

# Comparative Analysis of Labor Relations in Different European Countries: Great Britain and Germany

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## *Abstract*

*The issue of labor relations is highly complex, given the fact that each of the parties involved in the employment relationship (employees, managers, employee representatives, trade unions, employers, state) have objectives and some points of view in their regulation.*

*Moreover, at the level of the whole European area, there are many differences from one country to another regarding the quality of labor relations.*

*In this article, the authors aim to highlight some elements of specificity in terms of labor relations in some European countries, according to criteria such as: the role of trade unions and employers, social dialogue, collective negotiation and employee representatives.*

**Keywords:** *labor relations, trade unions, employers, social dialogue, collective negotiation, equal opportunities*

**JEL classification:** M54

## **Introduction**

The term **employment relationship** describes the relationship which exists between employer and employees at work, these relationships can be formal, as employment contracts or agreements or informal proceedings, such as the psychological contract which expresses certain expectations both from the employees and the employer. Labor relations can have an **individual** dimension, in terms of expectations of each employee's or a **collective** dimension, aiming at the relations between the management of companies and trade unions or employee representatives. The dimensions of the employment relationships are:

- o ties major item (job, rewards, opportunities and career development opportunities, communication relations, organizational culture of the company as representative elements individually and collectively - collective agreements made between employees and company management and joint committees);

- parties involved (managers, employees, trade unions, employers, unions and employers' associations);
- the development form (can be individual or collective, at the level of organization, industry or national economy);
- structure (procedures, rules which are based on labor relations and even the expectations of each of the parties constituting the psychological contracts).

**The issue of labor relations** has a range of aspects such as: existing contractual obligations between employees and employers, collective negotiations, labor discipline policy, organizational communication, social responsibility, welfare at work of employees and their professional development.

### **Labor relations in Great Britain**

Although industrial relations system has a very long history in Britain, over the past years there have been a number of changes. In recent decades, in Great Britain, it has been a reduction in the number **of unions** and the degree of unionization. For example, if in 1979 there were registered in the UK about 475 unions and trade unions, in 2000 their number was only 221, and in 2001 there were 206 registered trade unions. Regarding the union density [5] in recent years it has been a decrease in values of this indicator. In 2005 union density was 29%, in 2006 the value of this indicator fell to 28.4%, and in 2007 it dropped to 28%. These figures indicate that the degree of coverage of employees in trade unions and professional associations has declined in recent years. If the unemployed were taken into account, who although do not have a job, they are members of a union; union density decreased in 2007 compared to 2006 by 0.3% from the value 25.3 % to 25% in 2007. The role of unions in collective negotiation can be carried out better in the public sector versus private. Thus 72% of public sector' union members have benefited in 2007 of an improvement in wages and working conditions, compared with only 46.6% of private sector' union members. Such a situation can be explained by the fact that public sector shows the highest degree of unionization, in 2007, 59% of public sector employees are members of a union, compared with the private sector, in which only 16.1% of employees are union members. The degree of unionization in the public sector increased by 0.3% compared to 2006 and decreased by 2.3% compared to the figure recorded in 1995. In the private sector, the degree of unionization has declined by 0.4% compared with 2006 and by 5.3% compared to the figure recorded in 1995. In 2007, in the private sector, union density registered a value of 46.6%, while in the public sector the value of this indicator was 86.2%. The high degree of unionization is recorded in Wales, 54.8% of employees are union members, while in England only 45.6% are union members. In 2007, in Northern Ireland 47.5% of employees benefited from the results of collective negotiation, while England has the lowest percentage, 27.9% respectively. In the United Kingdom in 1979 13.2 million union members were registered. In recent decades their number has dropped significantly. Thus in 1990

were registered in the UK 9.8 million union members, while in 2006 their number was approximately 7.8 million members (Fig. 1) [2].



**Figure 1 The evolution of trade union members in Great Britain during 1975-2006 [2]**

However, unions still have an important role in the UK, which is undertaking concrete actions in order to reduce employers' initiatives to act in a manner purely arbitrary. In Britain, unions are formed in a congress, Trade Union Congress - TUC, which acts as a "voice" of all unions in all fields. The role of the TUC, which brings together 58 trade unions and represents the interests of approximately 65 million employees is:

- it represents the trade union movement internally and worldwide;
- it develops policies on trade unions acting to address economic and social issues related to employment;
- it regulates the relations between unions;
- it assists unions in litigation;
- it offers various services to affiliated unions.

Currently, **collective negotiations** in Britain have lost importance compared with the situation recorded a decade ago because of the governments attitude not only conservative but also the one adopted by firms in different industries. This situation was generated by joint action of factors such as:

- the relatively high unemployment rate which was 5.3% in 2006 compared with 2004 when the unemployment rate registered a value of 4.7% [12];

- economic crisis in the last quarter of 2008 decreased by 1.5% of GDP in the third quarter; in the last quarter of 2008, GDP decreased by 2.1% [15];
- growth of migration phenomenon in the entire British territory, which increases employment by approximately 500,000 people annually and a workforce that is cheaper than British employees.

Only 33.5% of the total number of employees in the UK benefit from the provisions of collective agreements; in the private sector, this percentage is lower, namely 19.6% as negotiations take place at company level. 69% of employees working in the public sector benefit from the provisions of collective agreements. Companies from various sectors of national economy such as textiles and wood processing, have renounced membership of professional associations (employers), thus not being obligated to participate in collective negotiation with unions, and comply with such agreements and thus being able to determine its specific context of the work adapted to the activity performed. The activity of 75% of jobs in the public sector is regulated on the basis of collective agreements, but there are special circumstances, such as teachers and nurses whose salaries are set by the government.

In this socio-economic and political context, employers are willing, to a lesser extent, to engage in negotiations with their employees because such behavior could lessen the degree of flexibility available in the market, thereby reducing responsiveness to changes in the operating environment. Collective negotiation is not institutionalized at the level of small and medium size enterprises having a number of employees less than 250 people. Thus about 75% of companies with more than 50 employees have signed their own agreements with the employees regarding collective work agreements. If a company does not have a trade union, it is not legally obligated to appoint representatives of the employees.

In Great Britain, the main topics approached in collective negotiations are: wages, overtime hours, working time and rest time. In most cases, the trade union delegates are the main negotiators with the employer. In most cases, collective negotiation takes the form of consultations and decisions on specific projects of employers. However, there are no legal provisions requiring employers to negotiate with unions, unless they are recognized as a negotiating partner. Statistics show that in 2007 53% of collective agreements were valid for a period of one year, 22% for 2 years and only 15% for 3 years.

Despite the fact that there is a very well established legislation regarding equal opportunities and trade union relations, employment practices are often criticized, are considered discriminatory and outdated. Most affected are people with disabilities, workers of color and minority culture, older workers, women and immigrants. Some reports show the large differences between salaries of men and women managers, the difference being about 26% against female manager. Although in the British law it is prohibited discrimination based on gender, it is still present in the practice of companies. Such situations are very common in the small and medium size enterprises.

The national particular influences in the British framework caused fundamental changes in labor law, in the trends of economic, social, managerial and socio-demographic changes. Quality of work has become one of the most important criteria according to which the dialogue takes place between unions and employers in the context in which the quality of labor shows a downward trend. The problems of work-life balance have become increasingly obvious; their improvement and resolution are backed by the European Union directives regarding gender equality, security and health and social dialogue.

On the one hand, government policies aimed at increasing social security and on the other hand the increased integration of the unemployed in the labor market. In this regard there have been developed a series of training programs for the mothers with young families, providing the national minimum wage (which varies between £ 3.53 per hour for people aged 16-17 years and 5.73 pounds / hours for those older than 22 years [5]), long-term disability allowances and financial assistance for low-income parents. However, the balance between work and life remains one of the main points of governmental policies. However, there is evidence that work has become increasingly stressful and affects people's physical and mental health. Complaints of unions and professional associations are becoming more numerous, being based on the growing number of cases of greater disability and retirement due to occupational diseases. Many British employers recognize the negative aspects of work caused by increasing levels of stress because of high competition, increasing product quality requirements and organizational change.

Regarding labor disputes, from October 1st, 2004 employers are obliged by law to establish procedures for resolving labor disputes. Failure to dispute resolution procedures at work may constitute grounds for rejection of complaints brought before the courts. Failure to complete internal procedures may reduce up to 50% of compensation that could be awarded by an employment court.

Employers are obliged to inform employees on the applicable procedures for resolving conflicts at work, these provisions constituting a component of individual employment contracts or written briefings that employers must provide to the employees within two months from the date of beginning the work relationships. Employees and their employers must make all reasonable efforts to resolve labor disputes until being submitted to an employment tribunal.

Currently, labor relations are rather dominated by the relations established between unions and employers at the organizational level. This scenario is supported by labor legislation which supports the individual in the context of employment relationships, rather than collective groups represented by a union. Today the emphasis is, in a lesser extent, on establishing common rules and procedures behavior and getting more conscious involvement on both sides, in an effort to achieve organizational goals, while respecting the legal framework. Salaries and other provisions of the contract of employment are regulated by the competitive environment rather than by internal clashes between managers and unions.

Although EU legislation requires consultation with the union by the employer in terms of work organization, in the United Kingdom there is no legal mechanism to give union's greater negotiating power. Studies show that in 2004, only 30% of corporate employees who have at least 10 employees (where 50% of the total number of employees in the UK works) have received the benefits conferred by membership of the union, respectively collective employment contracts. [16].

Status and functioning of trade unions is approved by the *Central Arbitration Committee*, and in this respect it is necessary that more than half of employees of a company to be union members that enjoy the support of at least 40% of employees whose interests are represented in collective negotiation. In the UK the employer is obliged to seek consultation with trade unions on issues of organization of work, just in case they wish to do so or such requirement is imposed for at least 10% of the total number of employees. At the same time, there are legal requirements in terms of the number of union members. According to a study by the *Trade Union Congress* the average number is of 36 members, in the case of trade unions recognized by employers.

In Great Britain, there are no legal regulations under which the employees are members of the board. This issue is covered in each company. Such a situation can be seen especially in public sector organizations and less in the private sector.

### **Labor relations in Germany**

The dual system of labor relations in Germany, known as the "paradigm of a highly regulated industrial relations system" has a long history of difficulties managing to cope with growing hardships. Since 1990, there has been a number of disintegration processes, which replaced the previous partially integrated system, as a result of the action of internal factors (unification) and external ones (EU enlargement and globalization).

The labor market in Germany is characterized by a relatively high degree of flexibility and deregulation, a defining trait that is transferred to the labor relations system. Although it may seem surprising, the low level of regulation of labor relations system is a natural consequence of the fact that labor legislation is oriented mainly to protect employees, having a greater impact on the dynamics and evolution of unemployment than on its level. It should be noted that Germany is one of the European Union countries where it is recorded a high rate of unemployment 10.7% in 1005, 9.8% in 2006 [12].

Regarding the role and importance of unions as a major element of industrial relations, it should be noted that only 22% of employees are union members. In 2006 there were registered in Germany about 8.3 million union members, including retired persons who still kept membership in the union.

In Germany, **unions** are established at the company level, its members being represented by all employees of that business. An important feature of German unions is that they can not join political parties. Confederation of German

Trade Unions, DGB (Deutscher Gewerkschaftsbund) is the largest German trade union confederation, representing the interests of approximately 6.6 million employees, union members, mainly workers. DBB (Deutscher Beamtenbund) is the second German trade union confederation, with a total of 1.27 million members, who are generally civil servants. CGB (Christlicher Gewerkschaftsbund) has a total of 300,000 members, representing the general interests of physicians, aircraft pilots and traffic controllers.

Although the biggest German trade union confederation (DGB) was founded in 1949, representing the interests of workers in the metallurgical industry, chemical, commercial and financial sector, since 1990 a series of mutations have taken place which have resulted in changes in the union activity. In 1991, after German unification, the number of union members, united in the confederation union DGB decreased by 43%, although it took over another large trade union confederation from the former German Democratic Republic, DAG (Deutsche Angestellten-Gewerkschaft).

Currently, in Germany, there are two main trade unions IG Metall and Verdi, of approximately equal sizes, which are currently the most powerful. IG Metall has about 2.376.000 million members, while Verdi has 2.259.000 members. IG Metall was until 1997 exclusively in the metallurgical industry workers' union, as later at this union the textile and plastics unions affiliated. Verdi union was created in 2001, representing the interests of employees of both private and public sector, operating in the plastics industry, in finance and trade.

**Collective negotiation** is conducted at sector level of the national economy, the main actors are employers or trade unions and professional associations of companies in an industry. This system of collective negotiation give employers a high degree of flexibility in negotiations with employees, because in situations where the employer is not enrolled in any professional association or employers, collective negotiation takes place at company level. The main topics addressed in the collective system negotiations are wages system and working conditions. The results of collective negotiation between trade unions and employers have a general character because at companies level, after negotiations between management and labor councils or employee representatives, negotiations are much more detailed and focused on the specificity of each company.

Statistics, on the extent to which employees benefit from collective negotiation provisions, show that at the level of the former Federal Republic of Germany, 67% of employees benefit from negotiation results between unions and employers' confederations, 59% of employees benefit from the results of collective negotiation conducted at the industry level and only 8% of the effects of collective negotiation conducted at company level. In the former German Democratic Republic 53% of total employees benefit from the results of collective negotiation, 42% of employees benefit from the provisions of collective agreements concluded at sector level and only 11% must comply with collective agreements concluded at company level. On the whole, across the country, the share of employees covered by the provisions of collective agreements between unions and employers is 64%.

The results of collective negotiation conducted at the industry level have applicability to regional rather than national level, but the provisions on the remuneration system in general and wage increases in particular can be applied across several companies in the same industry but from different regions.

Work councils from companies do not have established, in legal terms, the ability to conduct collective negotiation, which is empowered to negotiate with each employer, individual issues or problems arising from the employment and not laid down in collective agreements concluded at the industry level. This gives, at the company level, a high degree of flexibility in collective negotiation system, as the so-called "open clauses" can be negotiated in collective agreements at company level and adapted to each organization. The share of employees receiving the advantage of the so-called "open clauses", is 29% of the total number of employees covered by collective agreements in the former German Federal Republic, while in the former German Democratic Republic, the percentage is 21%. In general, in Germany, collective negotiation does not take place nationally, although in 2003 the DGB has tried to implement such an initiative, established to support unions at company level.

Collective negotiation takes place between unions and employers 'confederations or unions or employers' associations, developing in this way a much closer link between employers and their employees. Although, legally, there is the necessary mechanism to transfer the results of collective agreements between trade unions and professional associations of employers at the level of other companies in the same industry, who are not members of any professional associations (which participated in the negotiations), there are many difficulties especially in the retail sector.

Although, in the past, most companies were subject to collective agreements, even if they were not members of a professional association of employers, currently there is the trend of certain member companies from different industries, to give up the membership of that professional association. Such behavior then gives them the opportunity to breach the provisions of the collective contracts and thus pay lower wages than those established in the collective agreements. Such a situation is encountered very frequently in the former German Democratic Republic.

The main topics addressed in collective negotiation are wages and the remuneration system, normalization of work (labor exchange system), working time, part-time working arrangements and training of employees.

Work councils can be set according to the Labor Code revised in 2000 at the level of any private company that have at least five employees. At the microeconomic level, work councils composed of labor union members have a greater influence than the unions themselves. Councils are working especially in the large companies rather than in the small ones. Overall, in the whole Germany only 10% of the companies have work councils. In the former Federal Republic of Germany, 47% of employees have negotiation power of labor councils, while in the former German Democratic Republic the figure is only 38%. In 96% of private sector companies, which have more than 1000 employees, work councils exist. In

public sector only 13% of organizations have work councils and the proportion of employees that benefit from the influence of work councils is 53%.

In terms of status, organizational structure and operation manner, labor councils are not identical with labor unions, even though statistics show that in 2006 73% of the working board members were union members (belonging to the DGB trade union confederation). Although labor councils can not be considered trade unions, they remain under their influence. Work councils can invite the members of various trade unions and union confederations to participate in actions organized by them, if 25% of board members agree and also the members of the work involved, in general at training programs offered by unions. In some companies, there are, besides work councils, representatives of employees whose status is regulated through collective negotiation, their rights and duties being set by unions. The number of members of work councils that may be established and operate at company level is determined according to the number of its employees (Table 1).

**Number of work councils' members established at the organization level, according to the number of employees**

**Table 1**

Number of employees	Number of work council members
5-20	1
21-50	3
51-100	5
101-200	7
201-400	9
401-700	11
701-1000	13
1001-1500	15

In the companies that have a number of employees between 1501-5000, the number of work council members increases by 2 people for every 500 employees. In companies that have between 5001 and 7000, the number of work council members increases by 2 people for every 1000 employees. Labor councils from companies that have between 7001 and 9000 employees, have 35 members. For firms that have more than 9001 employees, the number of board members increases by two people for every 3000 employees over the limit of 9000.

In general, labor councils represent the interests of workers and not managers. A new element has been introduced in the Labor Code in 2001 namely the criterion "sex" in the organization of work councils. Thus minority (women or men, as appropriate), must be represented in all work councils with at least one member. The role of this new legislation is to increase women's role in representing employees. Chairperson of work council is the one who, in terms of legal authority, establishes meetings and sets agenda. He is elected from among members of the work council.

In companies that have more than 100 permanent employees, as required by law, it must be set up the economic council, which has an advisory role in solving economic and financial problems. Economic Council consists of members of work councils, which means that there is an indirect influence of the work council in solving these problems.

Managerial staff interests can be represented by an authority established for that purpose, which may have a number between 1-7 members, depending on the number of existing managers in the organization. Such bodies may be constituted at any company or subsidiary level that has its organizational structure of at least 10 managers.

According to the legislation, labor councils and the employer must respect the principle of mutual trust, although it is stated that conflicts may occur frequently between the interests of employers and workers' (represented by work councils). The labor law states that by their action, labor councils have the right to be informed and consulted in decision-making process at the company and to submit proposals to the employer. The legislation also obliges employers to take decisions that do not infringe the rights of employees and have not been approved by the work councils. However, work councils can not change and challenge the court decisions in labor law issues.

The company board must inform the work council of the economic and financial situation through quarterly reports and to consult whenever decisions should be taken to introduce new technologies, reorganization of the business to a subsidiary level, plant or company as a whole and would be detrimental to employees. The employer must consult the work council in the organization concerning training programs. Work councils may require the employer, in some cases, to rely only on internal recruitment, posting job ads within the company. Human resources manager must inform the work council regarding the demoting, dismissal, transfer or promotion decisions that they adopt.

Labor councils have the right to propose and negotiate with company management on a series of procedures: discipline at work, working hours, use of temporary labor, overtime arrangements, principles, methods and criteria for determining wages, providing social benefits (dining, leisure facilities, transport), and organizing team-building. In some cases labor councils make serious agreements with employers to comply with the introduction of such procedures. Work councils can exercise their influence and negotiating power in terms of selection methods and techniques used at company level, organizing training programs, selection of trainers and the used assessment methods.

Although issues of working time and wages are limited in terms of law, unions, labor councils acquire, at the company level, an increasingly important role because of the so-called "open clauses" contained in collective agreements concluded at the industry level by trade unions.

The number of employee representatives on boards of directors must not be greater than one third of the total number of board members, at the level of companies with a number of employees between 500-2000 and 50% for companies with more than 2000 employees.

## Conclusions

In Germany the share of employees covered by the provisions of collective agreements between unions and employers is 64%. In Great Britain, the percentage values are smaller, being only 34%. In Germany, the number of employee representatives on boards of directors must not be greater than one third of the total number of board members, at companies with between 500-2000 employees and 50% for companies with more than 2000 employees. In Great Britain, trade unions or work councils do not have a clear status regarding their participation in decision making at the organizational level.

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