The employer’s perspective on collective bargaining centralization: an analytical framework

Stefan Zagelmeyer

Abstract Despite the continuing debates about the performance implications of different degrees of collective bargaining centralization, our understanding of the determinants of bargaining structures is still limited. While recent research has largely focused on macro-level factors, the role of micro-level determinants has still not been systematically scrutinized. This article develops a multi-disciplinary framework for analysing the employer’s perspective on collective bargaining centralization and discusses the advantages and disadvantages of different forms and levels of collective bargaining from the perspective of management, the main focus being on the comparison between single-employer and multi-employer collective bargaining. This framework can be used for qualitative and quantitative empirical research as well as for discussions of the costs and benefits of different levels of collective bargaining.

Keywords Employment relationship; collective bargaining; centralization; employer; human resource management.

Introduction

In most industrialized countries, collective bargaining is still an important mechanism affecting the terms and conditions of employment. One key characteristic of a national industrial relations system is the predominant level at which bargaining takes place, i.e. the degree of centralization of collective bargaining. Recent overviews by Carley (2002) and Traxler and Behrens (2002) show that centralized multi-employer collective bargaining is the most important form of collective wage bargaining in the majority of pre-2004 European Union member states, and that single-employer collective bargaining is predominant in the majority of the accession and candidate countries. Despite the continuing debates about the performance implications of collective bargaining centralization, our understanding of the determinants of bargaining structures is still limited. While recent research has largely focused on macro-level factors, the role of micro-level determinants has still not been systematically scrutinized.

This article integrates elements from the existing literature and develops a multi-disciplinary framework for analysing the employer’s perspective on collective bargaining centralization. It discusses the advantages and disadvantages of different forms and levels of collective bargaining from the perspective of management, the main focus being on the comparison between single-employer and multi-employer collective bargaining.
bargaining. This framework can be used for qualitative and quantitative empirical research as well as for discussions of the costs and benefits of different levels of collective bargaining. It thus provides an important foundation for future micro-level research on, and analysis of, the determinants of governance structures for the employment relationship.

**Collective bargaining: the analytical framework**

*Collective bargaining systems: a review of issues*

Windmuller (1987: 3) defines collective bargaining as ‘a process of decision-making between parties representing employer and employee interests. Its overriding purpose is the negotiation and continuous application of an agreed set of rules to govern the substantive and procedural terms of the employment relationship.’ The emergence of a collective bargaining relationship, and thus a collective bargaining unit, requires the mutual recognition of the actors as legitimate representatives and the willingness to bargain. The parties need to recognize the principle of action that, within a defined area, future problems may be continuously and jointly considered and regulated (Shulman and Chamberlain, 1956). From the perspective of management, union recognition may be prescribed by legislation, or the result of mutual agreement or imposed by unilateral action.

Once a bargaining relationship has been established, there are several analytical dimensions to collective bargaining, all of which may have a bearing upon the employer’s demand for a specific collective bargaining structure. First, collective bargaining is associated with several functions, which may be quite diverse from the viewpoints of employees, employers, unions, employers’ associations, government and the general public. Taking a broad view, collective bargaining as an institution may be regarded as a mechanism of allocation, distribution and transaction-cost saving in the labour market. Furthermore, it may be viewed as mechanism of voice, decision or rule-making, and conflict-resolution with regard to the employment relationship. Chamberlain (1951) attributes three functional dimensions to collective bargaining. First, it provides for wage determination within a market-related exchange relationship (marketing theory). Second, collective bargaining is regarded as an institution of industrial governance in a political power relationship (governmental theory), which addresses the decision-making function of collective bargaining. Third, it is considered as a form of management, by which the employees participate in management (management theory). Depending on bargaining issue and perspective, collective bargaining may perform different and multiple functions.

Any bargaining relationship involves the bargaining power of the bargaining parties. Chamberlain and Kuhn (1986: 176) define ‘bargaining power as the ability to secure another’s agreement on one’s own terms’ and argue that power is the effective and driving force underlying the bargaining relationship. Both within and outside the actual contract negotiations, union and management engage in relatively persistent efforts to enhance their own power and reduce the power of the other bargaining party. However, the successful acquisition of a favourable position at any one particular time does not assure its continuation. If one of the actors has a power advantage, this advantage motivates the other to expend greater effort to modify the power relationship. Each side uses its power to extract concessions from the other and to achieve a settlement as close as possible to its own preferred position (Beaumont et al., 1980).

There are a myriad of options for collective bargaining structures. Weber (1967: 14) states that a ‘[collective] bargaining structure is comprised of a multiplicity of units tied
together in a complicated network of relationships by social, administrative and economic factors'. Kochan and Katz (1988: 102) argue that the collective bargaining structure ‘outlines the arena in which management and labour are expected to interact, negotiate and solve problems’ and distinguish collective bargaining units according to their scope of representation. The representation of employees, the horizontal dimension, determines the breadth of employee interests. A narrow unit may include craft, skilled or professional employees of one occupational group. A broad unit might include all the employees, regardless of occupation. The vertical dimension of the bargaining unit usually is related to employer representation, as indicated by the bargaining level where the actual negotiations take place. At the multi-employer level, one distinguishes local, regional, national and international bargaining levels. At the single-employer level, bargaining units may cover working groups, departments, establishments, enterprises or concerns. The bargaining level determines the centralization of the bargaining structure.

As far as the contents of collective bargaining are concerned, the literature distinguishes between substantive issues, which regulate the substantive terms and conditions of the wage–employment exchange such as wages and working hours, and procedural issues, which include the procedural regulation of labour relations such as grievance procedures. In addition, it can also be argued that there is collective bargaining on constitutional issues, e.g. the definition of the bargaining structure which embraces the decisions on who negotiates with whom over what issues at what level and for what coverage.

The outcome of the bargaining process includes the collective agreement, which may be formal or informal, and the area of its impact, the collective bargaining coverage. The coverage rate is an indicator of the practical relevance of collective self-regulation of the labour market parties. Furthermore, it reflects the power of the employers’ associations and unions as well as their capacity to shape the regulation of the employment relationship and the labour market. Following Chamberlain’s (1951) categorization of bargaining functions, the bargaining outcome may be interpreted as a contract (marketing theory), as a constitutional and legislative element in a system of industrial jurisprudence (governmental theory), or as an administrative standard for the management of day-to-day labour relations (management theory).

The analytical framework

There are several ways in which the definition of the bargaining unit and thus the collective bargaining structure can come about. Collective bargaining on constitutional issues may take place bilaterally between unions and employer(s), or trilaterally between government, unions and employers. Unless forced to do so, all parties will voluntarily agree on constitutional issues only if they assume that the new rules will benefit them. Alternatively, subject to the relative distribution of power and the legal framework, a bargaining structure may be imposed unilaterally by government, union(s) or employer(s). In the absence of union recognition procedures, the employer can usually unilaterally decide about the collective bargaining structure. Nonetheless, there may be interdependencies to take into account. For example, bargaining power permitting, the union may force the employer to accept a certain bargaining structure despite the employer’s right to decide unilaterally on the governance structure. This may be done by imposing costs on the employer so that, by taking into account union-inflicted costs, a particular collective bargaining structure may be profit-maximizing.

No matter whether the degree of centralization of collective bargaining is bargained over or unilaterally determined, there are several factors which may affect the
employers’ demand for a particular bargaining structure. Previous research on this issue is mostly linked to the strategic-choice approach which asserts that the preferences of the employment relations actors are not independent but are constrained by the need to match the bargaining structure to the environmental (economic, social, political, technological, demographic, public policy) and organizational conditions in order to meet their goals (Kochan and Katz, 1988; Kochan et al., 1994). In a similar vein, Purcell and Ahlstrand (1994) identify three sets of factors that influence the employer’s preference regarding collective bargaining centralization within the company, which may, however, also be applied to the issue of single-employer versus multi-employer collective bargaining: corporate strategy and organization, labour market conditions and industrial relations.

Combining elements and arguments of previous research with more recent ideas from labour economics and labour relations, the suggested framework for analysis of employer demand for collective bargaining centralization includes four different sets of potentially interdependent factors: (1) company-level factors; (2) markets; (3) institutions; and (4) external organizations. Assuming that the employer is subject to collective bargaining, the following sections will outline the key arguments for and against centralization of collective bargaining, focusing mainly on the choice between single-employer collective bargaining and multi-employer collective bargaining.

Company-level factors

There are various company-level factors that management has to consider when assessing the relative appropriateness of different collective bargaining structures. These factors may be related to the dimensions of the employment relationship, personnel management, work organization and company characteristics. It is important to note that the demarcation between these sets of factors is quite arbitrary and there are close links and interdependencies.

The employment relationship

The arguments in any efficiency-oriented analysis of regulation or governance structures for the employment relationship may be subdivided into three categories that correspond with the fundamental dimensions of the employment relationship: exchange and authority, power and opportunism, and conflict and co-operation.

While collective bargaining may have a number of advantages over individual contracts for the employer, such as saving transaction costs by standardization of the terms and conditions of employment, providing a system of collective regulation for an internal labour market, supplementing incomplete individual labour contracts, or reducing uncertainty by providing for stable terms and conditions over the period of duration of a collective agreement, the argument is less clear-cut with regard to the relative efficiency of different degrees of centralization of collective bargaining.

Inherent characteristics of the nature of certain bargaining issues may call for regulation at specific levels (Cobb, 1951; Weber, 1967). For example, if the organization’s workforce is linked to occupational labour markets, effective industry-wide occupational training schemes require some form of multi-employer regulation. On the other hand, decentralized structures may have shorter lines of communication, allow for a speedier resolution of issues, and give the company more autonomy for strategy development and flexible adaptation to local requirements in the context of changing environments.
Yet local negotiations may have a tendency to be both fragmented and dependent on unwritten and informal rules, thus potentially making the implementation of subsequent agreements more complex. Multi-employer agreements may be more formal, but then inhibit local initiative and lack adjustment flexibility. Central agreements may be difficult to draft in a way that is generally applicable to all firms and circumstances. Thus, they may often be formulated in very general terms, which may then require a second round of bargaining at lower levels.

Further arguments concern the frontier of control between management and labour, i.e. the boundary between the prerogative of management and trade union influence. Establishment-level bargaining isolates local union representatives from top-level management and thus limits their influence on company policy (Booth, 1989). The same argument applies to management control under multi-employer collective bargaining in the face of company unions. However, bargaining centralization may also lead to increased dissatisfaction among workers on the shop floor due to their limited control over employment conditions (Weber, 1967).

A permanent cause of change in employment relations is the striving between the parties to maximize their relative bargaining power and to gain a strategic advantage over the other side. Williamson (1975) argues that collective regulation may function as a safeguard against problems associated with small-numbers bargaining and _ex post_ opportunism in situations where there is relation-specific investment and/or asymmetric information. As concerns the relationship between collective bargaining centralization and power, there are arguments in different directions. Decentralized bargaining may increase the unions’ bargaining power, especially in organizations with high levels of union density. In decentralized narrow single-employer bargaining units, (craft) union power is supposed to be very high. In the case of several, independent and non-competing craft unions the employer is in a weak position, being potentially subject to full expropriation of any co-operation rent.

Single-employer collective bargaining with an industrial union puts management in a weaker position than it would be under industry-wide bargaining. But if there are competing local unions, decentralized establishment bargaining provides the employer with the option of whipsawing, i.e. getting the weakest local union to accept a favourable standard and then convincing other local unions to accept this standard as pattern, for example, by threatening to move production capacities between plants and making investments conditional upon the local union’s concessions.

Employers in similar markets may join and co-ordinate their policies to increase their bargaining power and avoid whipsawing strategies by a national or industry-wide union. In its formalized form, co-ordination leads to the establishment of an employers’ association and multi-employer collective bargaining. By transferring bargaining authority to an employers’ association, the employer voluntarily reduces his individual authority and managerial prerogative for the sake of collective power, authority and control.

Finally, different levels of collective bargaining may have implications with regard to the conflict and co-operation dimension of the employment relationship. Efficient employment relations require effective conflict-resolution mechanisms. As conflict resolution within the legal system is costly, the employer may develop an interest in other means to institutionalize and channel conflict, for example collective bargaining (Williamson, 1975). Collective bargaining may also foster co-operation at the workplace. It could be interpreted as a symbol of the employer’s commitment to fairness and justice and so initiate a feeling of procedural justice and trust among employees. It might also help to solve problems in integrative bargaining (Windmuller, 1987) and operate as a mechanism of employee voice (Freeman and Medoff, 1984). Joint decision-making
increases the legitimacy of the resulting decisions. However, it can also be argued that collective bargaining might encourage ‘them and us’ attitudes, leading employees to feel more loyalty towards their union than to their company and ultimately encouraging open conflict.

As far as bargaining centralization is concerned, multi-employer collective bargaining allows for the strategy of the institutional separation of co-operation at company level and conflict at higher levels, thus increasing the scope for co-operative strategies at lower levels. Multi-employer agreements may improve the ability of workforce and management at company level to take risks associated with co-operating, to enforce agreed rules, and to reinforce the effectiveness of tit-for-tat solutions to the prisoner’s dilemma. Defection will lead to disputes, and either side has the opportunity to escalate the action if its peers consider the escalation justified. Multi-firm bodies usually are given the power to control the actions of their members, at least to a certain extent, and may thus reduce opportunistic behaviour by members (Marsden, 1999). In addition, by the stage of developing bargaining positions and demands for multi-employer bargaining, conflicts that would otherwise exist between local union and management are internalized within the union and management organizations. This may lead to higher levels of intra-organizational conflict and lower levels of industrial conflict. Finally, bargaining centralization may also represent a means of insurance against the negative effects of industrial action, for example by creating eligibility for payments from the strike insurance funds administered by employers’ associations.

Personnel management

In addition to factors associated with the dimensions of the employment relationship, there are a number of further factors related to the management of personnel that have a bearing upon the company’s demand for a certain degree of collective bargaining centralization.

Collective bargaining influences pay levels and structures. Economists argue that the positive union wage mark-up stems from either the monopoly- or the productivity-enhancing collective-voice effect of a union (Freeman and Medoff, 1984). As far as the relative demand of the employer for a certain bargaining structure is concerned, it can be argued that the profit-maximizing employer prefers a structure that minimizes, other things being equal, either labour costs or, when taking productivity effects of wages into account, unit labour costs.

Single-employer collective bargaining may lead to the spiralling-up of wages because of the leapfrogging of settlements among enterprises in the same industry or geographical area. In centralized single-employer collective bargaining, wages may be levelled up because wage policy may orient itself at the best performing companies or the tightest labour market (Beaumont et al., 1980; Soskice, 1990).

While single-employer bargaining allows for a greater diversity and differentiation in pay rates and conditions between establishments and companies, Rodseth (1993) argues that an employers’ association would certainly demand lower wage levels in multi-employer bargaining than individual employers would be prepared to pay. ‘The assurance to employers of protection against competition based on lower wages for the same operations has been the union’s strongest argument with employers for unitary bargaining for piece-rates over the competitive area’ (McCabe, 1943: 166). That sentence summarizes the idea behind the notion of ‘taking wages out of competition’ that is often brought forward as an employer benefit of bargaining centralization. ‘Taking wages out of competition’ requires the existence of a union structure that covers the geographical
area of potential competition, and the willingness of all employers in the market to accept industry-wide bargaining. However, the ‘taking wages out of competition’ argument may also be closely related to union demands for stabilization and uniformity of wages and/or of other terms and conditions of employment across firms in an industry or a geographical area (Greenberg, 1966). The closer that the reference group for the demands of the workforce is to the plant, the more plant-bargaining is indicated. If the main reference groups are similar occupational groups in the external labour market or in other plants, central bargaining is indicated (Thomson and Hunter, 1975). Kochan and Katz (1988) argue that especially small unionized firms operating in highly competitive markets would be interested in stabilizing competition through multi-employer collective bargaining.

Both Greenberg (1966) and Beaumont et al. (1980) argue that the centralization of collective bargaining structures is positively associated with the labour-intensity of production, as labour-intensive industries with a high proportion of labour costs in their total costs relative to labour-intensive companies may suffer disproportionately from wage increases in terms of the (unit) cost effects of wage increases. Booth (1989: 226) concludes that, other things being equal, ‘high labour cost firms gain more from resistance than low labour cost firms, and face lower shut-down costs (as pay savings are higher)’. Thus, there is an incentive to stabilize wage developments by centralizing collective bargaining (Ulman, 1974).

The question about collective bargaining centralization may also have strong productivity implications because of the effects of wage relativities on employee motivation and effort. Moene and Wallerstein (1993) argue that employers may benefit from centralized collective bargaining, when considering that employee efficiency is a positive function of the wage relative to either the wages paid to other employees within or external to the organization. A higher wage and thus a positive wage differential might reduce turnover and shirking, and increase motivation and effort. If the reference group is outside the organization, this creates an incentive for the individual employer to pay more than competing employers. If productivity goes up sufficiently as the relative wage increases, a unilateral wage increase leads to higher profitability. However, as each employer tries to raise wages relative to others, none succeeds but the aggregate wage level and the rate of unemployment both rise. Under centralized bargaining, employers’ associations choose a lower wage than would be chosen by each employer, thus providing an incentive for employers to co-operate (Rodseth, 1993). Moene and Wallerstein (1993) argue that the gain to employers by containing the wage increase spiral outweighs the loss of decreasing discipline due to lower unemployment. As a result, total profits would increase with centralization.

Looking at wage structures within an organization, Büttner and Fitzenberger (1998) argue that for politico-economic reasons centralized bargaining disproportionately improves the situation of the employees in the lower part of the wage distribution while local wage-formation, for incentive-wage reasons, disproportionately affects the employees in the upper part of the wage-distribution. Wallerstein (1990) argues that while low-paid workers gain relatively from centralized bargaining, high-paid workers lose and may thus prefer decentralization.

Let us now turn to the issue of pay systems, which may be distinguished according to the extent to which they combine elements of performance-related compensation and time-related pay. Different performance-related payment systems are associated with different types of incentive to overcome principal-agent, monitoring or motivation problems. Baron and Kreps (1999) argue that unionization generally causes a shift in the mix of compensation elements, for example away from performance-related pay to seniority
or time-based compensation elements. Once collective bargaining is established, decentralization makes it easier to relate pay to performance (Booth, 1989). If pay systems and the methods of work assessment and measurement are rather similar across establishments or firms, the more feasible is centralized bargaining, since dissimilar methods may make conditions difficult to compare (Thomson and Hunter, 1975).

Finally, Purcell and Ahlstrand (1994) argue that a well staffed and equipped central personnel department managing company-wide job evaluation schemes, a unified pay system, and centralized grievance and dispute procedures is very likely to be associated with centralized collective bargaining at the company level. Heterogeneous practices within the multi-divisional company would, in turn, call for decentralized structures.

**Work organization**

Where technology is relatively standardized across occupations, the ability to specify standard contract terms unilaterally or by collective bargaining is enhanced, thereby potentially economizing on transaction costs. Taylorist production is thus more likely to be associated with collective bargaining than more complex production processes are.

As concerns collective bargaining centralization, Lindbeck and Snower (1997, 2001) argue that traditional work arrangements, in which employees perform highly specialized, fragmented jobs, are increasingly giving way to multi-tasking and teamwork. New information and production technologies have made it profitable to flatten hierarchies of control and responsibility and allow for greater decentralization of decision-making. Centralized bargaining, especially of the wage-levelling type, would thus become increasingly inefficient, since it prevents employers from offering their employees adequate incentives for multi-tasking (Lindbeck and Snower, 2001), both with regard to effort and for continuous learning and performance. Under multi-tasking, the efficient set of wage incentives would vary from one combination of tasks to another, depending on the constellation of complementarities and the effort workers must expend to exploit these complementarities. Only establishment-level actors possess such information, which central bargainers simply cannot acquire and assimilate. Thus central negotiators can only set wages schematically in broad job descriptions. Multi-tasking makes this practice inefficient, since workers’ productivity at any task can vary widely, depending on the other tasks that they are performing. Traditionally, centralized bargaining permitted some local flexibility by allowing for wage-drift, but it suffers from the problem of not being able to distinguish between justifiable wage-drift in response to task complementarities and unjustifiable drift resulting from local rent-seeking (Lindbeck and Snower, 2001). The shift from Taylorist work-organization to multi-tasking provides employer and employees with incentives ‘to choose decentralized bargaining arrangements’ (Lindbeck and Snower, 2001: 1853).

The greater the technical dependencies among plants, the more appropriate is central single-employer bargaining, because when one plant shuts down during a strike there may be repercussions in the other plants. Decentralized, narrow single-employer collective bargaining units may hamper the parties’ ability to adapt to technological change, as craft jurisdictions may restrict management’s ability to reassign or transfer workers to different jobs as the technology or the product mix changes. The negative effects may be alleviated if craft unions merge or co-operate in single-table bargaining.

**Company characteristics**

There are a number of further factors related to the characteristics of the company that influence the employer’s relative demand for different levels of collective bargaining.
As establishment or organization size increases, the organizational structure and thus the task of co-ordination become more complex. The management line becomes longer and personal relationships more distant. Co-ordination, monitoring and communication costs increase. Collective bargaining may help reduce this complexity. Yet, while employer demand for collective regulation may thus increase with establishment and organization size, Kaufman and Levine (2000) remind us that costs of employee representation also increase with size.

What about collective bargaining centralization? Following Olson (1965) and assuming that multi-employer collective bargaining is a collective good or provides collective goods, large firms may benefit so much that they disproportionately sponsor the formation and maintenance of employers’ associations and multi-employer collective bargaining arrangements. Large and relatively profitable companies may particularly benefit from multi-employer bargaining, because the terms agreed would be oriented towards the less profitable (and usually smaller) companies (Kohaut and Schnabel, 2003). On the other hand, larger organizations are more likely to experience industrial relations problems that are specific to them, and thus want to have the maximum possible freedom to deal with them (Beaumont et al., 1980). Large organizations may have the bargaining power, resources, and specialists to realize their goals by internalizing collective bargaining instead of delegating authority to the employers’ association. Greenberg (1966) argues that smaller companies have a greater need to improve their bargaining position by increasing their bargaining power via multi-employer arrangements than large employers do. Under price competition, small organizations have more to gain from cartelizing the market than large employers who dominate in the industry (Witte, 1956).

Companies that grow by merger and acquisition may prefer single-employer collective bargaining, as it eases the integration and assimilation of new plants or companies in the existing system or the stepwise amalgamation of existing arrangements into a new system.

Lewin and Mitchell (1995) elaborate on the idea that different life-cycle stages of the company (start-up, growth phase, maturity phase, renewal phase and decline phase) would require different strategic portfolios of personnel policies. With regard to bargaining centralization, decentralized collective bargaining may be used in particular during the maturity stage in order to accompany a renewal or transformation strategy and to incorporate workforce representatives into change management. Among others, personnel policies associated with this phase include the establishment of work teams to manage change, labour-cost containment and targeted training programmes. Multi-employer collective bargaining may be too inflexible to accommodate firm-specific requirements.

A further important issue is the organizational structure of the company. If the production process is functionally integrated, groups of employees may become very powerful. If such a group, possibly unionized, seeks to establish or increase a wage differential, managers may have difficulty maintaining the co-operativeness of the other employees. This problem may become more severe when two unions have the power to close down the firm independently of each other. This may lead to leapfrogging. Forcing both groups into a single collective bargaining unit may promote comprehensive relational contracting (Leslie, 1984: 398). However, when there are several competing unions, the employer may be able to exploit this situation by using divide-and-rule strategies.

A further issue is whether the company consists of one or more establishments. The small single-plant firm dealing with a large industrial union is in a weak position, thus potentially favouring multi-employer collective bargaining. Management has its strongest power position under decentralized broad single-employer bargaining, when it has a large
number of geographically dispersed plants, producing on a non-integrated basis (Livernash, 1963). Multi-establishment companies with heterogeneous units in terms of production technology, management style, labour relations history, industry, profits and work organization are less suited to centralized single-employer bargaining because the costs of organization increase with the degree of centralization. Harmonization of the terms and conditions may be difficult, costly, and give rise to inter-organizational conflict. The same argument holds true with regard to the heterogeneity of companies and multi-employer collective bargaining. The more similar the member companies of an employers’ association, the less costly will be the process of devising a uniform governance structure in form of a multi-employer collective agreement.

In addition, the geographical concentration of production facilities within a company or companies in an industry is likely to be relevant. Workforces in geographical proximity are subject to relatively little variation in labour market pressures and hence it appears easier to establish and maintain an industry-wide wage structure. A small radius of plants may lead to demands for central bargaining, since the local labour market conditions are likely to be similar, and comparisons between employment conditions across plants or companies as well as intra-union information flows are easier to organize (Thomson and Hunter, 1975).

Furthermore, product diversification may be important. The diversified company develops its own mechanisms for co-ordination and control, which may be inconsistent with multi-employer collective bargaining. Local managers may be tempted to agree to concessions which may make sense in one industry, or in one sub-sector of an industry, but which can be extremely damaging if extended to other industries. This may threaten the consistency of internal pay systems. In addition, the headquarters may wish for subsidiaries to adopt a certain approach to employment and industrial relations, either because of the adherence to a corporate philosophy, or public appearance, or for the sake of a consistent internal employment system. In each case, multi-employer collective bargaining complicates matters and can even give rise to conflict (Sisson, 1991).

There is disagreement in the literature as to the relationship between the structure of collective bargaining on the one hand and the decision-making structure of management on the other. While Clegg (1976) argues that the structure of management is of outstanding importance for the structure of collective bargaining, both Slichter et al. (1960) and Purcell and Ahlstrand (1994) maintain that management structure is shaped by, and adapted to, the requirements of the governance structure. Centralization of decision-making within the company may result from a desire to avoid any union interference and to keep collective bargaining away from the decision-making arena, thereby protecting the prerogative of management. This separation can be achieved by making strategic decisions at central level and collective agreements at lower levels (Kinnie, 1987). The more devolved the company structures and the more independent the subunits, the more likely is decentralization of collective bargaining. If local managers are held responsible for the costs and revenue of their unit, they must be responsible for the determination of the terms and conditions of employment. Thus, decentralization of management responsibility and accountability, for example by the introduction of profit centres, may be associated with pressures to decentralize collective bargaining. In turn, centralized single-employer collective bargaining is more appropriate for bureaucratic organizations with a strong centralized personnel function.

Deaton and Beaumont (1980) argue that foreign-owned establishments tend to be associated with labour and collective bargaining practices that are similar to those in their home country. The reason for this may be the perception that the home-based company
must have been successful with the prevailing institutional arrangement. Otherwise, the company would not have extended its operation to other countries.

Markets

Apart from company-level factors, the relative appropriateness and efficiency of collective bargaining structures is very much determined by the nature of the product and labour markets the company is operating in (Weber, 1967). In order to maximize profits, employers have an interest in controlling the product and labour markets. Unless the employer is in an incontestable monopoly position, competitors need to be taken into consideration. Since tacit agreement on prices, output and related matters is normally difficult, and formal collusion may be precluded by law, the labour cost may be the only area in which a high degree of stabilization is feasible, with or without union cooperation (Greenberg, 1966). Whereas in oligopolistic markets standardization can be brought about informally, in highly competitive markets a high degree of formalization of employers' associations is required (Greenberg, 1966). Potential employer control or influence over competitors is highest under centralized multi-employer collective bargaining.

In order to minimize competitive pressures, the collective bargaining unit has to cover the potential areas of threat for wages and working conditions (labour market) or profit margins (product market). Thus, in order to ‘take wages out of competition’, there may be a joint interest of employer and trade union in centralizing governance structures until they cover the entire product market. However, there is a catch: for employers as well as trade unions, market control may become increasingly difficult in transaction-cost terms with the size of the markets, especially in case of international markets (Phelps Brown, 1959).

The situation becomes more complex when a company is engaged in different product markets. The higher the degree of heterogeneity in the production portfolio between plants (or firms) within one firm (or industry), the less likely are centralized governance structures. A high degree of variation in cost structures may lead to higher transaction costs associated with centralized structures. In addition, product differentiation and regional price discrimination may require decentralized decision-making and thus favour plant bargaining.

Kohaut and Schnabel (2003) argue that the proceeding international economic integration increases the probability that exogenous changes will affect regions, industries, firms and groups of employees quite differently, and that this necessitates the ability of the respective unit to react flexibly to resulting challenges and requirements. Increasing heterogeneity across regions, sectors or firms would reduce the transaction-cost benefits of centralized arrangements while enhancing the advantages of decentralized regulation in terms of availability of information and responsiveness to changing exogenous conditions.

However, at this point it is important to note that it is not only the product markets but also the labour markets that constitute an important consideration for the employer. Employers whose workforce is recruited mainly from external labour markets may prefer individual regulation or decentralized collective bargaining, because this maximizes their bargaining power and allows them to tailor specifically designed packages of terms and conditions in order to attract, recruit, and retain employees. Firms with a strong emphasis on internal labour markets, and thus internal recruiting, may prefer collective bargaining for transaction-cost-theoretic reasons.

A further important determinant is associated with the extent to which the firm is relying on an occupational labour market. Firms making heavy use of occupational labour markets may favour multi-employer collective bargaining because of institutional
complementarities: the stability of occupational labour markets depends on strong inter-firm institutions which, given that the employer bears a significant part of the cost of training for transferable skills, reduce the risk of other employers poaching skilled labour for their individual profit. Peer-group pressures within employers’ associations are said to ensure that (all) firms engage in a reasonable level of training and that they outlaw poaching (Marsden, 1999; Soskice, 1990).

Moving from specific markets to the aggregate economy, the state and the volatility of the business cycle have an important bearing upon the employer’s demand for centralized collective bargaining. Demand fluctuations influence governance structures in a number of ways. In boom periods, there is the danger of labour shortages, labour pirating and the associated cost-pressures. Favourable economic conditions raise the relative bargaining power of the unions and increase the willingness of management to make concessions. A tight labour market is associated with a high level of employee power and provides employees with a maximum of opportunity to renegotiate terms and conditions of employment as well as to behave opportunistically without being sanctioned by the employer. This creates pressures for management to take wages out of competition and to join ranks with fellow employers in order to increase the collective countervailing power vis-à-vis the trade union(s). Consequently, the employer may seek institutional and contractual solutions that stabilize the situation. Whereas the employees prefer decentralized and possibly even individual contractual arrangements, the employer may prefer collective bargaining or even centralized multi-employer arrangements.

When the business cycle moves towards recession, heterogeneity may increase and make multi-employer collective bargaining more difficult. The reduction in the level of demand and the increase in product market competition put pressure on management to increase their control over profitability, to rationalize production, to reduce costs, to enhance productivity and to gain the flexibility necessary to react to changing market conditions (Kinnie, 1985). This may be associated with redundancies, changes in working practices, and a deterioration of the terms and conditions of employment. It may be easier and speedier to initiate these measures without collective bargaining, thus giving maximum control to management.

In a situation with high unemployment, union resources are reduced, and rank-and-file support for going on strike appears more difficult to obtain. In addition, enlarged inventories may reduce the effectiveness of strikes. Thus, there is relatively low pressure on terms and conditions of employment in terms of union demands. Employers will try to break away from their fellows to reorganize their labour relations while unions strive to hold the groups in line. As far as the bargaining level is concerned, employers will prefer decentralized arrangements.

Institutions

The existence of complementary or substitutive institutions may have an influence on the employers’ demand for a particular collective bargaining structure. The legal framework may provide incentives or disincentives for the choice of a certain governance structure by influencing the relative costs and benefits as well as the effectiveness of the respective structure. For example, institutionalized extension procedures associated with multi-employer collective bargaining may avoid the threat of undercutting by outsiders, who are not members of the bargaining parties and therefore not bound by the agreement, as well as by firms under the agreement (Traxler, 1997; Traxler et al., 2001). Furthermore, there may be complementarities, i.e. dependencies between institutions, so that specific institutional combinations are required to make a governance structure effective or efficient.
In addition, social customs may provide an incentive for employers to be members in an employers’ association and to participate in multi-employer arrangements. Akerlof (1980) defines a social custom as ‘an act whose utility to the agent performing it in some way depends on the beliefs or actions of other members of the community’. Schnabel (2002) argues further that within a community there may be rules that are ‘obeyed by individuals because of the sanction of a loss of reputation if the custom should be disobeyed’. In the context of collective bargaining, the social custom can be thought of as some sort of pressure among local peers urging firms to participate in multi-employer collective bargaining.

Substitutive institutions, which perform the role of functional equivalents, also influence the employers’ demand for governance structures. Works councils or joint consultative committees can represent a potential competitor to collective bargaining as a regulatory and conflict-resolving device at the workplace level, as they may have similar potential advantages for management, such as enhancing productivity due to employee-voice effects, while being less costly, for example in terms of loss of control.

One important question is whether the development of collective bargaining structures is path-dependent, i.e. whether institutions existing at a certain point in time will shape subsequent institutional configurations. Traxler et al. (2001) claim that in the extreme case, institutions predetermine their own alterations. Experience with institutions such as collective bargaining may cause institutional rigidity or inertia. First, there is tradition. Things tend be done in ways similar to how they were done previously (Baron and Kreps, 1999). Companies may not permanently review their labour relations practices because this may be considered inefficient owing to revision costs. Second, a long stable relationship with trade unions probably argues in favour of maintaining the status quo unless there are good reasons to the contrary. The maintenance of a certain institutional arrangement may thus represent an evolutionarily stable strategy. In addition, there may be costs of changing institutional arrangements. Taking the costs of change into account may make change less profitable than maintaining the status quo.

A further argument relates to the characteristics of collective bargaining as an institution. Multi-employer collective bargaining may encounter the classic collective action problem, because collective agreements may have the character of collective goods. Taking the perspective of an individual employer, it may be rational not to join a centralized multi-employer arrangement, since the macro-economic benefits of wage-moderation and social peace would accrue anyway. The employer could act as free-rider and save the cost of membership in the employers’ association.

External organizations

When deciding about the bargaining level, the employer needs to consider the demands and actions of the workforce and the trade unions as well as of competing companies and the government. As far as the influence of union structures is concerned, Beaumont et al. (1980) argue that there is a close association between the bargaining structure and the type of union. Craft unions represent skilled workers, whose skill, typically acquired through a progression from apprentice to journeyman to master status, gives the employee a considerable monopoly power vis-à-vis the employer. Industrial unions tend to represent unskilled or semi-skilled workers. Each type of union has its own idiosyncratic origins and purposes, resulting in different strategies and policies concerning bargaining structure. Craft unions, with a homogeneous constituency are less interested in industry-wide bargaining, since the latter aims at including all workers in the bargaining unit. Industry unions, with their more heterogeneous membership in terms of social characteristics and
skill levels, are less interested in fractious occupational bargaining units, but in integrating diverse groups of workers in a single bargaining unit. As solidaristic wage policy across occupations is more prevalent in industrial unions, they may have a preference for multi-employer bargaining.

Where there are several unions in the workplace, a further important factor is whether there is cooperation or competition between the different unions. Phelps Brown (1959) argues that competitive multi-unionism at company level is a major factor contributing to the demand of employers for multi-employer collective bargaining, since each union would credibly seek favourable bargaining outcomes in order to maximize membership. However, multi-unionism may also enable the employer to conduct contests between competing unions, to pursue whipsawing strategies in bargaining, as well as to apply divide-and-rule tactics.

National or industry unions, whose affiliated branches conduct single-employer collective bargaining, may have a whipsaw advantage if bargaining co-ordination or pattern bargaining is possible. It can strike one company in order to set the industry-wide pattern, while that firm’s competitors remain in operation and while the union’s members in employment continue to draw pay and replenish the central strike fund. In addition, by pattern-bargaining the union can satisfy the members’ demand for uniform pay throughout the industrial jurisdiction, while being able to discriminate between different employers in supplementary negotiations (Ulman, 1974).

In order to be covered by a multi-employer collective agreement, an employer needs to be member of an employers’ association. The individual employer’s decision to join an association is closely associated with the determinants of multi-employer vis-à-vis single-employer collective bargaining, as outlined above. Olson (1965) suggests that rational, self-interested individuals form organizations when they serve a common or group interest and/or an individual interest better than individual action. There are a number of problems related to the organization of interests. First, group and individual interests may diverge, or even be antagonistic. Second, given that the collective good is provided, there is an incentive for rational actors to ‘free-ride’, that is to enjoy the provision of the collective good without bearing a part of the costs (Olson, 1965). This stems from two characteristics of collective goods, non-excludability and non-rivalry in consumption. For example, if multi-employer collective bargaining produces wage moderation in the aggregate economy, the individual employer may enjoy this wage moderation even without being a member of the employers’ association. This ultimately threatens the provision of the collective good. Third, in a market situation it may be rational to maximize the individual gain by undermining the agreed terms.

In the political context, public policy may influence employer demand for a particular collective bargaining structure. On the one hand, this may happen directly by providing (dis)incentives for firms to adopt a particular bargaining structure. On the other hand it may happen indirectly, via product market (de)regulation, wage or price controls, or social policy. Public policy towards collective bargaining may range from ‘suppression through toleration through encouragement’ (Adams, 1999: 273). However, government policy does not follow a deterministic trend but, rather, varies, among other things, according to the political and economic environment, the nature of the state, the ideology of the ruling party, beliefs about the impact of trade unions and collective bargaining, and the strength of labour and business (Adams, 1999). The shape of the political system, as well as public policy, creates a set of external conditions in which governance institutions are embedded and which influence the demand and possible choice of the parties to the employment relationship. Direct influence is exerted by legislation, which may support or impede collective bargaining in general, for example, by defining the rights and duties
of the bargaining parties. Legislation may include regulations concerning union recognition, union security, industrial action, dispute procedures, or it may provide incentives to choose a certain bargaining level, for example by the provision of extension mechanisms to employers who either cannot or would not like to join a collective agreement (OECD, 1994). Individual employers may then have an incentive to join an employers’ association to influence the contents of the collective agreements. Indirect state influence may be exercised in form of public policies such as product market (de)regulation, economic policy, wage and price controls, and social policy. A further indirect influence may stem from the integration of the social partner organizations into public policy-making. An example for the latter may be corporatist economic policymaking, which requires a centralized or co-ordinated collective bargaining system in order to be effective.

Conclusions

This paper has outlined a framework for the analysis and discussion of the issue of collective bargaining centralization from the perspective of management. It has identified a number of company-level determinants related to the dimensions of the employment relationship, personnel management, work organization, company characteristics as well as factors in the external environment, such as markets, institutions and external organizations. All these potentially interdependent factors may influence the individual employer’s demand for different degrees of centralization of collective bargaining. While previous research with its focus on macro-level determinants is useful to explain the variation of collective bargaining structures across countries and over time, the present article has identified a number of additional micro-level determinants that may explain variation of bargaining structures across companies. Nonetheless, there are numerous arguments for and against different levels of centralization, the balance of which cannot be settled by armchair theorizing. The implication for the practitioner, as well as for the empirical researcher, is that careful investigation is needed, guided by the relevant body of theory.

References


