

# **Industrial relations in an International context**

**Universiteit Twente**

**29-02-2000**

**International Personnel Management**

# CONTENTS

<b>1</b>	<b>INTRODUCTION.....</b>	<b>3</b>
<b>2</b>	<b>THE SYSTEM MODEL OF NATIONAL INDUSTRIAL RELATIONS.....</b>	<b>4</b>
<b>3</b>	<b>INDUSTRIAL RELATIONS AND MNC .....</b>	<b>5</b>
3.1	MNC DECISION PROCESS .....	5
3.2	MNC INDUSTRIAL RELATIONS POLICY .....	FEHLER! TEXTMARKE NICHT DEFINIERT.
3.3	OTHER FACTORS .....	6
<b>4</b>	<b>INTERNATIONAL INDUSTRIAL RELATIONS .....</b>	<b>7</b>
4.1	POWER OF INTERNATIONAL ORGANISATIONS .....	7
4.2	REASONS FOR POWER STRUCTURE .....	8
<b>5</b>	<b>INDUSTRIAL RELATIONS WITHIN THE EUROPEAN UNION.....</b>	<b>9</b>
5.1	EU LAW .....	9
5.2	ORGANIZATIONS .....	10
5.3	REASONS FOR POWER STRUCTURE .....	10
5.4	CONCLUSION.....	11
<b>6</b>	<b>INDUSTRIAL RELATIONS AND PERSONNEL MANAGEMENT .....</b>	<b>12</b>
<b>7</b>	<b>WORKER PARTICIPATION.....</b>	<b>13</b>
7.1	WORKS COUNCILS.....	13
7.2	TRADE UNION REPRESENTATION .....	14
7.3	NATIONAL VARIATIONS: A DISTINCTION BETWEEN NORTH AND SOUTH OF EUROPE...	15
7.4	UNITED STATES: AN OPPOSITE SYSTEM.....	16
<b>8</b>	<b>SOCIAL DUMPING.....</b>	<b>17</b>
8.1	LABOR COSTS.....	18
8.2	HUMAN RIGHTS.....	17
8.3	POLICY ISSUES .....	FEHLER! TEXTMARKE NICHT DEFINIERT.
8.4	CORPORATE CODES OF CONDUCT.....	FEHLER! TEXTMARKE NICHT DEFINIERT.
8.5	SOCIAL DUMPING WITHIN THE EUROPEAN UNION .....	19
8.6	CONCLUSION.....	19

# 1 INTRODUCTION

The German system of collective sector bargaining (Tarifkartell) seems to be in a crisis. Many companies claim that these bargaining results do not differentiate between the performance and abilities of different enterprises, that there is no flexibility to react on special demands and that for example wage decisions are orientated only on the performance of huge companies. As a consequence more and more members of employer organisations resign just to avoid being forced to these bargaining results.

One of the reasons for the failure of the world trade conference in Seattle was the inability to agree on social standards and in particular about core labour standards like prohibition of child labour or the right to free union associations. These standards, claimed by Europeans and Americans, were considered by many LDCs as nothing more than a hidden form of protectionism.

At first sight these stories do not seem to have something in common, but both are an actual example for the difficulties in the way industrial relations<sup>1</sup> affect the treatment of the production factor labour. And although only the second case was about industrial relations in an international context, the German case shows how difficult collective bargaining can be even “only” on a national level.

This report deals with industrial relations in an international context. Based on part 4 of the book "International Human Resource Management" by Harzing and Ruysseveldt (1995) we discuss the consequences of the internationalisation of business on the different systems of industrial relations. To give you as a reader an overview of the report a short introduction to the different parts is given below.

## **2 The system model of industrial relations**

Introduces the national model of industrial relations developed by Dunlop.

## **3 Industrial relations and MNC**

How do multinational corporations work within national systems of industrial relations and what for new problems arise for the system of relations.

## **4 International industrial relations**

What for systems of industrial relations do there exist internationally and what for power do they have.

## **5 Industrial relations within the European Union**

How does EU law affect the national systems of industrial relations and what for industrial relations exist on the European level.

## **6 Industrial relations and personnel management**

How do industrial relations affect the HRM policies and practices of companies.

## **7 Worker participation**

What for law provided ways are there within the European Union for workers to influence their company. The systems of work councils and trade unions are discussed and finally a comparison with the American system is done.

## **8 Social dumping**

What are the consequences of social dumping for employees and is the phenomenon as bad as it is described.

---

<sup>1</sup> For an explanation see chapter 2.

## 2 THE SYSTEM MODEL OF NATIONAL INDUSTRIAL RELATIONS

As a framework for the discussions in this paper we use the model of industrial relations as provided by Dunlop in 1958 (figure 1). The model has of four basic components:

- Actors or parties
- The rules
- An ideology
- An environmental context

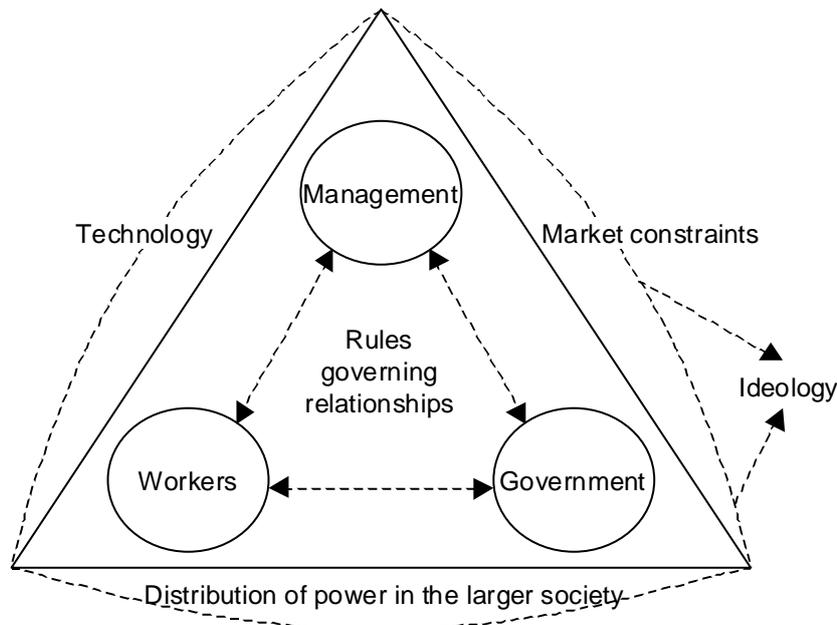


Figure 1. The system of industrial relations.

The main core of the industrial relations are the actors (employers and their organisations, employees and their organisations and the government) and the relationships that are established between them. In this study the main topic is the rules between the actors and how they are established. As can be seen in the figure the actors and their relationships are influenced by several external factors. These factors greatly influence the rules governing the relationships, but they will not explicitly be dealt with in this paper.

In Dunlop's view, the most general level of the system of industrial relations extends no further than the national borders of a specific country. That is why in actual practice, his frame of reference is generally applied to classify and describe national systems of industrial relations in which actors are nationals of the same country (in fact, almost always the employees' organisations and the government are both of the same country). In this paper we will see that it is only the companies that have broken the limitations of nationality, and because of this the model is still very useful.

### **3 INDUSTRIAL RELATIONS AND MNC**

An essential feature of multinational companies (MNCs) is that a policy centre partly controls the decisions and policies of the national subsidiaries and that the control is part of an international strategy. Another important feature is that a MNC plays the role of actor in various different systems of industrial relations, and this very fact means that it is often viewed as a potentially destabilising force within a national system of industrial relations. With this in mind we are going to present the most important problems that MNCs can create for parties involved within the framework of a national system of industrial relations.

#### **3.1 Increased power for MNCs**

A reason for the decrease of bargaining power for the local parties is their lack of knowledge and understanding of the overall international strategy and the entire range of activities which the MNC carries out in various countries. They have thus difficulties in evaluating the importance of the company and the alternatives that exists for the MNC. MNCs often use this lack of knowledge to improve their bargaining position by threatening to redistribute its production factors internationally. As a consequence of their superior knowledge a MNC can have an active hand in shaping the industrial relations within their subsidiaries. Other effects of this problem will be presented in part 8 about social dumping.

#### **3.2 MNC decision process**

An important problem when dealing with a MNC is that national governments, trade unions and even work councils may not know or understand the decision making process within the MNC. The problem for the other actors is often to establish in which degree the company may make autonomous decisions.

In this context, Hamill (1984) investigated to what extent MNCs steered their industrial relations policy towards centralisation or decentralisation. He collected his data in interviews conducted at British subsidiaries of MNCs and the study revealed that certain subjects tended to be dealt with centrally and others decentrally.

Decisions related to investment and the size of the budget were almost always taken by head office or at least subject to head office approval. Subjects as trade union recognition, collective bargaining, strikes and compensation systems were often decided by the subsidiaries. Decisions that have influence on production costs were usually taken centrally.

This means that decisions about industrial relations should be taken by the subsidiary with total independence from headquarters. Naturally it is not this simple. Head office will generally influence a subsidiary's attitude to, and thus relation to, the local system of industrial relations. The MNCs can be divided into three different groups concerning industrial relations and social policy terms:

- Highly centralised.
- Highly decentralised.
- A medium position.

#### **3.3 Centralization of decision making**

As an explanation for the varying degrees of centralisation Hamill mentions five structural factors.

**The degree of integration of production activities.** According to Hamill this factor is of crucial importance. Integration is first of all related to the mutual interdependence of production activities in geographically separated subsidiaries and the consequent interdependencies in integrated production networks.

**Home country of the parent company.** In ethnocentric MNCs there is a tendency to let the practices and traditions of the home country make inroads into the policy of the subsidiaries in other countries. Ethnocentricity reinforces a centralised industrial relations policy.

**The form of establishment of the subsidiary.** If a subsidiary was started by the parent company, the corporate management will mostly influence the decisions making in the subsidiary more than if it was an acquisition.

**The profitability of the subsidiary.** A successful subsidiary will not experience so much interference from the headquarters in their decision making as one with profit problems. Successful subsidiaries can often work quite autonomously.

**The parent company as a source of investment.** The greater the subsidiary's dependence on the parent company for investment and financing, the more it will have to deal with centralisation and interference from the top.

Another reason for centralisation is ethnocentrism and national chauvinism. In this case the industrial relations of the parent company (country) are considered the best and they are forced on the subsidiaries. The practice is not very common in European companies, but well in North American and Japanese companies. The ethnocentric approach will lead to difficulties in countries with different institutional and cultural traditions. To work efficiently in those countries ethnocentric companies often find that they have to use a different model for industrial relations.

As a matter of fact, the ethnocentric approach to industrial relations is losing presence internationally. In the last decades there has been a tendency to decentralise industrial relations, because local management is better able to confront that kind of issues successfully. Anyway, the extent to which a rapid respond to local changes can be formulated depends on the degree of policy decentralisation within the MNC and the degree of autonomy given to the subsidiaries.

All these factors influence the amount of central control of a subsidiary. But even if they indicate a great deal of centralisation, some freedom of action should be given the subsidiaries. If a subsidiary do not have enough autonomous decision power they cannot efficiently use the local opportunities, and as a result they do not work at optimal efficiency.

## **4 INTERNATIONAL INDUSTRIAL RELATIONS**

At the moment, the MNC is seen as a threat to the power of the national parties in the industrial relations. The question is then, what can be do to counterweight its power?

We know that within MNCs the centre of decision-making power lies beyond the reach of the national unions and governments. To counterweight the power of MNCs the formation of international power blocks is seen as the most effective approach. Blocks can be made on a bi-national level, a regional level as the European Union, or on a supranational level. The ideal is to develop a worldwide framework, which then is valid in every country in which the MNC has established subsidiaries. But at this level nothing more has come about than the so called codes of behaviour for MNCs set up by the United Nations, International Labour Organisation and the International Chamber of Commerce. Since there are no sanctions attached to these codes, their significance is mainly moral.

It is only at the European level where we can find some work made for reaching an international system of industrial relations, but it is not complete because there are some important factors that can frustrate the development of an effective international system.

### **4.1 Power of international organisations**

The biggest problem is the lack of autonomy and power accorded to the international representative organisations, both on the part of employees, employers and governments. It is still the case that neither national trade unions nor national governments are making any concerted effort to transfer essential elements of their jurisdiction to international organisations. The fact is that the international trade unions do not have a real power to act in an international context. The few examples of international participation of these organisations usually consist of temporary collaborations between national unions. Until now, the role of international trade unions has been limited to representation in international organs associated with the UN and EU.

Until the governments of the world give power to international legislative organisations, there will be little possibility for employee organisations to get any real power on the international scene. The only possibility for international organisations to get any power under the present circumstances is if they are recognised by their opposite part.

As long as the international organisations are relatively weak, the MNCs can exploit the differences in legislation and tradition between countries and they can use concession bargaining to lower the standard for the workers in a subsidiary (see part 8 Social dumping).

## 4.2 Reasons for power structure

There is a list of factors compiled by Piehl which explain the unwillingness of the national parties, in particular the trade unions, to delegate some of their authority to international collaborative organisations. The more important factors are:

**The national context of the parties.** Trade unions were created in a national context and they have been fighting for every right they have gained. These facts make them very reluctant to give up their power.

**Organisational and cultural differences between trade unions.** These differences are the result of the pronounced national character of the trade unions. A German representative will for example not act in the same way as Spanish if they are confronted with the same situation.

**The enormous national differences in the structure and culture of industrial relations.** This becomes specially pronounced if we look at national differences in the nature and amount of legislation in the area of industrial relations.

As a conclusion we can state, that as long as the national parties do not delegate their autonomy to supranational organisations, the advances of the internationalisation of the industrial relations will be minimal.

## 5 INDUSTRIAL RELATIONS WITHIN THE EUROPEAN UNION

Industrial relations on the European level can be found within the frame of social policy. Social policy is viewed as the development of norms, rules, structures and instruments related to work, income and the health of workers. It includes both labour law in the broadest sense and policy on the labour market, employment and schooling, income and social security, and working conditions.

### 5.1 EU law

Before describing the current situation of European industrial relations we have to mention two important goals the European Union tries to achieve by means of compulsory legislation (regulations, directives) in their integration process – co-ordination and harmonisation. Co-ordination means that national provisions are synthesised without altering these provisions (for example used in the case of the freedom of movement of workers). Harmonisation means to make different laws compatible with each other (for example working conditions).

The most important examples of European social law are:

- Directives on equal treatment for men and women (equal pay, access to employment, vocational training and promotion)
- Directives concerning atypical employment contracts (part-time work, employment contract for a fixed period of time and temporary employment)
- Draft directive related to specific aspects of working time (minimum rest period, minimum conditions for shift work, night work)
- Draft directive on the founding of a European works council in companies or concerns that have a Union dimension

These regulations and directives on social issues are mostly in the area of labour law. Within the legislating body of the European Union a long number of proposals are discussed, but only a few become enforceable regulations or directives. The problems associated with European policy-making explain this situation and below some of the problems will be highlighted.

First, there is often a controversy and tension between the goals and interests of the national governments and supranational institutes (Commission, European Parliament and Council of Ministers). A second problem is the variety of national arrangements that have to be considered. Each country has its own model of industrial relations with legal and practical differences. Each of them found after a long search for a system that can deal with the national specifics. To reach co-ordination and harmonisation the principle of subsidiarity is very often used. It means that the decision-making is located at the lowest level possible (national, regional, local) where it still is effective. But this procedure makes the design of a supranational system of industrial relations even more difficult. Thirdly, the employer and employee representatives have not yet developed a coherent European structure of industrial relations.

## 5.2 Organisations

On the employees' side there are international sector-trade level unions. These unions are independent organisations for particular branches (International Metalworkers' Federation, International Transport Workers' Federation). They gather information for their national organisations and provide support in the event of conflicts. International trade unions can count on a large number of employees in a formal sense and so would be able to mobilise employees in the various countries. When they have to develop an independent supranational strategy and to undertake international action, however, they are dependent on the willingness of their national unions. They do not have a world-wide or regional decision making system like MNCs have and as a consequence they have problems developing international strategies. It is hard to find a case where an international trade union undertook action against a MNC on behalf of its affiliated unions and even when found the actions taken were limited.

Also employers run a large number of European sector organisations. Their principle tasks are to co-ordinate activities and to provide information to their members.

In general, both employee and employer organisations have an extremely restricted mandate or authority beyond their right to receive, distribute and discuss information with their national affiliates. The employer organisations, for example, have to concentrate on the European institutions because of their lack in bargaining framework in which they could meet with trade unions.

These interest organisations are often not more than discussion groups. Even under the support of the Commission, the two sides, labour and management, haven't gone further than drafting a few joint declarations. The problem might be the lack of a framework for negotiations between employers and employees, but at the same time it seems that none of the parties have any intention to design one.

## 5.3 Reasons for power structure

There are five reasons for the difficulties of designing a structure for industrial relations at the European level (many of the reasons mentioned here are the same as mentioned in section 4).

**The lack of autonomy and power accorded to the international representative organisations.** Neither national trade unions, employer organisations nor national governments are making any effort to transfer essential elements of their jurisdiction in the matter of social issues to international organisations. The European Union is more successful in their economic integration than in their social integration. But usually there are powerful national reasons for doing so.

**In the European Union there is no powerful institutional framework for industrial relations.** The European interest organisations are only used as consulting bodies while the decisions are still made locally. The trade unions and politicians do still seldom look beyond their own national interests when the decisions are made.

**The practical impossibility of agreeing of employee interests.** In contradiction to the quite equal interests of capital (employer side) the labour conditions and wages are often related to local conditions.

**The tendency of decentralisation also appears in the framework of industrial relations.**

There is a growing need for company specific solutions. Deregulation and flexible arrangements are demanded, especially from the employers' side. There seems to be no room for expanding the scope of bargaining to the European level.

**The power of trade union movement is undermined by a combination of deregulation, individualisation and loss of membership.** A theory is that there will appear three groups of unions. The first group consists of strong national unions for specific target groups. The second group would consist of a few strong European unions for specific cross-border employees. And the last group would be the whole rest of (weak) unions.

#### **5.4 Conclusion**

The decision about the degree of common social policy is also a decision about the amount of regulation within an economy. At the moment there is still only little regional or supranational industrial regulation concerning social policies and no consensus have been achieved of the suitability. According to the IMF, higher labour standards are primarily a consequence rather than a cause of economic growth<sup>2</sup>. If this is true then we do not have to concern us with enforcing increased standards, since they will come automatically. There will of course be transitional difficulties before it is achieved.

There are two different views of how to deal with social policies. On the one hand there are people who argue that social policy is a necessary condition for economic and political integration. The more economist line argues that social rules and regulations will block economic progress, whether European or national. They prefer national and local arrangements – the principle of subsidiarity! This discussion is already long going and we cannot offer a solution for this problem, but still some remarks can be done.

Multinationals think global but act local. Industrial relations should do the same. Therefore we think that the European Union and the interest organisations should provide a flexible framework which is able to encourage international co-operation in the field of industrial relations. Employer and employees also have to contribute with their willingness to co-operate instead of waiting for regulatory arrangements by the European Union.

In the case of MNCs it seems desirable to shift the responsibility of industrial relations to the local company level. There cross-border co-ordination could happen much more efficiently as long as the parties are able to agree within their own organisations. A problem is that these co-operations often only are of temporary nature and does not lead to a more permanent form of regulation. To deal with MNCs it is possible that there will develop two sets of industrial relations. One for MNCs with a more global perspective and one for smaller domestic producers, based on the varied traditions and practices of national industrial relations.

The danger of a European set of industrial relations is that there will not be the necessary flexibility and differentiation in the regulatory framework. There is also the danger that international regulations are used to hide a countries own inability or unwillingness to solve national problems. A last point to consider is the effect of the opening of the EU to the former East block and how this will influence the industrial relations.

---

<sup>2</sup> Ball; McCulloch "International Business" seventh edition; p.370

## **6 INDUSTRIAL RELATIONS AND PERSONNEL MANAGEMENT**

Each company is acting within a framework of regulations. If these regulations govern the factor labour then they are of special interest for the management of human resources. Not only management, but also the existing system of industrial relations influence HRM. This means that company management must take into account the rules and regulations which have been negotiated with employee representatives or which the government has imposed by law. In addition to industrial relations, the government, laws and cultural aspects (rules, norms, values) are an important social factor which affect a chosen HRM policy.

A further environmental factor with enormous importance for HRM is the internationalisation or globalisation of the economy. The influence from internationalisation on HRM varies between companies. A local firm generally has to follow the HRM norms established through tradition and negotiations. A MNC on the other hand can use its experience of other markets and threat of moving the production to enforce different HRM policies. The chosen HRM policy for a subsidiary of a MNC depends on the general guidelines given by the MNC and by the degree of decentralisation.

## 7 WORKER PARTICIPATION

A central part of the model of industrial relations is the relations between workers and the company. This relation include topics such as how the workers take part in managerial decisions, how they can affect them and how much their opinions, suggestions and requests are considered within the company.

Two major ways of worker influence in companies are works councils and trade unions. Other possibilities to influence are through quality circles, suggestion boxes and informal communication. The main difference between the former and the latter is the law-supported position of works councils and trade unions. This makes them much more powerful vessels for bargaining and resolving conflicts with management.

In this section we will further study works councils and trade unions within the European Union. In the end we will also compare the European system of worker participation with the US view of it.

### 7.1 Works councils

Works councils arose immediately after the Second World War from the need to escape from dictatorial forms of control and to make a fast economic recovery possible. The works councils represent the employees of an enterprise and they act on the company level. The members of a works council are usually appointed and elected by the trade unions but sometimes they come from groups of non-organised workers.

During the first decades of their existence they did not have much success because of the centralisation of bargaining present almost everywhere in Europe. But later, starting in the 1980s, they began to play an important role in industrial relations due to a gradual decentralisation of collective bargaining from the sector level to company level.

Works councils can have several rights in economic matters and social affairs. The primary right is the right of information. This means that works councils have to be informed about the social and economic state of affairs of the company on a regular basis. They usually get such information in annual or quarterly reports provided by the company.

Another important right is the right of giving advice (or right to be consulted) in economic and social matters. In economic affairs the rights of the councils rarely go beyond information and consultation, whereas in social issues their power may extend to a veto right too. A veto right will often imply that the management will discuss questions regarding the veto areas before they make a decision, possibly giving the workers a large influence. The areas covered by veto rights are often social issues and working conditions. Examples are the rules of employment and redundancies, the administration of social funds and job design.

The spread and the size, as well as the composition and the election procedure, of the works councils are quite different within European countries. To illustrate the differences we compare the systems of Belgium, France and Germany (see table 1).

	Belgium	France	Germany
Minimum size of Enterprise (n° employees)	100	50	6
Degree of compliance (percentage of Enterprises with a works council)	60%	75%	Over 100: 80% 50-100: 60% 5-10: 10%
Composition	employees and Management (parity)	Employees with Employer as Chairperson	only employees

*Table 1. Comparison of works councils in Belgium, France and Germany.*

The minimum enterprise size required to set up a works council is a quite marked difference. In Germany the firm's size threshold is really low, but in Belgium councils only have to be set up in relatively larger enterprises. In Germany we see that the compliance in smaller firms is quite low but that is good for medium and large size firms. An explanation for the low compliance in the smaller firms is that it may not be considered important because the communication is good or it is a tightly controlled family firm where the need of worker participation is not seen. The reason for not 100% compliance in the larger firms can come from several sources. The worker participation is done via trade unions, no employees are interested, or the management actively discourages it.

There are three ways used to compose the works councils; joint employee-management, employees chaired by the director or employees only. When the management is part of the works council they become a forum for discussion with the management.

## 7.2 Trade unions

Trade union representation is another form of worker participation. The general rights bestowed on them are bargaining rights on social affairs and labour conditions. As with the works councils the power and structure of the trade unions differ between the European countries. Major differences are in the areas of minimum firm's size to allow union activity, on which level they are active (company, sector), union density and negotiation power.

The three countries Belgium, France and Germany can again be taken as representatives of different possibilities. Of the three Belgium has the most extended network of trade unions with a high union density (60 percent or more). The minimum size of enterprise to possess a trade union representative is between 20 and 50 employees. In Belgium the union delegates are representing the workforce, whereas works councils only have the task to mediate between unions (that are workforce representatives) and employers. As a result of the strong union presence works councils are often absent, or if they are present they are second in line.

In contrast to Belgium, Germany is characterised by a different system. The spread of union delegates is limited and unions can only be set up in large enterprises. The low presence of unions in the companies paves the way for stronger works councils. There is also a sharp distinction between the trade unions' and work councils' competencies and activities. There is

a very distinctive “dual system”, where works councils act on the company level with a fairly strong power and trade unions operate at a sector or national level.

In France there is also a marked distinction between trade union and work council activities. The minimum firm’s size to have a union delegate is rather low, so the spread could be quite extended, but the union density is the lowest in Europe (only around 15%).

### 7.3 The difference between northern and southern Europe

Comparing the six countries Belgium, Denmark, France, Germany, the Netherlands and Spain<sup>3</sup> a distinct difference can be seen between the four northern and the two southern countries. The main difference lies in the rate of worker participation. The northern countries are characterised by a strong presence of worker representatives in the firm, while in the southern the level of participation is much lower.

In the northern group worker participation is in some form integrated in managerial decision making. Although the activities of the work councils and trade unions have limitations, they are involved in major enterprise decisions, mainly influencing social and personnel matters. In France and Spain the different employee associations are not as integrated in the decision making and a tradition of conflicts between them has evolved. In the northern countries on the other hand co-operation and harmony characterise the relationship between the two parties. Moreover, if conflicts arise, unions and employers’ organisations do their best to convince the parties to undertake reciprocal actions towards co-operation.

The quite marked difference between the two groups can come from different sources. Here we take a look at four aspects.

**The degree of industry bargaining.** In the northern countries the industry sector is the primary level in which unions and employers express their respective points of view. In France and Spain the industrial relations are not as developed at the industry level and the system is more directed towards company level bargaining.

**The nature of the workforce.** The proportion of skilled workers in the industry can possibly explain the differences in participation. The northern countries have a higher proportion of skilled workers and they also have a stronger and better organised worker participation.

**The management characteristics.** In the northern countries management and worker representatives are used of discussing problems before any actions are taken. In the southern countries the relation between employer and employees is characterised by antagonism.

**The legal aspect.** Both Germany and France have an extensive legislation on the area of worker participation. But as we have seen the degree of worker participation varies greatly between the countries. As a conclusion the legislation cannot by itself give well developed relations between the employers and employees.

---

<sup>3</sup> See page 292 in Harzing and Ruysevelt "International Human Resource Management" for the reason of selecting these countries.

#### **7.4 United States: A different system**

In Europe worker participation is getting a more central position in industrial relations and its importance is growing. The American industrial relations on the other hand do not give any place for worker participation within the enterprise. The country's system is a strong supporter of the "managerialism" and it doesn't want to deal with any form of worker participation not explicitly supported by the management.

Unions are struggling to gain recognition, but management doesn't want to share its decisions with such a bargaining partner. The result so far is that worker participation in the United States still has to root and the few initiatives undertaken to change the situation are only isolated attempts. Managerialism is often used to implement a low-cost strategy where cost cutting is emphasised.

Only time can tell if the European system will be more successful than the American one. The advocates of the European way say that when the workers may play a more important role in the enterprise they will be motivated to do a better job. The co-operation should also lead to a more harmonic and co-operative environment and therefore better results. The European strategy of training workers in order to acquire a highly skilled work force will also result in better results in high-technology production according to the advocates.

## **8 SOCIAL DUMPING.**

There is a concern in industrial countries over the working standards in the developing world. Labour unions and human rights activists in developed countries argue that market access to the developed countries should be conditioned on raising labour standards in the developing countries. This to prevent social dumping and a "race to the bottom" in wages and benefits. The developing countries have on their part expressed concern that the industrial countries use these issues as an excuse to reinstate trade barriers.

### **8.1 Introduction**

Several companies transfer their production activities to peripheral countries in order to exploit the lower wages and inferior working conditions offered there. As a consequence they thereby put the wages and working conditions in the original production countries under pressure. This situation is called social dumping.

Geographical distribution of production leads to reorganisations and shutdowns in core countries. Such steps no longer exclusively involve activities for which only unskilled or low-skilled labour is required. For many companies, international competition has forced them to lower production costs, and as a result they have been forced to the practice of social dumping. In many companies a cost-cutting measure usually involve wages in the first instance. This is generally accompanied by cuts in personnel in core countries and downward adjustment of terms and conditions of employment for existing personnel.

For the companies the social dumping is a cost-reducing strategy. Employees in countries that offer a better social protection often have to agree to the plans for reorganisation put forward and accept a downward adjustment of their employment conditions if they want to keep their jobs. When a decrease in the level of protection is negotiated with trade unions, this is known as concession bargaining.

The role of trade unions is frequently limited to setting up a social plan for the lay-off. Often they attempt to prevent forced redundancies through normal employee turnover. The MNC is often obliged to clearly indicate what the competitive and financial position of the company is and why structural conditions have made redundancies unavoidable before a social plan can be negotiated. Some examples of social plans can be: a cut in personnel, cutting the worked week, with the accompanying loss of wages, dismissing employees older than 55 years old, and so on. At the company level, path-breaking initiatives can be taken and dismissal is not the only way to decrease labour costs.

### **8.2 Labour rights**

Human rights activists believe that raising labour standards in developing countries will benefit workers in these countries and that some labour practices are morally intolerable. To analyse these concerns, it is important to separate labour standards relating to conditions of work-such as minimum wages, health and safety benefits, hours, and, possibly, the minimum age of employment from labour rights-such as bans on forced labour, harassment, and discrimination. Most developed country labour standards are simply not feasible for many developing countries. Many developing countries do, in fact, have detailed labour standards, but these may cause more harms than good. Labour market regulations such as minimum wages are often cited as a major contributor to the problem of economic dualism-the twin

evils of excessively high wages and high unemployment in urban areas-in developing countries.

Some developed country standards that set minimum wages and working conditions are inappropriate for developing countries. But in other cases, such as child labour laws and worker safety, the support for international codes of conduct is stronger. Regardless of the merits of the competitiveness and human rights arguments for harmonising labour standards, there is considerable popular support for them in the developed countries. Some such steps may be necessary to maintain the legitimacy of the global trading system. Popular support for open trade, especially with developing countries, is likely to be more fragile than for many other market relationships.

The third world countries see labour rights as a way for the rich countries to reinstate protectionism. Other reasons for them not to implement them is that child labour may be very important for a family's survival and issues like non-discrimination between men and women may not be accepted in some cultures.

As discussed in section 5.4 there is no agreement of cause and effect, and as a result the discussion will continue until it is not important any more of some reason. The only achievement that has been done is the definition of labour rights (seen from the view of trade unions in industrial countries). Such lists blend labour "rights," such as freedom of association, with regulations on working conditions and wages, which are economic in nature. Some of the rights can be:

- freedom of association
- the right to organise and bargain collectively
- prohibition of forced or compulsory labour
- a minimum age for the employment of children
- a guarantee of acceptable working conditions (possibly including a maximum number of hours per week, a weekly rest period, limits to work by young persons, a minimum wage, minimum workplace safety and health standards, and elimination of employment discrimination)

### **8.3 Labour costs**

Productivity and wage levels are closely related, that is international differences in unit labour costs are much smaller than differences in wage rates suggest-in most cases. There is also evidence that wages and productivity generally move together over time. First, for a given level of labour costs, the division between wages and fringe benefits is largely irrelevant for international competitiveness, although it may not be a matter of indifference to workers. Second, wages are the most important component of labour costs even in developed countries. Third, mandating increases in fringe benefits, such as vacation and maternity leave, may simply alter the composition of labour compensation and not its total size. Fourth, even when they do affect labour costs, weak labour standards, like low wages, are likely to be a consequence of low productivity and poverty, not an independent source of international comparative advantage. Economic development, cultural differences, or other national preferences may give rise to different choices about labour standards. These national characteristics, along with factor endowments and other more traditional forces, determine national comparative advantage. Low labour standards and low wages both reflect the abundance of unskilled labour and low productivity in developing countries.

#### **8.4 Social dumping within the European Union**

Employment shifts within the EU have been inspired by differences in terms and conditions of employment and industrial relations between the various member states. As an example, United Kingdom has the largest percentage of employees who work irregular hours. They also have, together with that of Denmark, the most flexible dismissal procedure of the EC. Some countries seem to compete based on inferior terms and conditions of employment and more flexible industrial relations, which indicates a short-term strategy aimed at cost costing. In actual practice, however, concessions on reduced standards on the part of employees and their unions usually do not lead to a rapid and lasting recovery of the competitive position.

#### **8.5 Conclusion**

The issue of social dumping will probably be present in the foreseeable future. As a consequence countries with high standards and wage levels have to find some way to deal with it. Many historical examples have shown us that protectionism rarely will increase the living standard in the long run. This means that we will recommend other ways to deal with the phenomenon.

It is difficult to give THE solution to this problem, since it the opinions about possible solutions vary very much between different experts and opinion leaders. But we do believe that the differences will even out over time. This opinion is based on examples like Portugal, Japan and South Korea. But meanwhile there will be many conflicts of interest.