

## Do in-plant alliances foster employment?

### An instrument for responding to an imminent economic crisis or for increasing firm competitiveness

Keywords: in-plant alliances, decentralization of wage setting, global economic crisis, employment effects

#### ELEVATOR PITCH

In-plant alliances that tailor specific deviations from sectoral collective agreements on wages and working time are intended to hold down labor costs. These agreements enable reorganizations to respond to an imminent economic crisis or to improve competitiveness. They encourage social partners to take greater responsibility for employment issues. Both unions and works councils agree to such contracts because they see them as inevitable to avoid severe employment losses. Thus, these alliances substantially unburden public employment policy.

#### KEY FINDINGS

##### Pros

- ⊕ In-plant alliances can help firms survive, save jobs, and foster employment.
- ⊕ In-plant alliances reduce labor costs and thus indirectly foster a higher number of employees.
- ⊕ More flexible working-time regulations and reorganizations as part of in-plant alliances increase both labor productivity and firm competitiveness, contributing to an increase in employment as well.
- ⊕ In-plant alliances encourage social partners to take greater responsibility for employment issues.

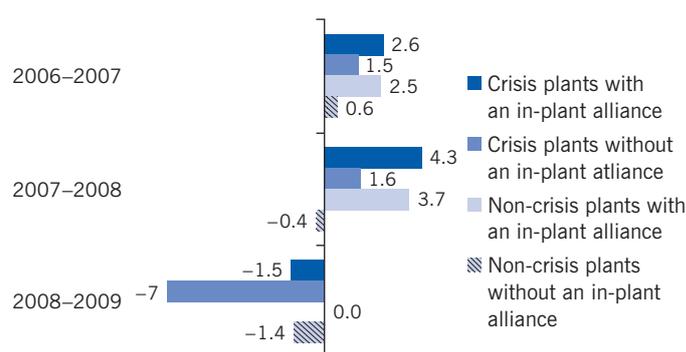
##### Cons

- ⊖ Some pledges by employers for employment may be difficult to fulfill, especially if the firm's economic situation deteriorates.
- ⊖ In-plant alliances tend to distort labor markets because they favor insiders over outsiders by restricting layoffs.
- ⊖ Employment expectations could be exaggerated if in-plant alliances are seen as bucking market trends.
- ⊖ In-plant alliances could erode sectoral collective agreements.
- ⊖ In-plant alliances cannot deviate "too much" from the collective agreement, because unions would not agree to that.

#### AUTHOR'S MAIN MESSAGE

In-plant alliances can be good for employees because wages agreed in sectoral collective agreements may lead to severe employment losses during an economic crisis or if in-plant restructuring seems necessary to sustain or improve competitiveness. And their specifically tailored wage concessions, as well as flexible working-time arrangements and reorganizations, can be good for employers—and in the long term for employees. So policymakers should encourage the social partners to conclude in-plant alliances.

In-plant alliances preserve jobs in Germany (%)



Source: Based on Figure 3. Partial effects are presented.

## MOTIVATION

During the global crisis of 2008–2009 many countries, including Germany, faced the deepest recession since the Great Depression that started in 1929. Although between 2008 and 2009 German gross domestic product (GDP) dropped 6.6%, unemployment increased only modestly. Social cohesion, controlled unit labor costs, intelligent labor policy, and flexible management of working time helped companies retain their personnel [1]. In-plant alliances that allowed firms to deviate from sectoral collective wage agreements were especially powerful in avoiding dismissals. Combining several measures, these agreements reduced labor costs and enabled reorganizations. Before the crisis, these alliances improved firms' competitiveness; thereafter, they helped to overcome the imminent economic crisis. The employee representatives consented to those agreements as a condition of the employment guarantees or investment decisions of the firms (see **Alternative labels for in-plant alliances**).

### Alternative labels for in-plant alliances

In-plant alliances are also called company-level pacts for employment and competitiveness, in-plant alliances for job security, alliances for jobs, corporate alliances, employment pacts, (social) partnership agreements, and concession bargaining. Concession bargaining as the US type of in-plant alliance means that local unions receive almost nothing (except implicit short-term employment guarantees) in return for their plant-level concessions.

During the 1980s, concession bargaining gained importance in the US. It became popular because of increased international competition, wage pressure from sectors with low unionization, and deregulation of the US economy [2]; where in-plant alliances meant in some cases (but not all) that local unions had to accept wage reductions in exchange for short-term employment guarantees.

In 1990, the British government started to promote partnership agreements in both the private and public sectors [3]. The agreements are intended to modernize the public sector in response to the extension of markets, the rise in private finance, and the restructuring of public service provision. One-third of public-sector employees have since been covered by such partnership agreements [3].

Since the early 1990s, explicit bargaining activities and agreements on employment and competitiveness have emerged in many EU countries. Activities at the national and regional level contained a wide range of economic, industrial, and social policy measures with the explicit aim of creating new jobs through reduced labor costs, more flexible labor markets, and improved employability of the workforces. Some countries were also trying to fulfill the conditions for membership of the European Currency Union [2], [3], [4].

In a number of countries, such as Germany after the deep recession of 1992–1993 and the failure of an attempted national “alliance for jobs” in 1996, agreements emerged at the sectoral level. Unions and employer associations included “opening clauses” or “hardship clauses” in collective agreements, allowing the in-plant actors to deviate temporarily from the standards of remuneration and working times agreed in industry-level bargaining. In exchange the employees received temporary guarantees of jobs. Note that the bargaining partners' consent is required if corporations wish to undercut the standards specified in industry-level contracts.

## DISCUSSION OF PROS AND CONS

### Incidence and content of in-plant alliances

The IAB Establishment Panel Survey 2006 provides information on in-plant alliances with concessions from both employees and employers. Of all German establishments in the private sector with five or more employees, 2% have concluded such job alliances, covering 14% of the German workforce (see Figure 1). The incidence of alliances depends strongly on the establishment size. Only 2% of all establishments with fewer than 50 employees adopt a job alliance, but, among establishments with 500 and more employees, 35% conclude such an agreement [5]. The alliances are observed mostly in manufacturing, in mining and energy, and in transport, storage, and communication. In terms of the proportion of employees working in establishments with a job alliance, the investment goods industry is the most important sector [5].

Most of the employee concessions reduce special bonus payments, such as Christmas bonuses and holiday pay (62%), or introduce, extend, or re-regulate working-time accounts (53%) (see Figure 2). Less important are reducing overtime work (41%) and suspending contractual wage increases (38%) [5]. The reduction of special bonus payments and the prolongation of working time without wage adjustments are both concluded more often in a crisis alliance than in a competitive alliance.

In the majority of alliances, the employer gives a location guarantee (59%) and/or a general job guarantee (51%), often also committing to invest at a plant location (33%).

Figure 1. Incidence of in-plant alliances in Germany by establishment size and economic sector, 2006

	Share of establishments (%)	Share of employees (%)
<b>Establishment size</b>		
5–49 employees	2	2
50–199 employees	8	10
200–499 employees	19	20
500 and more employees	35	43
<b>Economic sector</b>		
Mining, quarrying, energy	3	16
Production goods	6	26
Investment goods	6	35
Consumer goods	3	15
Construction	2	4
Trade, repair	2	5
Transport, storage, communication	5	17
Financial intermediation	4	11
Services for firms	2	6
Other services	1	6
<b>Total</b>	<b>2</b>	<b>14</b>

Source: Ellguth, P., and S. Kohaut. "Ein Bund fürs Überleben? Betriebliche Vereinbarungen zur Beschäftigungs- und Standortsicherung." *The German Journal of Industrial Relations* 15:3 (2008): 209–232 [5].

Figure 2. Content of in-plant alliances in Germany, 2006

	<i>Share of alliances (%)</i>
Employee concessions on working time	
Working-time accounts	53
Reduction of overtime work	41
Prolongation of working time without wage adjustment	37
Prolongation of working time with wage adjustment	27
Employee concessions on compensation	
Reduction of special bonus payments	62
Suspension of contractual wage increases	38
Reduction of baseline wages	29
Reckoning-up of contractual wage increases	24
Other subject matters of the alliance	
Further training	24
Reorganization measures	9
Employer commitments	
Location guarantee	59
General job guarantee	51
Investments at the location	33
Retention of apprentices	33
Guarantee for the number of employees	28
Job guarantee for parts of the staff	23
No outsourcing	19
Guarantee of the number of apprentices	17

Note: Multiple answers are possible.

Source: Bellmann, L., K. Gerlach, and W. Meyer. "Company-level pacts for employment." *Journal of Economics and Statistics* 228:5–6 (2008): 533–553 [6] and author's calculations.

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In-plant alliances feature combinations of different measures. But with the large number of possible combinations, analysis does not reveal any combination that is used most frequently. The prolongation of working time without a wage adjustment is often used (37%), but its combination with a general job guarantee, location guarantee, and reduction of special bonus payments is not (3%). The combination of the prolongation of working time (without wage adjustments or location and general job guarantees) and the reduction of overtime work reached only 9%. The introduction of working-time accounts with reductions in overtime work and special bonus payments is observed in 6% of instances.

## Arguments for and against concluding in-plant alliances

### ***Strengthening competitiveness***

In general, works councils representing employees conclude in-plant alliances with management to strengthen the competitive position of the company. Since an economic crisis can reduce labor's productivity, and since increased competition can force

Figure 3. Employment change in plants with and without an in-plant alliance in Germany, 2006–2009 (%)

	2006–2007	2007–2008	2008–2009
Crisis plant with in-plant alliance	2.6	4.3	–1.5
Crisis plant without in-plant alliance	1.4	1.6	–7.0
Non-crisis plant with in-plant alliance	2.5	3.7	0.0
Non-crisis plant without in-plant alliance	0.6	–0.4	–1.4

Note: A change in business expectations between 2008 and 2009 was used to classify plants as crisis or non-crisis.

Source: Bellmann, L., and H. D. Gerner. "Company-level pacts for employment in the global crisis 2008/2009: First evidence from representative German establishment-level panel data." *The International Journal of Human Resource Management* 23:16 (2012): 3375–3396 [7]. Partial effects are presented.

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companies to restructure, management and works councils seek to avoid employee layoffs. Works councils concede to management proposals to increase the flexibility of labor use through, say, lowering wages and working-time measures. Works councils may also make agreements on performance-related wages, implying a reduction in baseline wages. In addition, the intensity of further training could be increased [6]. What these personnel policy instruments have in common is reducing the unit labor costs.

### ***Dealing with a crisis***

For Germany, the employment effect of an in-plant alliance can be estimated with IAB Establishment Panel data, using a large number of control variables [7]. The coefficients here are partial effects of a discrete change in the explanatory variable—that is, the conclusion of an in-plant alliance—and the relative change in employment (see Figure 3). Plants that concluded an in-plant alliance had better employment effects than those without such an alliance. This result holds in a comparison of plants hit by the 2008–2009 global crisis with plants not hit (the control group). Interestingly, this finding contrasts with previous studies that cover the period before the crisis, when alliances were used to restructure firms in order to increase their competitiveness.

### ***Preserving workers with a vocational degree***

Which groups of employees are more likely to be affected by the conclusion of in-plant alliances? Descriptive statistics reveal that the proportion of persons with a vocational degree is much higher in establishments with an in-plant alliance irrespective of establishment size. But in establishments with fewer than 200 but more than 50 employees, the proportion of apprentices is considerably lower in companies with in-plant alliances (see Figure 4).

### ***Reneging on pledges***

Arguments against in-plant alliances include the difficulty for management to fulfill its pledges, but there are some additional problems. The works council and management may be interested in saving only the jobs of workers already employed. That improves the competitive position of these insiders and reduces the employment chances of outsiders,

Figure 4. Employment structure in plants with and without an in-plant alliance in Germany by establishment size, 2006

	<i>With in-plant alliance (%)</i>	<i>Without in-plant alliance (%)</i>
<b>500 and more employees</b>		
Academics	11.8	11.7
Persons with a vocational degree	62.9	54.4
Persons without a vocational degree	20.7	29.5
Apprentices	4.4	4.2
<b>200–499 employees</b>		
Academics	9.6	11.1
Persons with a vocational degree	63.3	55.9
Persons without a vocational degree	22.5	28.9
Apprentices	4.2	3.6
<b>50–199 employees</b>		
Academics	9.2	8.3
Persons with a vocational degree	64.2	58.7
Persons without a vocational degree	21.3	26.5
Apprentices	4.2	5.0
<b>5–49 employees</b>		
Academics	9.4	5.2
Persons with a vocational degree	62.6	55.3
Persons without a vocational degree	17.9	20.5
Apprentices	3.8	5.3

Source: Author's calculations based on the IAB Establishment Panel.

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because the firms' management commits itself to refuse offers from outsiders to work for lower wages. Employers also want to avoid raising expectations that cannot be fulfilled or giving employees the illusion that their jobs are secure. What future trends in product markets might mean for labor markets is uncertain for management.

### ***Weakening collective agreements and bargaining positions***

Finally, the conclusion of an in-plant alliance tends to weaken the relevance of collective agreements on wage-setting and regular working time. That not only reinforces the erosion of collective agreements but also endangers the basis for concluding in-plant alliances, because references for the terms of the in-plant alliance vanish, and works councils are forced to take sole responsibility for bargaining over wages and other working conditions. This process weakens the bargaining position of employee representatives.

### **Problems with implementing collective job agreements**

Theoretically, bargaining partners can augment their utility and profit by negotiating wages and employment simultaneously. The resulting agreements reduce wages or prolong working times in exchange for employment guarantees or investment programs.

An “efficient” sectoral collective agreement cannot be enforced by employer associations, because they cannot specify the employment level for each member firm. By contrast, bargaining simultaneously over wages and employment at the company level is more efficient, as firms renege on their commitments would face problems with their works councils and the unions. Special “opening clauses” often allow firms to renegotiate their pledges. And after some negative examples when the experience with in-plant alliances was limited, detailed contracts have been used for implementation [8].

It may be difficult to conclude otherwise efficiency-enhancing bargaining contracts if the employed insiders use their bargaining power to resist management’s interest in reducing wages, and to ignore the interest of unemployed outsiders [2]. In-plant alliances might have the advantage of taking into account the employment consequences of wage negotiations, but they cannot deviate too much from the results negotiated at the sectoral level, because the unions would not agree to them. Thus, employers cannot exploit the weaker bargaining position of works councils. Works councils also restrain themselves from wage bargaining in order to retain peaceful labor relations within the firm [6].

### ***Enforcing pledges***

Young apprentices provide a special group of outsiders. In 33% of in-plant alliances, the employers committed themselves to retain apprentices after they had completed their vocational training, sometimes for only six months (see Figure 2). But guarantees for the number of apprentices are less frequent (17%). These facts indicate that young labor market entrants are not considered a target group for in-plant alliances.

Furthermore, 24% of in-plant alliances contain an employer pledge for further training. In addition, employers’ general job and location guarantees—in exchange for works council wage concessions—tend to increase employment stability and thus the firms’ incentives for human capital investments. But empirical evidence suggests that in-plant alliances do not have a positive causal effect on further training [9].

At both national and sectoral levels the initiatives ran into difficulties because employer associations could not enforce their member firms’ pledges. And governments and politicians were reluctant to accept the responsibility for both employment and unemployment. In contrast, as single firms and locations are exposed to more competition, both from other establishments and from other workplaces of the same firm—as well as rights and responsibilities for wages, working time, and employment—employment security and location survival become more important in the bargaining agenda at firms and plants.

### ***Pressure from multinationals***

In-plant alliances are of special interest to multinational corporations. First, working arrangements are tailored to the company’s needs. Second, performance can be measured and compared within the company. Third, with a shift of responsibility for and accountability of labor costs to business units, information from performance comparisons was used to pressure works councils to concede to deviations from sectoral bargaining standards [10].

### ***Partnerships or conflicts***

The in-plant alliances in Germany exemplify a partnership between employers and employees. Acting as co-managers, union representatives gain additional power and responsibilities at the firm level. But political conflicts are created because some firms do not reach the employment objectives agreed on in the respective alliance [11].

In general, restructuring a company comes mostly from management in response to an imminent economic crisis or with the aim of increasing the company's competitiveness. Thus, the bargaining power of works councils seems to be relatively weak and gives management leeway for wage moderation to preserve employment during an economic crisis. But the negotiation of such contracts seems less confrontational than US-type concession bargaining, with union-busting and avoidance strategies often associated with in-plant alliances, and job security not always exchanged for employee concessions.

### **Reducing the risk of failure of in-plant alliances**

The dilemma is that works councils have to agree to reduced wages and prolonged working time for a limited period because of an imminent or ongoing crisis. But employers cannot be sure they will be able to fulfill their pledge because of uncertainties about the future of their product market. For example, during the Great Recession of 2008–2009 firm management did not know how long the crisis would last or how much their revenues would decline. Thus, it was not clear whether in-plant alliances concluded before the start of the crisis could be continued and whether it was possible to conclude new job alliances. In-plant alliances of the first category had to be renegotiated and adapted because of the changed conditions. But employee representatives and firm management had more recent information about the probable development of the product market that increased the likelihood that employers could fulfill their pledges [11].

The quality of employer–employee relations in firms and the trust of works councils in management increased the chances that firms would fulfill employment guarantees. And if the members of works councils act as co-managers, job alliances fail less often. The effects of the firms' export orientation, the existence of a sectoral collective agreement, and the necessity of the union's consent were insignificant [11].

## **LIMITATIONS AND GAPS**

In-plant alliances differ in their goals, motives, measures, and economic sectors. Since the experiences and mutual trust of the social partners are as important as legal regulations, it is difficult to draw definite conclusions about Germany's success for other countries. As explained, it may be possible under certain conditions to foster employment by concluding an in-plant alliance. But it remains open how employment, working time, and wages at the firm level would respond at the sectoral or aggregate level.

A key limitation of most investigations about the goals, contents, and successes of in-plant alliances is that they are not based on representative data for sectoral and firm size coverage. Many studies are based on cross-sectional data and thus cannot assess the employment effect over a longer period. Having detailed information of firms that did not conclude an in-plant alliance is also necessary to construct a control group for identifying the effects on the treatment group. Information on firms prior to the introduction of

in-plant alliances could help control for any selection effects. Also of interest would be knowing how long the in-plant alliances are in place, and which regulations agreed on are still valid when the alliances expire.

## SUMMARY AND POLICY ADVICE

Ten years ago in Germany the public debated whether union consent to in-plant alliances should be abolished, leaving works councils to decide by themselves how much they could deviate from collective agreements. The alliances can be regarded as an instrument to reduce wages and to cope with the challenges of global competition. But social partners wish to conclude in-plant alliances aligned with collective agreements. Works councils are interested in having union expertise in outlining in-plant alliances with detailed regulations, since vague pacts have in some cases failed. And the power of works councils is greater if they have the support of unions.

Empirical evidence based on representative establishment data for Germany reveals that during the 2008–2009 global crisis companies avoided dismissals by concluding in-plant alliances. But these pacts risked failure because the management employment guarantees had to be fulfilled later than the works council concessions, opening the possibility of circumventing collective bargaining and collective job agreements.

In-plant alliances could be used with short-time work allowance schemes that draw heavily on government resources. But the maximum duration of short-time work allowances is limited, although it was extended in Germany from 12 to 24 months during 2008–2009, and the time needed for flexibility and in-plant restructuring may be much longer. In contrast to short-time work programs, in-plant alliances can help overcome an imminent crisis and have concrete personnel policies to improve firms' competitiveness and employment prospects without relying on wage reductions.

Thus, policymakers should encourage the social partners to conclude in-plant alliances aligned with collective agreements and with detailed regulations, because they are helpful in saving jobs in an economic crisis or if firms have to improve their competitiveness. These alliances are also in the government's interest because public expenditures for labor market policies can be reduced. Within the European Employment Strategy, the preservation and creation of jobs, as well as the achievement of competitiveness, are of crucial importance. In-plant alliances specifically link employment and competitiveness [2].

## Acknowledgments

The author thanks two anonymous referees and the IZA World of Labor editors for many helpful suggestions on an earlier draft.

## Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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### Further reading

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