aspects of the Collective Agreements at Philips**

According to interviews with the Philips management and two union representatives, five aspects of the collective wage agreement were introduced during the last decade: remuneration policy, further reduction in working 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 in isolation from each other, since they are all related to the company's internal debate on the use and price of labour and are all being discussed and dealt with by the management and unions through the collective bargaining process. These five aspects, which vary in relative importance and give rise to different opinions, are presented as examples of innovation in the collective wage agreement. They therefore support the argument that collective bargaining can no longer be seen as only distributive in nature, since all aspects make a contribution in terms of competitiveness and employment. These topics are first introduced, before coming to an overall conclusion in the final section of this chapter.

#### **3.5.1 Pay Policy**

At Philips, the centralized personnel department in Eindhoven has been in operation since 1917. In the 1980s, a decentralization 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, which is subject to negotiation with the unions, is still a central issue. Yet, since the introduction of the new management system in the company in 1995, the desire to link pay policy more closely to performance has become manifest.

Basically, there are two main 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 based upon benchmark functions, so that every position in the company is compared to an ideal type. If an employee improves his performance within a certain job or starts in another job, the position of that employee within the whole wage structure is reconsidered. As shown 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 increases that are applied collectively over the whole wage system. The unions seek compensation based upon specific wage norms, i.e. compensation for inflation and collective compensation for the increase of labour productivity. When these annual increases are accepted they are applied to 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

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

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shift work, whereas the CAO-B for the higher grades does not. Both contain agreed articles organized in eight chapters: general obligations, employment, contract of employment, working time, remuneration, other provisions, internal appeals procedure, and special regulations. The CAO-A also contains an additional chapter for 'company discipline and internal appeals procedures'. In both collective agreements specific appendices deal with holidays, leave of absence, employment plan, decentralized consultation meetings, internal and external job placement, part-time working, and the leave accumulation scheme.

Since the early 1970s, the job classification scheme for lower grade personnel has not changed significantly. 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 ways of improving others' motivation), 4. influence and information exchange, and 5. physical capabilities. People are placed in certain categories based upon the level of the job, provided that they are able to perform the function well for a longer period. Employees under 23 years old receive an age-related payment plus a contingent bonus. People aged 23 years or over, receive one of three types of salaries. All receive the 'entry wage' ('functie-aanvangssalaris'), which is the minimum rate for the job. After he or she has proved able to do the job, the worker will receive the 'rate for the job' ('functie-salaris'). The 'final wage' ('functie-eindsalaris') is earned when all functional requirements are met. The salary can increase over the years according to two criteria: age (for those under 23 years) and by additional personal contribution to the company's output (this is determined on the basis of quantity and quality of the work output and behaviour at work). Individual performance related pay of two, three or four per cent is allowed for those who have not yet reached the rate for the job'. After the rate for the job level is reached, there is also a possibility for wage increases, depending on the supervisor's assessment, of one, one and half, or two per cent annually.<sup>16</sup> When the final wage is reached, people can only earn marginal bonuses for outstanding productivity.<sup>17</sup> These bonuses can reach a maximum of 12 per cent of the final wage. These additional bonuses are awarded temporarily for the period of one year.<sup>18</sup>

For higher grades in CAO-B, less specific collective negotiations exist about job grades and pay systems. Since 1990, more variable payments and bonuses have been allowed for the higher grade staff, to be determined by the head of the department. Allowances also exist for the performance 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 matter. 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 per cent 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 job performance,

<sup>16</sup> These options have existed since 1990, while at the same time, 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 per cent of employees received less than the entry wage, another 37.2 per cent received the rate for the job, and 51.2 per cent 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, with demotion to a lower grade for 49 persons.

<sup>19</sup> All employees meeting the requirements of the function reach a scale position of 90 per cent. This is the minimum final salary level. If after reaching scale position 90, it is found that the employee's contribution and output for the company shows 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.

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suitability and continuation of the function. A reduction of the salary level can only take place if the employee's performance in the function justifies this.<sup>20</sup>

The second procedure for wage growth, in addition to individual assessments, appraisal and remuneration, concerns the annual collective wage-setting with the unions. As stated above, Philips negotiates two collective agreements, usually covering twenty-four monthly payments. All employees receive a 8.33 per cent holiday allowance annually, a thirteenth month payment and a bonus of 3 per cent of total remuneration.<sup>21</sup> Central management does not leave much room for manoeuvre for unions to negotiate separate wage increases in specific plants. The company management blocked this kind of demand, since it was afraid of rising labour costs due to a general 'knock on' effect of union claims. Moreover, it was feared that it would undermine Philips' cultural and commercial homogeneity. Finally, it was 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 reflect national trends? 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 economy as whole. As 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 working time reduction in order to enhance employment. This policy is based on a 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 programmes 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 implemented unconditionally (Tros 1998). For the 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 to bring forward individual wage demands since the MHP Confederation argues that wage coordination is not its responsibility (see the national overview in chapter one).

The Philips management in its turn anticipates national wage developments by opting for the introduction of a pay system based on individual productivity. After Operation Centurion and the subsequent signature of the national 'New Course' agreement (1993), further differentiation of wage increases has been brought up for discussion. In the near future, the personnel management wants to review, appraise and reward all personnel through 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 reorganization. Redundant and poor workers should be identified and retrained in time. The collective wage agreements for the higher skilled workers already contain a method of assessment including a wide margin of performance-related pay. Also for the lower grades, an appraisal of individual performance and productivity within the company and a subsequent merit award, should be introduced.

In the 2000 bargaining round, the Philips management attempted to formalize individual instead of collective review for workers covered under CAO-A, appraising and rewarding workers personal assessment instead of collective redistribution mechanisms. The management wanted to end automatic

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<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 employee contribution' or 'a closure or fundamental change in the organization. In a period of one year (April 1998-April 1999) 824 promotions and 8 demotions occurred, indicating that employees have a regular expectation of being promoted to a higher grade.

<sup>21</sup> Since 1990 this payment may also be converted into a maximum of 7 days off (CAO-B), and since 1994 this has also been allowed for lower grades (CAO-A).

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collective wage increases for these employees: 'We can no longer guarantee, for example, a three per cent wage increase for all, since we want to screen out the five per cent of workers who are not performing well'. Philips therefore attempted to determine pay increases on an individual basis based upon the achievement of specific and measurable targets. The criteria for collective pay increases are 'excellent, very good or good' performance. 'Satisfactory' performance will only result in a collective improvement when the top of the wage scale has not been reached. 'Unsatisfactory' performance will be sanctioned by not receiving the collective pay increase and the person concerned will have to improve within 12 months under a 'personal improvement scheme'.

The unions tried to block the new system. The industrial unions FNV and CNV feared an over-subjective evaluation of subordinate employees by supervisors, especially since most employees (and union members) are at the top of their wage scales. The CNV union leader Doukle Terpstra declared on television that they wished to put the agreement in a drawer, and leave it there (June 5th.). A compromise was reached. Philips had anticipated this criticism by improving so-called 'performance management'. Supervisors will be trained in conducting assessments, a handbook will be developed, and there will be a bipartite dispute settlement committee to which employees can appeal. In the first year of the reform, all employees (including those with unsatisfactory performance) will be paid at least 50 per cent of the general collective wage increase. After this transition period, in which the new system of appraisal and reward will be tested, the new system will start.

It is observed that an innovation in pay policies in the direction of performance-related pay would imply a major change in the philosophy of the 'implied contract models' widely used in Dutch companies until now. Employees in lower grades are still used to a rising wage throughout their working life. They have a model of expectations of earning a modest wage today, as an investment for a rising wage tomorrow. If performance-related pay is introduced, employees' expectations and their commitment to the organization may change. Whether this leads to individual short-termism and bottlenecks due to a lack of specific training in the company remains to be seen. In any case, the regional labour market is performing well and employment conditions and training initiatives at Philips are better than 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 Working Time Reduction**

For trade union organizations, the reduction of working hours is an old working class ambition. The contraction from a 45 to a 40 hour working week (including the introduction of a free Saturday) in the 1960s was seen as an improvement of working conditions. According to De Haas (1996), this form of working time reduction was supported by Philips, since it did not harm the company's competitiveness. At that time international trade was not yet globalized and across 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. At that time, this instrument was no longer seen as an answer to welfare growth, but as a solution to the emerging economic crisis. Reducing of working time was believed to be instrumental in enhancing job growth due to the policy of sharing and redistributing work. In the Netherlands, the 1982 Wassenaar Agreement, signed by the national employers' and employees' confederations, marked a new period of adaptation of working time regimes. The central organizations agreed to exchange moderation of labour costs for a reduction in labour time and tackling youth unemployment (see chapter one of this report).

Nowadays, the Philips management is attempting to negotiate an 'annual model of working hours' with the unions (De Haas, 1996). Under this approach, working hours should no longer be determined per day or per week, but on an annual basis in order to allow variation in labour use throughout the year, according to the specific needs of the company at particular times. This concept

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would immediately allow a further flexibility in work patterns, since daily overtime and extraordinary shifts would be redefined in terms of the annual working time. The trade unions, however, rejected this proposal and successfully claimed a timetable with collectively predetermined and individual options to choose days off. In 1985, annual working time was determined with maximum working hours per month and per quarter (Van Klaveren en Tijdens, 1998). The compromise allows workers 26 half days off annually. Furthermore, local management and works councils are allowed to make another agreement. As a consequence, the 8-hour working day and the 40-hour working week have been maintained, and working time reduction takes the form of longer holidays and time off. The effects on employment effects of this form of working time reduction, however, are modest. According to a survey by the Philips management in 1985, the net job growth from working time reduction is low. The survey showed that the chances of recruitment had only risen for lower-skilled employees. For other, higher qualified groups the effects are perhaps counterproductive, since the company makes less use of their skills so that the under-use of labour results in sub-optimal profit levels. In short: 'working time reduction slows down product innovation and reduces sales'. As a consequence, production costs rise, innovation weakens and competitiveness is lost (Philips survey 1985, quoted in De Haas, 1996).

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

The Philips policy bucked the national trend. All proposals for a reduction in working time presented by the trade unions in the 1986 collective bargaining round were rejected. In contrast to the multinational AKZO Nobel, where an experiment was starting, and the government sector, where collective working time reduction was implemented, the Philips management vetoed all collective working time reduction (De Haas, 1996). The arguments put forward included the fact that the 1985 survey (as well as an update of the results) did not promise positive effects on jobs, while many employees did not support the union proposals. The most important argument, however, was that the company's position in the international market did not allow a further slow-down in labour productivity, innovative capacity and therefore of competitiveness (De Haas, 1996). The company's central policy went in the opposite direction. The 40-hour working week was continued, operating hours became longer and increasing use of temp work, temporary and part-time contracts was allowed.

According to the management, this trend, quite the reverse of developments elsewhere in the Netherlands, was a major innovation for Philips in the collective wage agreement, achieving more flexibility and competitiveness in the company. It is possible that the improved economic situation in the mid-1990s also increased production and the company's economic prospects, and shortages in the regional labour market began to emerge, so that a policy of collective working time reduction would be redundant. This meant that unlike, for example, the German car factory Volkswagen, working time models of a four times nine hours working week were not discussed.

The 1996 collective agreement was signed by only two out of the 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 jobs growth in the firm and the internal cohesion of the trade union. On the other hand, it should be added that many members of these unions were not fully convinced about working time reduction. Some of them were working less than full time. Most of all, their members had paid for some wage moderation in 1992-1994 and were looking forward to earning a real wage increase in 1996. De Unie and VHP-Philips regretted the internal split among the unions, but acknowledged the results of the collective agreement that allowed for a continuation of the 40-hour working week. Most of their members were senior employees with a job contract used to working full-time. This was a major difference from AKZO-Nobel where the senior grades were mostly not covered by a collective



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agreement at all. Moreover, in exchange, as will be discussed now, the unions and their members gained a personalization of the pension plan.

### **3.5.3 The Philips Pension Plan**

In the 1996 collective bargaining round, when the working time reduction was blocked by the Philips management, further flexibility in the wage system was sought by modifying the pension fund (De Haas, 1996). Prior to that, 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' scheme, the active labour force at Philips collectively paid the social charges for retired employees. The pension benefit was based on the retiree's final earned income, which made the scheme relatively expensive.

In the 1996 collective bargaining round, the pension scheme was made more flexible by introducing a capital funding system. Since then, therefore, the cost of contributions and benefits has been borne by the individual employee. The pension benefit is no longer based on final earned income, but on an employee's average income during his career. Retirement is allowed at any age between 60 and 65 years, with 62.5 years as the target age. To retire before 62.5 years, employees will have the option of saving payments, for example by saving up days off. In this way, Philips has gone for better control of pension costs, allowing more differentiation in career patterns, and promoting part-time work among older workers. It underlines the increasing need for employees to make their own pension arrangements.

For the unions of the higher grade staff (De Unie and VHP-Philips, which both signed the contract) the new arrangements were preferable to the old system, since it meant a higher individual responsibility to save in order to leave the company before the age of 65.<sup>22</sup> Moreover, under the new scheme, workers that merely spend a short period of their working life in the company can benefit from their own contributions (and will not lose their collectively paid premiums to pay for retired colleagues). In addition, the introduction of personal choice for employees, allowing them 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, at a conference organized by the Ministry of Economic Affairs, the Dutch Prime Minister Wim Kok announced that lifetime employment in the Netherlands had become a thing of the past. The continuation of permanent jobs could no longer be guaranteed. In companies like Philips, Unilever and AKZO Nobel, the issue of 'employability' was placed at the top of the agenda. Philips published a document 'Employability, a necessity' written by the firm's personnel department and the trade unions (8 January 1998). In this document, which received national attention, 'employability' is defined as 'an employee's ability to fulfil a function, now and in the future, allowing increased employment security within and as well as outside the company itself.'

At Philips, employability is seen as a concern for both employer and employee. In 1998 a new article 6a in the collective agreement was agreed, defining the joint responsibilities and awareness of both employer and employee. The article defines 'education and training' 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 requires the company and the employee together to develop a training plan, in which 'the individual career' and 'improvement of job security' is specified, as well as 'the effort,

<sup>22</sup> The trade unions FNV and CNV did not sign the collective agreement, although they did support the introduction of a more flexible pension plan. Under Dutch employment law, a collective agreement signed between a company and a union is valid for the whole workforce.

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time and costs' of investment in skills by both the employer and the employee. The few available statistics show that Philips invests about six per cent of the payroll costs in company-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 integrates supply and demand' in order to enhance internal job mobility. The collective agreement also provides that individual labour contracts in the future will contain an 'arrangement for employees' internal job mobility'. 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 towards the issue is essentially neutral to positive (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 under discussion as a background issue at the collective bargaining table. The philosophy of this programme is that it is 'specific work experience' rather than 'redistribution of work' that is helpful for target groups of job seekers, irrespective of whether they are unskilled or semi-skilled. 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. The number of places (two per cent of the company's workforce) is stated in the collective agreement, and candidates are 'as far as possible hard core unemployed'. Candidates are trained for both the Philips internal labour market and the regional external market. Among them, 60 per cent receive a personalized work experience place and 40 per cent 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 organization's operational areas, by means of which long-term unemployed are given the opportunity to gain work experience relevant to the labour market'. These are jobs for persons over and above the official complement, and they may not displace existing employees. Participants in both programmes receive work experience in different types of jobs such as process operator, micro-electronic operator, buyer, shop assistant, multi-media specialist, truck driver or secretary (Source: Philips employment plan, December 1997).

For obvious reasons, the employment plan is related to both issues of competitiveness and employment. For the Dutch trade unions, labour market problems are a serious concern since the early 1980s and their rank and file demand reasonable policies to solve them. 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 far removed from traditional matching policies, moreover delivering the company the best candidates for its own plants. For these reasons, Philips reports twice every year to the trade unions on progress in implementing the plan. In addition, it is worth mentioning that management and trade unions introduced an 'entry wage grade' in the CAO-A in mid-1994, in order to create job opportunities for new entrants in the Philips' internal labour market. The decision to allow people with lower skill and productivity levels to work at a minimum wage level was mainly the result of the national focus on 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 somewhat separate from wage bargaining.

## **3.6 Conclusions on the Trade-Off between Competitiveness and Employment at Philips**

Collective bargaining processes at Philips have been changing over the last decade. Five examples of innovation in the two collective agreements at Philips have been presented here. Within the collective wage agreement, aspects of both employment and competitiveness have been discussed. The

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general question of the relationship between these concepts now needs to 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 Operation Centurion. For these reasons, the relationship 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 unions are busy dealing with social policies, in order to keep income and employment 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 and the company itself. For the Philips management the argument runs that 'there is no employment without competitiveness'. The reasoning goes as follows: in collective bargaining facts and figures are being discussed against the background of international competition. Ideas about external adaptation to market conditions lead to awareness and strategic behaviour. This means that there is no 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 higher labour productivity due to research and development, to invest in technological innovation and to get rid of unskilled work. For this reason, no job guarantees can be given. Employment levels first have to be earned. According to this reasoning however, job losses at Philips are not harmful for the economy as a whole. On the contrary, there is a spill-over from investment in research and development, since new companies are being created, divisions sold off now find their own way, and 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 employment service has been unable to provide the agreed annual 800 job seekers for work-experience projects in the 15 year lifetime of the Philips employment plan, because there are no longer any unemployed' (Financieel Dagblad, 28 February 1998).

The evidence shows that under these conditions, employees' skill levels have to be up to date, in order to cope with possible redundancy, so that those affected can find a new job when needed. Here the employability issue enters the debate. Management and unions have defined an employability policy in the collective agreement. The unions argue that for them 'employability means job security'. The trade unions still find employability an empty concept. In their opinion there are not enough resources to invest in people working in plants threatened with closure.

In an article, De Haas argues that 'employability' should be related to 'remuneration'. They are two sides of the same coin, on the one hand the ability to be employed, and on the other hand differentiation in payment. 'We will have to find a new balance between payment of the post on the one hand and the person on the other ... very often it is of little or no relevance, especially when an employee is at the top of the wage scale for the job, whether he works hard or slacks. Within the remuneration structure there are almost no financial incentives to keep employability for the future up to the mark' (Financieel Dagblad, 9 October 1998).

The management thus has a clear agenda, which goes beyond the issue of employability alone: 'We will have to tackle the employment contract. In the future we will have to see the employment contract as a series of periods, and not talk about employability. I mean not in a legal sense, but as a way of looking at it. At the moment when we recruit a new employee, we do not know for how long a certain function will exist. The uncertainty is greater than before and it is an asset if both sides at the bargaining table are aware of that. We see this as a joint responsibility of employer and employee' (De Haas, 1997: 58).

As is clear from the quotation at the beginning of this chapter, the personnel director thinks that collective bargaining processes serve as a method of implementing organizational change (Financieel Dagblad, 28 February 1998). In addition to the five aspects mentioned here: changes in remuneration, stopping of working time reduction, changes to the pension fund, the employability debate and the Philips employment plan, there is also a new bargaining agenda designed to anticipate an eventual reorganization and job losses. In the longer run, timely training is the best guarantee for maintaining

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employment levels. Moreover, the personnel director is clear that there is no alternative when he asks, 'Will the collective agreement survive in the 21st century? (...) In the event that the trade unions cannot or will not go along with this in collective bargaining, other forms of employment conditions will dictate the employment relationship' (Financieel Dagblad, 28 February 1998).

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## **Chapter 4 - The ABN/AMRO Collective Agreement**

*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 increased flexibility of working time, aiming at both preserving jobs and increasing productivity. 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. Banking institutions were transformed, resulting in an expansion of both the number of local branches and the size of the workforce. Rapid concentration followed, resulting in three large listed banks: ABN, AMRO and NMB. In the early 1970s the cooperative 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 privatized. In 1990, NMB and Postgirobank merged. 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 of the savings market, remained independent, 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 for Dutch companies with branches all over the world. In 1998, the number of banks totalled 100, of which more than 90, mostly foreign banks, have 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' own reports, RABO employs 41,000, ABN-AMRO 34,000, and ING-Bank 20,000 persons (NIBE, 1999).

### **4.3 Representative Organizations**

Since the first agreement in 1950, collective agreements in the banking sector have been negotiated between the employers' association and trade unions. Recently, decentralization towards company bargaining has undoubtedly been the pattern. The Banking Industry Employers' Association (WGVB) comprises all major and nearly all smaller banks. Density is near 100 per cent, based on the number of employees (Visser and Jongen, 1999).

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At present, four unions are involved in the negotiations, of which the former FNV Service Union is the largest, organizing 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, BBV, for bank staff only, totals 1,600 members. Altogether unionization is now 25 per cent, much higher than the 7 per cent in the late 1970s.

After the Second World War, co-determination 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 subordinate until the 1979 Works Councils Act. This Act gave works councils a number of statutory rights that can be used 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 predecessors adopted cost-reduction policies. Since the expanding markets in the mid-1990s, the banks do not seem to have worried 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 can mainly be explained by the workforce structure. ABN-AMRO has the highest proportion of male employees, the highest proportion of well-qualified staff, and the highest average age. Furthermore, during the 1996 working hours reduction, ABN-AMRO had the highest percentage of staff excluded from reduction, which increased the annual labour costs by approximately 30 per cent of the workforce compared with at most 10 per cent elsewhere.

### **Flexibility and productivity**

In banking, flexibility used to be limited. Compared to other sectors, there is little temporary employment, less than one per cent 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 6 p.m. on weekdays and there were strict rules and high bonuses for evening and Saturday work.

In the 1995-1998 agreement, the parties agreed to a reduction of weekly working hours to 36. The major quid pro quo was moderated 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 used the arrangements to optimize staffing, and thus increased productivity. Flexibility of contract was not covered 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 computerized. In the early 1970s, the forerunners of ABN-AMRO set up centralized computer networks, which were gradually improved. Amongst others, the 1990 merger was said to aim at reducing the substantial costs of computerization. The computerized systems of the two banks have been integrated; the national network and the large database with data on millions of

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customers has 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 standardized payment systems were set up. EFTPOS and ATM were not introduced until the late 1980s, because of the requirement for full interbank cooperation. Since then, customers have been 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 sought to exempt certain categories of employees from the 36-hour week. The FNV-Service Union took the case to the Arbitration Board for the Banking Sector, but lost.

In 1998, the employers' association and the four unions failed to agree on job security and training rights. In August 1998, however, ABN-AMRO renewed its social programme, guaranteeing the four unions that there would not be any job losses for permanent staff until 2001. Industrial relations at local level improved, in contrast to relations in the industry as a whole.

## 4.5 Employment

### The level of employment security

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

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

### Guarantees

Job guarantees have never been part of collective bargaining agreements, though the unions have tried hard. Typically, job guarantees have been negotiated between individual 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 reach 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 for their part have to agree to 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 training during working hours. Training 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 low-skilled employees. By increasing their initial training level to secondary

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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 market-oriented business. Due to continuing computerization, clerical tasks had diminished and low-skilled clerical staff became redundant, while commercial jobs gained in 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 internal labour mobility (ILM) unit, acting as an internal employment agency. By doing so, the bank aimed to tackle the problem of staffing imbalances. Very soon, the unit turned out to be very successful. Local branches increasingly used this pool both for temporary labour shortages and for vacancies. Thus, ABN-AMRO solved the problem of staffing imbalances by increasing its efforts to regulate the internal labour market and more training for low-skilled employees.

### Company strategic policies

In its strategic decisions, the bank continued its policy of tackling staffing imbalances and reducing low-skilled work. Computerization continued energetically. It was not slowed for reasons of job guarantees. Outsourcing of low-skilled work continued. For example, in the mid-1990s, doubts were raised 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 Rationale

Apart from the 1993 central agreement, the banking unions 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 if these were nine-hour days. In 1994, these findings were supported by a survey by the higher grade staff union Unie BLHP. Secondly, after 1992, employment levels in banking started to drop and an international research agency even forecast employment losses of 10 per cent. Working time reduction was a stock 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 of 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 wholly opposed to a four-day working week. Yet by the end of 1994 they had changed their view of working time reduction, though not the four-day week. There were four major reasons. Firstly, the major quid pro quo - moderate wage demands - was attractive, and so were the reduced bonuses for unsocial hours.

Secondly, reduced hours could partly solve the problem of staffing imbalances. Initially, therefore, the banks 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 to 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 two-income families had changed the time-related demand for services. Meanwhile, stores had extended their opening hours and because many branches



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were located in shopping centres, they had to follow suit. 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.

Fourthly, since the mid-1980s, the banks had become increasingly aware that they could optimize 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 shift work introduced.

## **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-hour working week. In all departments, supervisors had to discuss working time preferences with their subordinates. Under 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 to deal with disputes.

The major quid pro quo was moderated wage demands: in 1995 there was no wage increase, and for 1996 and the years following, a small wage increase of 2 per cent was envisaged, just above inflation. The clauses limiting evening and Saturday working hours were mostly deleted, bonuses were no longer paid for evening work, and the Saturday bonus dropped from 50 to 25 per cent.

Under the 1983-1984 agreement on working time reduction, up to 6 per cent 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 could be excluded. It was agreed that, at the employer's request, employees could continue to work 40 hours a week and be compensated up 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 were, in principle, met.

## **4.8 Assessing the Effects**

Three effects of the 1995-1998 agreement will be assessed concentrating on: competitiveness, especially optimization of staffing; employment, and job preservation for poorly educated employees; and, finally, working time differentiation and its implications for the wage-setting process. The analysis is based on documents, telephone interviews with key players during the preparations and finally a survey carried out in Autumn 1996 (to which 14,297 ABN-AMRO employees replied, a response rate of 45 per cent, Tijdens 1998).

In Spring 1996, branch managers and supervisors made a critical assessment of opening hours and the required staffing levels per hour, per day and per week, as part of the strategy to optimize staffing. At ABN-AMRO nearly 70 per cent of the employees reported changes in opening hours. In particular, opening and closing times were set an hour later, and some branches opened on Saturdays. Under the agreement, branch managers and supervisors drew up an inventory of employees' preferences; 45 per cent of 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 was this request granted. Given the required staffing levels, the employees reported that they were satisfied with the matching process. The predominant model for full-time employees was an alternating four- and five-day working week with eight hours a day. Employees' preferences were mainly reflected 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

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preference ranking. In conclusion, for reasons of staff optimization, the working time reduction has contributed to the competitiveness of ABN-AMRO.

Not long after the conclusion of the agreement, working time differentiation unexpectedly became a major issue. An unforeseen expansion of business worsened staffing problems, in particular the demand for commercial staff increased. By the end of 1995, ABN-AMRO sought to exclude 18 per cent of its staff from shorter working hours: the case that was taken to court by the FNV union, but it lost. By the end of 1996, with business still expanding, ABN-AMRO had excluded 30 per cent - a percentage much higher than in other banks, according to the survey. Analysis of the data-set show that commercial staff and part-time employees were less likely to be allowed reduced hours, whereas poorly and moderately educated employees were more likely to be so. Surprisingly, employees expecting their job to become redundant appeared to be no 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 has changed its views, 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 meant different working hours and thus wage differentials between full-time workers. The Federation for Middle and Higher Grade Staff MHP even launched a demand for a 42-hour working week for managerial staff and thus for a substantial wage increase for this group. Although the social partners did not agree to 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 accepted the working time differentiation; but demanded substantial wage increases for all employees, and 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.

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## Chapter 5 - The Origin BV Collective Agreement

*By Adriaan van Liempt*

### 5.1 Introduction

This chapter discusses collective bargaining in the information, communication and technology sector in the Netherlands. Collective agreements are of recent date and face the dilemma of regulating labour relations against a background of enormous competition between firms and shortages in the labour market. The chapter on Origin is organized as follows. First the sector is introduced, then collective wage-setting processes in the company are explained, after which the focus is on issues of competitiveness and employment within collective bargaining, and finally some conclusions are suggested.

### 5.2 Context of the Firm

The information communication and technology sector (ICT) consists of a lot of different companies doing very different things, but in the end producing one product: information and communication technology. The company discussed in this chapter 'Origin', or rather, 'Atas-Origin' as it has been called since the merger with the French company Atas in 2001, operates in the software and services segment of the ICT sector. The ICT sector 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. ICT-firms generate income by seconding employees to various other firms in need of IT products. The competitiveness of the environment in which ICT-firms have to operate has and has had an impact on the 'sector' of pure ICT companies. In the last decade the sector has felt the impact of take-overs and mergers and a few major firms have slowly started to develop. Origin is one of the firms that rose from 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 information technology service providers. The merger brought together more than 10,000 professionals working in 30 countries in Europe, the Americas and the Asia-Pacific region. During 1996, its first full year of operation, Origin achieved US\$1.4 billion in net sales and grew by 26 per cent. Today the company employs well over 27,000 people worldwide, and 6,000 people in the Netherlands. The annual report for 2000 showed net sales of 2.8 billion euros. In 1996 the Dutch segment of Origin accounted for 40 per cent of the company's total sales, today this is 24 per cent. Philips still own 48.7 per cent of the company shares

During the last few years, Origin encountered a number of problems, including problems with cash flow, poor results and personnel leaving the company. Reorganization solved most of these problems. The process, however, led to a certain increase (11 per cent) in personnel leaving the company during 1997. Nowadays all the divisions of the company are making profits once again.

### 5.3 The Collective Bargaining Process and the Parties Involved

One of the most important factors underlying Origin's collective agreement, effective from 1 May 1998 to 31 December 1999, was the merger of BSO/Origin and Philips C&P. The merger was responsible for the beginning of the consultation process and the relative power of the works council. Origin at the time had two works councils, with which Philips 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

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agreement with a more questionable legal status, and the result was a more mature works council. The company, on the other hand, wanted to end the division created by having employees operating under two types of arrangement. Thus the process leading towards a new arrangement for all Origin employees was begun.

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 the type of business in which Origin was operating. The former works council of BSO/Origin however, thought it sensible to include the unions in the discussions. The unions with their experience and expertise could help to make the discussions more professional. They had been trying to get a grip on the IT sector for a number of years because of its Wild West character concerning collective agreements. Several attempts at creating a general collective agreement for the whole sector, however, had failed, as neither unions and employer's organizations could agree. This is why the unions had been adapting their strategy for tackling the IT sector at company level. The process of getting together was not so easy, however, since the board of directors would first have to be convinced. An important factor of success proved to be the conditions both parties laid down before entering the bargaining process. Origin had two main conditions, one being the abolition of collective wage increases. Origin felt they wanted a system that would reward individual rather than collective achievement. 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 distinguish direct employees (employees seconded to other firms) and indirect (home-based) employees. 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 unions' conditions 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, including by non-union members, for the agreement. Only 4 to 5 per cent of the people working in the IT-sector are members 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 customized arrangements. After all parties had stated their conditions, the collective bargaining began. 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 Origin's situation and potential developments in the dynamic environment in which IT operates. A number of packages were formulated, including working time, rewards system, benefits, pensions, employability, and the option system (see below). These topics were discussed during a more public debate among all employees, and the information gathered 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. Two parties were thus created, on the one hand an Origin negotiating party, backed by the president of the firm and, on the other, representatives of the works council together with a union spokesman. The latter party's internal relationship was rather ambiguous since minor disagreements arose at times both inside the works councils and the unions. 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 did not adversely effect the negotiations 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 contributed positively to this openness. Thanks to these conditions, each party knew the other's starting point. Both parties could therefore spend more time on the content of the agreement, rather than trying to find out the other party's agenda.

On 1 January 2000, a second collective agreement came into effect. This second collective agreement ran until 30 April 2001. As the negotiations for this second collective agreement started,

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most of the parties to the first collective agreement had been replaced. This held for the works council, the director of HRM, and the unions. The negotiations were far more structured and better organized than those of the first collective agreement. The most important difference in the negotiations for the second collective agreement was that the management was more concerned with the outcome of the negotiations and had given stricter guidelines to the negotiators. Overall the negotiations over the second agreement had the feel of experienced negotiators on both sides.

## **5.4 Competitiveness in Origin's Collective Agreement**

IT firms operate in a highly competitive environment where companies compete not only for business, but also for employees. The growth of the sector has put an increasing strain on the demand for qualified personnel. Competitiveness requires IT firms to have enough personnel to meet the demands of the market. When Origin considered the topics for the new collective agreements, they decided that they did not want to compete for employees at the level of wages, but rather in fringe benefits. Both the tasks and skills of employees should determine the wage level. Changes in salary are then determined by two factors. Firstly there is a minimum wage increase, which holds for all employees in the company and is determined by macro-economic developments and a wage benchmark for IT firms. Secondly, there is also an individual compensation component, which is determined by the progress an employee makes during a reference period versus a productivity standard. The unions were actively pursuing the collective aspects of this part of the collective agreement, whereas Origin only wanted to reward people on the basis of their personal performance. The system by which performance was measured was scrutinized very carefully and improved by the unions. The unions were also responsible for agreements on maternity and parental leave.

Of course, such a performance measurement system was not invented overnight and it took until the start of negotiations on the second collective agreement for both Origin and the unions to think things through more clearly. The initial system had certain shortcomings, the first being the way in which employees were told about their performance. In the early scheme, employees were simply being informed that their work was below the standards for which they were paid. No warning system was involved, which meant that employees could not improve their performance and missed out on a potential additional wage rise. In the second period this was changed and every employee would now have six months in which to improve his or her performance if necessary.

A second major flaw of the performance-related pay system turned out to be the way in which performance was measured. Origin had introduced an individual development plan, a system by which the development of each employee could be set out (see below). The problem, however, was that not all employees had had such a plan drawn up, so there was no real basis to measure performance in these instances. Origin therefore promised to have such a plan drawn up for all their employees during the period of the second agreement.

Origin was one of the first IT firms to allow part-time work. Roughly eight per cent of Origin's employees today consist of part-time employees. A company that makes its money on the basis of hours charged to its clients is less likely to have seconded personnel working part-time. Fewer hours worked mean less 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, thus making it the employer's, rather than the employee's, decision.

Another flexible component at Origin is the 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 while the former received reductions in the number of working hours per year.

A further aspect of the type of business in which Origin operates is its use of secondment. Origin contracts people whom it then secondes to other firms, meaning that a large segment of

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employees is almost never in house. This creates a peculiar relationship in developing commitments between employee and employer. In order to establish a more direct link with the firm, special gatherings are arranged where 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 able to keep up its employee numbers during recent years. Origin rewards personal development, is open within certain limitations to part-time work, and compared to other IT firms in 1997, had relatively good collective arrangements. Origin is losing this position however, since other IT firms are now developing their own collective agreements. In this sense the cooperation between the unions and the IT sector can be regarded as a case of the micro (company) level meeting the macro (national) level.

## **5.5 Employability in Origin's Collective Agreement**

Origin defines employability as: 'the combined actions of employer and employees concerning the preservation and development of those skills that improve the employee's personal utility during his or her career.' Origin regards employability as a means by which the employee ensures his current and future position within the company, and allows Origin to be more flexible in the deployment of personnel. At the time, the IT sector was dealing with two national and international problems: the introduction of the single European currency and the Millennium bug. Both problems were dealt with by Origin and an entire service group previously working on those problems would 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 around 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 optimally functioning employee. Every employee is expected to draw up an IOP. Origin distinguishes seven development paths, which can be abstracted to a service path, an accounting path, and a support path. Origin distinguishes three types of training: the first is aimed at the development of skills concerning one topic, problem or task. The other two types of training are broader. The agreement however does not specify to whom the various types of training are open. Although all training expenses are borne by Origin, special arrangements are made for those types of training that are less company-specific. In any case, any employee leaving the company within two years of finishing some form of training has to reimburse a proportion of the training expenses. It is determined individually whether training takes place during or outside working time.

The collective agreements make no specific references to company strategy. However, at the time when the topics of the collective agreement were decided, 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 linked to the personal reward system (performance-related pay). The unions succeeded in making these topics attractive, not only to the employer, but also to the employees.

## **5.6 The Trade-off between Employability and Competitiveness in the Origin 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 want. At first, Origin wanted a very rudimentary version of the performance-related pay system, but unions strove for a wage system that was more transparent and objectively controllable. In the end both parties had to compromise 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 unions in the Netherlands. The unions however, having for a long time had the luxury of representing a relatively homogeneous group, are beginning to accept change. Nowadays union rank and file is becoming more heterogeneous and more demands have to be met. This attitude has 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 the same kinds of deal with their unions (Hooiveld and Catz, 1998: pp. 25-26).

This brings us to another point of interest, i.e. the competitiveness of the collective agreement. At the time of its introduction, Origin's collective agreement 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, and this is reflected in collective agreements in the sector as a whole. Perhaps this should be regarded as an ever-growing effect of developments at company level, although similar opposite trends can also be discerned, flexibility, for instance, which in Origin's collective agreement is explained more in terms of employability for the employer. The national dialogue, on the other hand, refers more to the opportunity for employees to work part-time, taking the employee's part.

**Table 10. Number of employees in Origin in December 1998 in full time equivalents and percentages**

	<b>FTE</b>	<b>%</b>
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

Source: Origin

Origin's employment statistics (see table 10) show that the proportion of part-time workers is relatively low (8 per cent), while the proportion of women working part-time is relatively high compared to the proportion of women as a whole. This might indicate that women in general have qualitatively less demanding jobs, but an examination of Table 10 shows 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 men are missing, so any conclusions must be tentative.

The only serious difference between the two agreements was the introduction of a performance-related pay system. The remaining differences can be ascribed to development of earlier themes. Origin, or rather, Atas Origin had a relatively successful first year of operation. The outlook for the immediate future in this sector seems to be gloomy however. Although it has been predominantly smaller and relatively new Internet-based companies that have gone bankrupt, investment in information technology is not what it used to be. This obviously has something to do with having survived the 'Y2K bug', but there seems to be a general trend of caution with regard to investment in ICT. The ICT industry, on the other hand, is still doing well and is confident for the future. It is interesting to find a company such as Origin using a collective agreement, while other firms seem to be caught up in a post-Taylor trend, focussing on flexibility and the individual. Origin, by keeping alive the 'new tradition' of working with a collective agreement, proves that these agreements are not necessarily the death of the personal element and flexibility.

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