

The Irrelevance of Trade Union Recognition?  
A Comparison of Two Matched Companies

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## **Abstract**

Two UK business services companies are compared both to each other and to their common state-owned industry background in order to assess the implications of trade union recognition and changed bargaining structure. Union recognition had been abandoned by one company under the agenda of 'individualization' and 'personal contracts' but retained by the other under the agenda of 'partnership'. Changes in the level at which employment relationships are regulated occurred at both companies relative to their ancestral public enterprises. The similarity of the companies in terms of products, technologies and institutional history provides an approximation to a natural experiment. The evidence suggests only secondary effects from union presence upon operational attributes and economic performance, but major effects from the decentralization of employment relations, which formed part of a wider and more radical set of changes in the relevant markets, technologies, ownership structures and labour law.

# **The irrelevance of trade union recognition? A comparison of two matched companies**

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## **1. Introduction<sup>1</sup>**

The economics of trade unionism is dominated by two issues. First, what effect does union presence have on economic outcomes, notably pay and productivity? Second, what difference does it make whether the influence of unions in pay setting is exerted centrally or elsewhere -- in particular at sector rather than establishment level?

The answers to these questions remain controversial. The first question has been addressed mainly at the microeconomic level (Freeman and Medoff 1984; Metcalf 1993; Booth 1995; Metcalf 2002), the second mainly at the macroeconomic level (Calmfors 1993; Flanagan 1999). They are however closely linked. The microeconomic effects of trade unionism are expected to depend on the level and context of bargaining. Both theory and evidence suggest that when unions bargain at enterprise and establishment levels with employers who face competitive product markets, their influence on economic

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<sup>1</sup> This paper draws on research conducted with Simon Deakin, Maria Hudson, David Nash, Sarah Oxenbridge and Cliff Pratten, funded by the Department of Trade and Industry and the Economic and Social Research Council (Brown *et al.* 1998; Brown *et al.* 2000, 2001). The views expressed here are not necessarily those of the DTI or the ESRC. Earlier versions were presented to conferences at the Tinbergen Institute, University of Amsterdam, and LEST-CNRS, Aix-en-Provence. We would like to thank Owen Darbishire, Simon Deakin, John Forth, Peter Kuhn, Paul Marginson, Ken Mayhew, Yoshifumi Nakata, Cliff Pratten, Paul Smith, Lloyd Ulman, and the managers and trade unionists who assisted us generously in the case study companies.

outcomes may or may not be benign, but is in any event likely to be weak (Stewart 1990; Brown, Deakin and Ryan 1997; Metcalf 2002; Bryson and Wilkinson 2002; Aidt and Sena 2003).

This paper considers both issues. It uses a matched case study of two British firms in the second half of the 1990s. Both operated as subsidiaries of regional utility companies. Both used the same technologies and competed in the same product market: the 'facilities management' market within the business services sector. Both had emerged in the mid-1990s from the same background of nationalised industry and sector-wide collective bargaining. They chose radically different approaches to employment relations. One not only retained but even promoted collective bargaining, recast pro-actively as 'partnership.' The other rejected collective bargaining, offering 'personal' contracts to all employees and excluding trade unions from any formal role in employment relations.

By comparing the two companies, given the similarity of backgrounds and circumstances, we investigate here the effect of union presence on payment systems, operational attributes and (to a limited extent) economic performance. The union effect proves ambiguous in sign and secondary in magnitude.

Our case studies involve more than simply a contrast between the outcomes of employer strategies that do and do not involve trade unions. We consider also the difference in outcomes when trade unions are involved under sectoral agreements with state employers as opposed to under enterprise-based agreements with private sector employers. This second comparison suggests a much greater influence of trade unionism presence on pay and productivity, which is consistent with the view that the effects of trade unionism vary with the level and context of bargaining.

We also document how two recently privatised employers responded to a changing economic environment by modifying their initial approaches to union recognition. Our intention is to provide a dynamic sense of the economic role of collective bargaining, and of how changes in its context reshape it, with potential consequences for economic outcomes.

Taken together, our comparisons reflect wider trends in employment relations in many industrialised countries. In Britain in particular, the position of trade unions has been radically affected by a broad set of changes – notably increased international competition in product and financial markets, the privatisation and regulation of public utilities, the growth of unemployment, and union-specific legislation (Brown and Walsh 1991; Haskel and Szymanski 1994; Edwards 2003). Within these broader trends, a widely publicised wave of union derecognition occurred in the early 1990s, taking the specifically British form of 'individualisation' (Brown *et al.* 1998). All of these factors feature in the decentralisation of employment relations and the recasting of the role of

trade unionism in the organisations discussed here.

The following section describes the research context and methods. Section 3 summarises the course of events at the two companies. Effects on operational attributes and economic outcomes are considered in section 4, followed by the conclusions in section 5.

## 2. Research context and methods

The two case studies presented here developed from a wider research project, concerned with what was depicted as the widespread ‘individualisation’ of employment contracts during the early 1990s. The project established that the essence of the individualisation was the withdrawal, formal or informal, by employers from collective arrangements for fixing terms and conditions. There were few signs of *substantive* individualisation, meaning the differentiation of the content of employment contracts between individuals. If anything the reverse, greater standardisation, was more common. The evidence pointed however to a widespread *procedural* individualisation, with trade unions excluded from the process of determining the content of employment contracts. Sometimes this occurred through formal derecognition. In that case, individualisation typically involved a mix of positive inducements to employees to forswear coverage by collective bargaining in favour of ‘individual’ or ‘personal’ contracts, individual freedom of choice concerning union membership, and the exclusion of trade union representatives from the regulation of employment relations. More often, individualisation involved less dramatic, incremental action by employers to reduce the coverage, scope and influence of collective bargaining, while still retaining some degree of formal union recognition – e.g., for some occupations only (Brown *et al.* 1998).

Derecognition has played a secondary but nevertheless significant part in the decline of union presence in Britain, particularly in the early 1990s.<sup>2</sup> Where it occurred it tended to take the largely tacit individualisation route, rather than more confrontational approaches, such as the firing of union members and activists, as practised occasionally in the UK and more extensively in the US (Rogaly 1977; Bronfenbrenner 1994).<sup>3</sup>

The original study had used matched comparisons of employers who had retained or abandoned links with trade unions. For the present study the same approach was used but the two matched firms were investigated in greater depth

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<sup>2</sup> Smith and Morton (1993), Evans and Hudson (1994), Beaumont and Harris (1995), Claydon (1996), Disney, Gosling and Machin (1996), Gall and Mackay (1999a), Smith (1999).

<sup>3</sup> Legally viewed, ‘individualisation’ is a misnomer. Employees always have individual contracts of employment. Under collective bargaining, the terms of relevant collective agreements are in the eyes of the law incorporated into individual contracts. Derecognition means then the absence of any such incorporation (Deakin and Morris, 1998).

and over a longer period. They were selected for closer research for three reasons. First, they were particularly closely matched in product market, technological and historical terms. Second, the nature of their business allowed a closer comparison of performance than was possible in most other industries. Third, from the outset they publicly embraced quite different strategies towards trade unions: complete derecognition as opposed to ‘partnership’.

Our research methods offer two advantages. First, there is the need for more employer-level information on the effects of union presence (Kuhn 1998). Secondly, the closeness of the match between the companies means an approximation to a ‘natural experiment,’ permitting a clearer view of the effects of the variable of interest – here, derecognition (Card and Krueger 1995).

Both case study firms were set up in 1996, as part of the rationalisation of the British water and electricity industries following privatisation. Both were wholly-owned subsidiaries of regional utility companies, themselves created by the merging of privatised regional water and electricity boards. Both were established to run, in the first instance, the parent company’s customer services: metering usage, billing, handling enquiries and complaints, and procuring supplies. Their prospects for growth and commercial success depended however on expanding into a wider product market in business services, embracing data collection, data processing and customer relationships for corporate customers in the utility, health services and local government sectors. This was a highly competitive market, open to call-centre operators and suppliers of meter reading services from many different sectoral backgrounds, irrespective of geographical location. The two regions of Britain in which the two firms were located both had long-standing traditions of collective bargaining and above average rates of unemployment. The case study firms were therefore similar in terms of age, history, technology, market conditions, and business objectives.

Where the firms differed, and did so very publicly, was in their attitude towards trade unions. The nationalised industries from which they had emerged had been characterised by industry-wide collective bargaining and post-entry closed shops (Pendleton and Winterton, 1993; Ferner and Colling, 1993; Colling and Ferner, 1995). One company – here called ‘Indivco’ – excluded collective bargaining from the outset, derecognising all trade unions and offering ‘personal’ contracts to all employees. The other – here called ‘Recogco’ – retained collective bargaining, now conducted at group not sectoral level and described as ‘partnership’.<sup>4</sup>

These three situations constitute the basis of a two-way comparison. We compare the conduct of employment relations at Indivco and Recogco both with

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<sup>4</sup> ‘Indivco’ and ‘Recogco’ correspond to ‘FaciliCo’ and ‘UtiliCo’ respectively in Brown *et al.* (1998).

each other and with that of the world of sectoral agreements and public ownership from which they had come. The former comparison provides evidence on the effects of union presence; the latter, evidence on the effects of a range of economic and organisational change during the previous decade, including the decentralisation of employment relations.<sup>5</sup>

The timing of the case studies allowed another potentially important factor to be taken into account. The election of the Labour Government in May 1997 heralded the Employment Relations Act of 1999 which, among other things, has eased the restrictions on trade union organisation, provided employees with rights to be accompanied by trade union officers in disciplinary and serious grievance cases, and established a procedure whereby unions with sufficient employee support can win recognition from employers (Gall and McKay, 1999b; Brown *et al.*, 2001). Perhaps as important as the details of the Act was the clear signal it sent to employers that government was, after nearly two decades of hostility, once again sympathetic towards collective bargaining, so long as it was conducted in a co-operative rather than confrontational spirit.

Evidence is derived here from interviews with both sides as well as from corporate documents, and is thus well 'triangulated'. Interviews were conducted initially during 1996-97, with return visits in 1999. Seven senior and middle managers, three lay union representatives, and one regional union official were interviewed at Indivco. Three senior managers and one lay representative were interviewed at Recogco. Both companies provided associated documentation, including specimen employment contracts and collective agreements. Key attributes of the two companies, along with those of their predecessor nationalised industries, are summarised in Table 1.

### **3. The background and evolution of the matched companies**

Indivco and Recogco were formed on the same day in spring 1996. Each company had evolved from the same nationalised industry background of industry-wide bargaining, conducted until 1990-92 through National Joint Committees, as statutorily required under public ownership. The old water and electricity supply industries had respectively three and four joint committees, whose remits covered different occupational strata up to and including senior management. These joint bodies were responsible for negotiating changes to the national agreement, for consultation over changes in working methods, and for the adjudication of interpretation disputes under the agreement. The negotiation and consultation functions of joint bodies had been combined in water, but kept

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<sup>5</sup> The comparison between industry-level bargaining in the late 1980s and company-level regulation in the late 1990s is therefore far from a natural experiment. As decentralisation was accompanied by major changes in markets, technologies and public policies, its *ceteris paribus* effect is correspondingly hard to determine.

separate in electricity (Pendleton and Winterton, 1993). The national structure was mirrored by joint bodies at district and establishment level, charged with negotiating implementation and consulting over details.

In 1990 for water and in 1992 for electricity, the four newly privatised regional utility ancestors of the case study firms replaced the relevant inherited national agreement with company-wide agreements. Decentralisation went a step further in 1996, when all employees in the former meter reading, billing and call-centre functions of the water and electricity sides of the regional combined utilities had their contracts of employment transferred to the newly created subsidiaries on which we focus here.

Their ancestor water and electricity utility companies had previously experienced uneven industrial relations. The recent history of the water components of each had been conflictual, culminating, in the case of Recogco, in the derecognition just before privatisation of one of the manual unions for water workers. After privatisation, all four 'grand-parent' utilities withdrew union recognition for senior management. But whereas Indivco's water grand-parent also derecognised unions for non-manual workers, both of Recogco's grand-parents established 'single-table' bargaining arrangements, with all trade unions bargaining in the same forum and, when the companies merged, the resulting firm, which subsequently became Recogco's parent, proved a leading exponent of partnership with trade unions.

### ***Indivco***

Indivco's new management believed that operational change would be easier and quicker were it no longer constrained by collective bargaining. The restrictions that the public sector unions had long defended over such issues as working methods and operational hours were seen as particularly damaging to customer service and innovation. Senior managers associated collective bargaining with inertia and negativity, and were encouraged in this view by the traditionally left-wing character of the main local unions. Managers sought a more constructive, and hopefully higher trust, relationship with employees, involving consultation rather than negotiation.

All Indivco employees, as part of the transfer of their contracts in 1996 from the parent utility to the new subsidiary, were therefore offered 'personal' contracts. The new contracts explicitly ruled out a role for collective bargaining. They stipulated a pay rate, a procedure for its periodic review, more flexible working hours (implying reduced access to overtime earnings), the removal of various *ad hoc* special payments, new consultative committees, and a revised grievance and disciplinary procedure.

Employees were not obliged to accept the new contracts. Those who refused were allowed to continue under the parent utility's existing collective



agreement, but without any guarantee of benefiting from changes in terms and conditions subsequently re-negotiated thereunder. Acceptance was however encouraged by an immediate increase in remuneration, comprising a five per cent rise in basic rates, new performance-related bonuses guaranteed initially at five per cent of basic pay, and improved fringe benefits, notably free private health insurance. Illustrative calculations in the explanatory material that Indivco circulated to employees suggested that a representative employee would enjoy a 10 per cent increase in money earnings alone as a result of accepting a personal contract. A UNISON lay official estimated the overall improvement as equivalent to a 13 per cent pay increase for his members. Employees who stood to lose pay as a result of the reduction of overtime pay and the abolition of special payments were promised the maintenance of prior earnings in all but extreme cases.

Management went to considerable lengths to encourage acceptance, explaining the scheme in detail and dealing rapidly and liberally with anomalies thrown up by its implementation. Attractive severance terms were offered to opponents of the personal contracts. Employee acceptance was encouraged by fears for personal job security and promotion prospects in case of rejection.

The trade unions opposed these moves bitterly. The main unions threatened by derecognition balloted their members on proposals for industrial action in order to secure the withdrawal of the personal contracts.<sup>6</sup> Support proved weak. UNISON balloted its members twice without on either occasion obtaining a majority vote for industrial action, nor even for action short of a strike. Amongst its members faced with the move to Indivco, whose ranks were dominated by meter readers, the AEEU secured a majority only for action short of a strike. The union was however entitled to include in its ballot constituency all members in the parent company, a category dominated numerically by the well organised craft electricians in power distribution services, few of whom were to be transferred to Indivco and thereby made eligible for a personal contract. On that wider basis, majority support was secured for a strike, and even stronger support for action short of a strike. The AEEU accordingly launched an overtime ban and a work-to-rule, applicable to its members in the group as a whole, not just those transferring to Indivco.

By the date of the transfer of engagements to Indivco, however, 88 per cent of the employees offered personal contracts had accepted, 9 per cent had requested voluntary redundancy, and fewer than one per cent had refused to sign. The equivocal ballot results, combined with widespread acceptance of personal contracts, had already ended any prospect of effective opposition to

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<sup>6</sup> Manual employees in the parent utility companies were represented primarily by three general unions (AEEU, TGWU and GMBASTU), non-manuals by UNISON (sub-managerial grades) and EMA (managers).

individualisation. The AEEU's action was poorly supported by its Indivco members and their lay representatives. Relying as it did largely on the efforts of non-transferring members, it fizzled out within two weeks. The union had found itself in the untenable position of fighting to retain collective bargaining for members who had already signed it away. The end of industrial action did not however mean the end of disagreement. The conflict dragged on for three months, attracting political attention at national level, before being settled by a group-level offer to reserve seats on the proposed consultative employee forums for full-time union officials, both regional and national. Twelve months later, the number of Indivco employees refusing the new contract had fallen from eleven to four.

The personal contracts provided at Indivco did not offer much substantive individualisation, in terms of bespoke terms and conditions of employment for individual employees. Pay and conditions were standardised within major employee groups; fringe benefits became more standardised, as part of a simultaneous move towards single status employment. It was announced however that subsequent increases in base pay would depend on the achievement of individual as well as group objectives, and annual bonuses were to be paid after the first year according to appraised individual performance.

Individualisation was more significant procedurally. Without any consultation with the unions it had hitherto recognised, Indivco announced in the new contracts its withdrawal from collective bargaining. The company sought to marginalise, not destroy, trade unionism in the company. Employees would be allowed to have union representatives accompany them in disciplinary procedures and even to refuse the new contract. Union representatives would be allowed to stand for election to internal consultative bodies, though if successful they were not to be recognised as such. As a lay official remarked, 'the company hasn't derecognised unions ... it just doesn't recognise us for anything'. Union membership density dropped, falling as low as 15 per cent in one of the company's two call centre facilities.

No bilateral employer-employee negotiation of individual contracts was envisaged by the company. The few employees who, 'thinking it was Christmas' in the words of one manager, attempted to negotiate variations in the terms on offer, such as a more personally convenient standard working week, were firmly rebuffed. Indeed, the main procedural innovation was collective, with the introduction of consultative forums, at both company and divisional level, at which the company's proposals for changes in terms and conditions, as well as various operational issues, were to be discussed.

## *Recogco*

Recogco sought a similar responsiveness to its new competitive environment as did Indivco, but took a different view of how to achieve it. The wider utility group to which Recogco belonged had already become well known nationally for its advocacy of the benefits of 'partnership agreements' with trade unions, pointing with pride to the operational flexibility and innovative payment system that had been achieved in return for security of pay and employment.

Managers explained their preference for recognition partly in terms of the benefits of working through unions. As the personnel manager put it: 'we have faith in unions ... collective bargaining is not a downside ... trade unions are a positive force for change'. Another factor was a regional tradition of harmonious industrial relations, to which various incoming Japanese employers had lately contributed. Recogco remained therefore under its parent company's collective agreement, first negotiated on the water side in 1991 as a single table, 'partnership' agreement, and updated twice by 1994. The agreement was extended to the entire group in 1996. Changes to the collective agreement, including the proposed harmonisation of terms and conditions across water and electricity functions, continued to be negotiated at group rather than subsidiary level.

Union membership remained above 85 per cent of total employment despite the abolition of the closed shop. This supportive environment notwithstanding, many Recogco employees opposed the partnership arrangement. Management had to 'sell' the 1997 agreement in a ballot of employees, calling on the signatory union representatives for support. The 30 per cent of votes cast against the agreement indicated considerable discontent, primarily over value of the pay and employment security promises made by the company.

Another factor was the drastic change in the form and scope of the collective agreement that had occurred since privatisation. The antecedent national agreements for both the water and electricity industries had been long, formal documents that spelled out a wide range of details, both substantive and procedural (NJICESI 1990; NJICWI 1984). The 'partnership' agreements pioneered for Recogco by its parent company were by contrast confined largely to statements of agreed principle, issued as a short, informal document over the signature of the group personnel officer.

The core of the collective agreement remained the guarantee of job security, offered in return for various concessions by the unions – notably a long-term pay fixing formula, under which annual increases were determined not by negotiation but automatically, as a function of three factors: an index of price inflation, regional wage changes, and the company's performance.

### *Strategic convergence*

The contrast between the strategies adopted initially by Indivco and Recogco was sharp. Within a short time, however, both approaches had been modified in response to changed circumstances, narrowing the gap between them.

Indivco's anti-union stance was never implemented comprehensively in practice. After derecognition, the new consultative bodies were formally permitted to discuss, but not to negotiate, company proposals. But both the 1997 and the 1998 pay reviews saw protracted discussions that amounted informally to negotiations, with union representatives to the fore. At the operational level, notwithstanding the company's 'no bargaining' policy, management chose in 1996 to negotiate informally its controversial proposal to use new meter reading equipment to monitor employee effort, resulting in the withdrawal of the proposal.

Nor did the company's formal anti-union stance last long. The company signed in late 1998 a national framework 'recognition agreement' with UNISON, one of the unions it had derecognised in 1996. It did so to win business from public sector bodies, notably Labour-led local authorities, which expected a union-friendly stance of their external contractors. The replacement of three senior anti-union managers during 1997-98 by more pragmatic individuals also promoted a softening in the group's opposition to recognition. The human resource team was then able to argue successfully that changes in both product markets and national politics made the re-recognition of trade unions Indivco's best course of action.<sup>7</sup>

This *volte face* was followed in 1999 by the signing of partnership agreements, firstly with the AEEU and the other 'industrial' unions and then with UNISON, covering the core employees for whom both unions had been derecognised three years previously. The move was dictated by the prospect of the statutory recognition rights under the 1999 Employment Relations Act, given both the demonstration by the unions of a majority membership count for manual workers and the achievement for non-manuals of a majority outcome in a ballot, towards which the company adopted a neutral stance. Facing these developments, Indivco did not simply bow to the inevitable, but rather sought by intervening early to shape the inevitable to its own requirements. In early 2000, it joined the first round of companies bidding for and winning government funding for partnership training under the Act. In its brevity and its emphasis on principles rather than detailed rules, Indivco's 'partnership agreement' resembled not the national agreements of the NJIC days but rather

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<sup>7</sup> Earlier the company had granted an informal facilities agreement to UNISON representatives in order to avoid charges that it had breached Transfer of Undertakings (TUPE) regulations by failing to consult with the union over derecognition.

its contemporary counterpart at Recogco.

At Recogco, by contrast, by 1999 the much publicised partnership arrangements had come under pressure. While its partnership-based approach had helped the company to win some business, particularly for work out-sourced by the public sector, not all new business proved suitable. Some clients were unreceptive to trade unionism. Others demanded down-market services that could be provided profitably only on terms and conditions inferior to those in the company's core business. There was no prospect of extending the existing group partnership agreement to such contracts.

Moreover, in its core contract, with its parent utility, Recogco faced increasing pressure from public regulators. First, there were new requirements to 'market test' internal functions (notably meter reading) against quotes from potential external suppliers. Second, steep price reductions were being demanded of the parent company at a time when the group's share price had become vulnerably low. The company therefore back-tracked. When the partnership agreement was renewed in 1998, Recogco emphasised that the guarantee of job security was limited to the life of its contract with its parent company, which either party was entitled to cancel by giving notice. Whereas the period of notice had previously been nine months, it was now left unspecified. The core commitment to job security was thereby gravely damaged.

Within three years, therefore, the stances taken by Indivco and Recogco towards trade unions had changed substantially, and largely converged. In response to competitive and legal constraints, both companies had come to engage in a relatively weak form of collective bargaining (covering all except senior management and some professional employees). Both were prepared, in the words of one manager, to be 'all things to all people', emphasising pragmatically to union-friendly potential customers their ability to work well with unions, and to union-unfriendly ones their ability to work well without unions. In less than four years, commercial considerations and legal requirements had so undermined Indivco's rejection of trade unions that it had become a leading exponent of workplace partnership, while Recogco's partnership relationship with its unions had been seriously undermined by product market pressures.

#### **4. Outcomes**

Although external factors had within four years induced both companies to alter their contrasting strategies towards trade unions, during the first two years, from 1996 to 1998, they had pursued them with vigour, each believing that its choice offered competitive advantage. Both approaches represented a departure from the shared background of industry-level bargaining. Does the

evidence suggest that either strategy was superior?

Table 2 compares the operational situation in each company in the first half of 1997 both to that in the other company in the same period and to that that had prevailed during the late 1980s in the antecedent utilities under public ownership and industrial bargaining. The first rows of the table concern terms and conditions of employment; the remainder, other operational attributes of potential significance for economic performance.

It is evident that the differences between nationalised industry bargaining and privatised company-level regulation were many and marked. By contrast, differences between the two forms of company-level regulation -- collective bargaining and derecognition -- were few and small.

### **a. Decentralisation**

Under state ownership, industrial agreements and local custom and practice had created a web of rules constraining management. These included substantial occupational demarcations, restrictions on operational hours and working time flexibility, overtime pay at premium rates for work performed outside those operational hours, special payments for a variety of special working conditions, and substantial status differentiation, within hierarchies of fourteen or more grades. Job security guarantees were substantial. Performance appraisal was unknown.

Although the elaborate industrial relations institutions of the nationalised electricity and water industries were associated with low strike incidence and wide-ranging consultation over change, they were also generally identified with inertia and inefficiency. Management interviewees' retrospective perception of public ownership was as having fostered a 'do as little as possible' and an 'it's not my job' ethos, in which 'you were left to yourself and got paid for it', and clerical staff enjoyed 'long chats about Coronation Street'. Under the disputes procedure, the *status quo* prevailed on any managerial proposal until agreement was reached, which encouraged union officials to oppose such proposals all the way to national level.

Although the memories of managers are potentially biased,<sup>8</sup> other evidence supports their recollections. The nationalised industries stood out in the 1984 Workplace Industrial Relations Survey for their highly centralised decision-making, formalised but narrow consultation channels, extensive employee and shop steward resistance to technical and organisational change, and an exceptionally wide scope of bargaining (Daniel, 1987). Although

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<sup>8</sup> In addition to the standard difficulties caused by the difference between the positions from which managers and employees experience and view events, it is likely that our managerial interviews were biased, by the post-privatisation pattern of quits and redundancies, towards views critical of industrial relations under public ownership.

productivity bargaining had proved influential in electricity supply in particular, the economic performance of the nationalised industries compared unfavourably with that of their foreign counterparts (NBPI, 1967; Pryke, 1981). Faster growth in labour productivity than in total factor productivity after privatisation suggested significant over-manning under public ownership (Martin and Parker, 1997).

The contrast with pay setting in the privatised companies, both with and without collective bargaining, was sharp (Table 2). At both Indivco and Recogco, annual pay increases were no longer guaranteed, formally or informally, though indexation did protect real wages at Recogco. Operating hours had been extended to include evenings and weekends. Access to overtime pay had been reduced sharply and overtime work, where rewarded, attracted only time off in lieu or payment at non-premium rates. Special payments had in principle been abolished, though individuals benefiting from some had had their pay 'red-circled'. Performance appraisal had been introduced for all employees. Status differentiation, reduced by moving all employees to monthly salaried status, was limited to a small set of fringe benefits, primarily company cars. Both companies had adopted two-tier pay systems, unheard of under public ownership, which gave new recruits lower remuneration, including pension benefits, than that of established employees.

The contrast between old and new was similarly sharp for most non-pay attributes. Temporary contracts, negligible under public ownership, accounted for a substantial minority of employment, reflecting identical decisions by the two companies to place all recruits for the main manual and clerical occupations on fixed-term contracts. Demarcation rules had been abolished; flexible working, supported by training where needed, was expected of all employees. The organisational hierarchy had been reduced from fourteen to five grades.

Areas of similarity between the old and the new were few. Holiday entitlements had changed little. Consultative forums at company and departmental levels paralleled in some respects the joint committees of the former nationalised industries, though with much greater managerial powers of initiative than before. Overall, however, the differences between operational attributes under public ownership through the 1980s and private ownership during 1996-8 ran deep and wide.

## **b. Derecognition**

Turning to the comparison between the two privatised companies, the differences between attributes of company-level bargaining (Recogco) and no bargaining (Indivco) were fewer than in the preceding comparison and, where present, of secondary magnitude. Five stand out: general pay increases; market-rated pay; the use of performance appraisal; overtime pay; and job security.

### *Pay increases*

Although both companies had moved away from negotiated uniform annual pay increases, they took different directions. Indivco dropped collective negotiations in favour of individually differentiated increases; Recogco retained a uniform annual increase but based it on a previously agreed pay formula rather than on annual negotiations.

In the Indivco annual pay review, management determined the increase in an employee's pay according to two criteria. The increase in basic pay depended on the degree to which pre-set quantitative objectives, containing both team and individual components, such as absenteeism, had been attained. An unconsolidated individual bonus was also paid according to the more qualitative results of individual performance appraisal. Both components could in principle be zero, leaving employees who were judged to be low performers without any pay increase.

At Recogco, by contrast, the long-term pay formula inherited from its water utility parent set a standard annual pay rise for all employees as a function of three variables: the national rate of retail price inflation (with full indexation), the rate of nominal earnings growth in regional labour markets, as established by an external survey, and corporate profitability.

Indivco actually offered the same increase to all employees (including the maximum bonus) in its 1996 pay review. This was partly dictated by the need to honour the second stage of a two-year agreement negotiated by its parent electricity company and partly by the need to win early employee support for derecognition. The next two annual pay reviews saw increasing differentiation of pay rises. In 1997 the company paid a 2.5 per cent standard increase and an average of 0.5 per cent according to individual performance ratings. The 1998 review saw a substantial differentiation of pay increases, ranging from zero to ten per cent according to the attainment of objectives, appraised individual performance, and comparisons between basic pay and external market rates.

Derecognition was thus associated at Indivco with greater managerial discretion over the distribution of pay increases than was achieved under collective bargaining at Recogco. The role of derecognition in explaining this difference in outcomes is underlined by Indivco management's judgement that the company's partial return to collective bargaining in 1999 had effectively killed off the option of paying zero increases to any employees.

As well as a growing differentiation of pay between individual employees, derecognition was associated with a higher rate of increase in hourly payroll costs at Indivco than was achieved through collective bargaining at Recogco. The substantial increases in pay and benefits that Indivco offered in



order to win acceptance of personal contracts had no counterpart at Recogco. Moreover, Recogco's pay formula was distinctly parsimonious. Although it fully protected pay against inflation, it offered little scope for real earnings growth. The regional pay component simply adjusted the Recogco pay raise retrospectively, when the company's pay had diverged from the average in the external labour market, with a view to keeping the internal and external in step. This 'market safeguard' was actually more valuable to the company than to its employees, given the company's inherited position towards the upper end of the regional wage structure. Similarly, the profit-sharing component was not large, and had been allowed to overlap confusingly with the RPI component. Following union complaints, Recogco subsequently removed the overlap.

### ***Pay and performance***

While the managers of both companies saw performance appraisal as important, only Indivco linked the resulting ratings to individual pay raises. This difference was consistent with widespread trade union resistance to links between performance appraisal and pay, associated with distrust of its informational content and of the scope for managerial abuse (Marsden and French, 1998). But again the difference between the two companies proved limited in practice. Although appraisal results were incorporated into individuals' annual pay reviews at Indivco, apparent disparities in the stringency of the criteria used by different managers soon led to anomalies across departments. Thus, although the appraisal-pay link at Indivco strengthened over time, its effectiveness became a matter of increasing managerial concern.

Recogco managers did consider adopting a performance-related payment system that rewarded employees for appraised performance, but decided against, given the prospect of the same problem: internal inconsistency. Linking pay to appraisal was judged more likely to corrupt the informational content of appraisal than to improve employee motivation. High performance was therefore rewarded less formally, by such means as the offer of 'a night out with the boss.'

### ***Market-related pay***

The relatively high pay rates for less skilled employees that had been inherited from public ownership gave both companies a strong incentive to adopt two-tier pay systems in order to benefit from the lower supply prices prevailing in local labour markets. It might be expected that Recogco would have had substantially less scope to implement two-tier pay than had Indivco. Trade unions typically oppose for at least two reasons any differentiation of pay on criteria unrelated to skill or objective performance between employees doing

the same job. First, potentially inequitable pay differentials are created. Second, when new hires are paid less than established employees within a job category, the employer benefits by substituting recruits for established employees, to the detriment of the latter's job security (Mitchell, 1985).

In practice, however, both companies successfully implemented two-tier market-related rates for both of their leading employment categories: meter readers and call centre clerical staff. Recogco management attributed its success to the fact that the unions valued the advantages of the job security offer more than the disadvantages of market-rated pay and flexible working. A trade union representative emphasised however the union's weak bargaining position, given that the implicit alternative to accepting market-related rates was the outsourcing of the activity, leading to job loss for established employees.

The path to market-rated pay was smoothed in both companies by the fact that continuing employees had little to lose in the medium term, as their earnings were explicitly protected. The new hires, on the other hand, although appointed on inferior rates, could at least be said to have accepted them, and therewith what was, in a context of high unemployment, still a relatively well rewarded and potentially stable job. Indeed, as a union representative noted, two-tier payment could be legitimated in the eyes of members, if only in the short run, as involving the differentiation of pay by length of service.

The presence of trade unions may, however, have had some influence on the use of two-tier pay. Indivco implemented deeper and wider market-related pay adjustments than did Recogco. Aiming at median pay in the external labour market, Indivco cut starting rates for call centre staff by around 25 per cent, as opposed to Recogco's 10 per cent. Moreover, in 1998 Indivco extended market-testing from new hires alone to all employees. Employees whose pay was judged to be 30 per cent or more above typical market rates became ineligible for any increase in basic rates, and eligible only for unconsolidated performance bonuses, until they had fallen below that point in the distribution. Given positive price inflation, the change meant for some continuing employees a fall in real pay, which implicitly abandoned the key undertaking made during derecognition, that their pay would not be cut.

At the same time, the benefits of market-rated pay accrued to both companies only over time, as the share of continuing employees was whittled down by labour turnover. Even at Indivco the gain accrued slowly. Nearly two years after individualisation, only a quarter of continuing employees had departed -- comprising the 10 per cent of eligible employees who took voluntary redundancy at the company's inception and the further 15 per cent who quit or retired during the subsequent twenty-one months.

### *Overtime pay*

Both companies restricted access to overtime rates of pay, relative to its high incidence under public ownership. Operational hours were extended into the evening and the weekend, and no overtime premia were to be paid for hours worked within those periods. Shift-working became extensive.

The differences between the two companies were again secondary. Nevertheless, Indivco restricted access to overtime pay more severely than did Recogco. It limited eligibility to time worked on scheduled rest days. Extra hours on other days were compensated either by time off in lieu or not at all, consistent with the requirement stated in all personal contracts to work 'the hours necessary to achieve the purpose of your job.' No such restrictions featured in Recogco's arrangements. To that extent, derecognition may have allowed Indivco to restrict access to overtime pay more strongly than did Recogco.

### *Job security*

Both companies have been subject to similarly intense and conflicting pressures from, on the one hand, the stock market, for redundancies as prospective evidence of increases in profits and, on the other, from employees, for protection from compulsory redundancy, in the context of rapid corporate restructuring and high unemployment. On an issue of central concern to the trade unions, a clear point of difference between the companies might again be expected.

The fear of increased job insecurity certainly caused widespread disquiet amongst Indivco employees during derecognition. As noted above, the company went out of its way to reassure employees and provided cash signing-on incentives in order to undercut opposition to derecognition. It avoided overtly compulsory redundancies and offered generous terms for voluntary severance. Indivco did not, however, offer any formal commitment to job security, whereas Recogco, following the lead of its parent water company, offered the guarantee of no compulsory job losses that was central to its partnership strategy.

On closer inspection, however, the difference between the two companies' policies becomes less striking. A trade union representative at Recogco, while broadly accepting the value of the guarantee, noted that it did not apply to the substantial minority of employees with probationary and temporary contracts. Moreover, in its 1998 revision of the partnership agreement, while Recogco reiterated the centrality of the guarantee, it also emphasises that 'some major event' could induce the termination of the agreement subject to (unspecified) 'appropriate notice'. A promise that had appeared easy for a newly privatised water utility to make in the early 1990s subsequently appeared difficult to maintain, given intensified regulatory and

competitive pressures in its product markets.

The practical significance of the difference in company policies towards job security remains unclear. For both companies, job security was recognised by management as a major employee concern, particularly in the turbulent business environment of the mid-1990s. Recogco's promise eased the way for employee acceptance of increased flexibility of working hours and methods. But the difference in the job security policies of the two companies cannot be attributed entirely to differences in union recognition *per se*. Recogco management viewed job security more as a voluntarily offered component of high trust employment relationships than as an item to concede reluctantly in negotiations. Moreover, the difference between the two companies' practices proved small *ex post*. Employment increased in both, and both financed large-scale voluntary redundancies in pursuit of a more flexible and less expensive workforce.

### ***Productivity***

The preceding evidence suggests that, despite their initially different strategies towards trade unions, both companies rapidly achieved operational practices that, while far removed from those of their nationalised industry past, were similar to each other. But what of actual outcomes, such as productivity and profitability? Even if both companies achieved similar changes in payment systems and operational practices, did this mean similar economic success?

All interviewees reported big increases in labour productivity since privatisation. In order to examine the effects of the union recognition decision, we decided, in consultation with the relevant managers, to focus on meter reading. It constitutes a well-defined service operated by both companies that constituted a major category of employment and had experienced only limited technical change, associated with electronic data retrieval and transmission devices.

Line managers provided broad estimates of activity and employment levels in electricity meter reading in 1988 and 1998, from which indices of productivity growth in each company could be calculated.<sup>9</sup> Table 3 suggests, first, that at each firm the number of meters read per full-time equivalent meter reader increased substantially. Second, the increase in labour productivity was markedly higher at Recogco than at Indivco: 48 per cent as compared to 26 per cent. Although the partial nature of the evidence debars strong conclusions, Recogco's strategy of union recognition can therefore be said not to have led to a lower rate of productivity improvement than under derecognition at Indivco.

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<sup>9</sup> Differences in regional attributes that cannot be controlled statistically make a comparison of absolute labour productivity in the two companies potentially misleading.

The parallel hypotheses, for unit labour costs and profitability, are also judged similarly, given that only Indivco increased pay in order to increase acceptance of personal contracts. Pay increases for continuing employees during the first two and one half years after inception amounted to 10.4 per cent at Recogco and 15.9 per cent at Indivco.<sup>10</sup>

In sum, both companies achieved broadly similar changes in the operational practices they used to motivate and control their workforces. Apart from the trade union role itself, these were not substantially affected by union recognition status. The evidence also suggests that associated productivity growth was at least as substantial in the firm that recognised trade unions as in the one that did not.

## 5. Conclusions

These case studies suggest that the economic effects of union presence are strongly context-dependent. Our first comparison, between the matched facilities management subsidiaries, Indivco and Recogco, suggests that the former company's policy of union derecognition led to only secondary differences in operational attributes and, more tentatively, in productivity from those at its recognising counterpart.

Trade union recognition was indeed associated with some differences in operational practices. The derecognising company achieved more variability in pay increases both over time and between individuals, with less protection of real wages, a stronger application of market-related two-tier pay, and a lower commitment to job security. But these differences were effectively variations on the same managerial themes, ones that pale in comparison with the similarity of the radical changes achieved by both companies in such traditionally contentious areas as the use of temporary contracts, two-tier pay rates and access to overtime pay. Nor is it clear that the derecognising firm did better as a result: it had to raise pay to remove collective bargaining, and its productivity performance, in meter reading at least, appears to have been the lower of the two.

Our second comparison is between sector-wide collective bargaining in the nationalised water and electricity industries of the late 1980s and decentralised pay setting in both facilities management subsidiaries of the second half of the 1990s. Here the effects of unionism appear at first glance considerable, as represented by the sharp contrast between operational conditions in the nationalised industries and under derecognition at Indivco. Bringing Recogco into the frame indicates, however, given its operational

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<sup>10</sup> The Indivco increase excludes unconsolidated personal bonuses. The Recogco increase reflects price inflation, with a small additional contribution from profit sharing.

similarity to Indivco, that the difference concerns not so much of the presence of unions as the context and level of collective regulation. It is hardly surprising to find a sharp contrast between labour management in, on the one hand, a nationalised monopoly with a sectoral agreement and, on the other, a privatised company in a competitive product market, which has the option of retaining or rejecting collective bargaining. The decentralisation of pay setting, along with the array of market and legal changes that both accompanied and promoted it, thus mattered more for pay and productivity than did union recognition *per se*.<sup>11</sup>

But does the contrast between the two companies truly approximate a natural experiment? Union recognition is potentially endogenous: where unions harm economic performance, they are more likely to be excluded by employers than when they benefit it. The problem hampers the interpretation of statistical relationships between union presence and economic outcomes. In this context, uncontrolled economic differences between the two companies might well have induced one to derecognise and the other to work with trade unions.

The problem is for three reasons likely to be marginal here. First, the matching of the two companies is so close, and the operational correlates of derecognition so secondary, that differing economic implications are unlikely to explain the divergence in corporate stances towards trade unionism.

Second, a plausible alternative, non-economic account of that divergence exists. It is precisely when the economic effects of unions are objectively of secondary importance, whether positive or negative, that managers enjoy greatest discretion to act according to their socio-political and organisational views. Managers who have a unitarist view of how an organisation should be run can then opt with impunity to dispense with unions; those with a pluralist view, to work with them. The requisite differences in managerial views were indeed evident in the case study firms, in terms of both the differences between the two during 1996-8 and the conversion of Indivco to recognition and partnership thereafter.

Third, even were union presence to depend on its economic implications, our finding of little association between the two sets of variables in the case study companies would mean that the underlying effect of recognition on outcomes was even weaker than the limited association observed in practice.

The evidence of our case studies may however be weakened by the limited duration of the difference between the two companies' stances towards union presence, which converged strongly in the third and fourth years after

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<sup>11</sup> Guest and Conway (1999) reached similar conclusions with respect to the relative importance of union presence and managerial policy in determining employee attitudes and experiences. Union presence may of course be valued for non-economic reasons, including employee autonomy and industrial democracy, even when it has no important economic implications (Ulman and Sorenson 1984).

inception. Ways of working that evolve under trade unionism are not expected to change overnight. The potential importance of lagged effects is indicated by the increase across the first three of Indivco's annual pay reviews in the momentum of the substantive individualisation of pay. At the same time, the speed with which both companies managed to change fundamentally various operational attributes suggests that the average lags involved were probably short.

What broader conclusions can be drawn? The experience of Indivco and Recogco appears in many ways to have been typical of the substantial change in British industrial relations of the late twentieth century. The increased competitive pressure that the two companies faced in their product markets, and the shift from sector level bargaining to company level bargaining, or no bargaining at all, was typical not only of the newly privatised public sector, but also of much of the established private sector where trade unions had previously been strong, including newspapers, docks, and television. The WIRS/WERS surveys depict the scale of these changes, and the substantial and widespread contraction in the extent, scope, and impact of collective bargaining (Millward *et al.* 2000; Cully *et al.* 1999; Brown *et al.* 1998).

Trade unions whose share of economic rent was once reflected in high pay, jointly controlled working practices and considerable job security, have seen their influence decline in every respect. The scope and impact of bargaining and, by implication, the depth of trade union recognition, have diminished substantially. The employer's emphasis upon 'partnership' as the new basis of recognition reflects the tacit understanding that unions will be accepted so long as they play a positive sum rather than a zero-sum game. Denied the bargaining strength bestowed by industrial bargaining with a state monopoly, or the control of an essential occupational skill, and with much curtailed scope for industrial action, the trade unions are in little position to argue.

At the same time, our case studies suggest that an employer's scope for choosing the extent of its involvement with trade unions is often constrained. Changes in both product markets and labour law induced both case study firms to modify their initial recognition strategies in convergent directions.

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**Table 1: Attributes of employment relations in two facilities management subsidiaries of regional British utility companies and in the equivalent functions in the antecedent nationalised industries**

	Four public boards in nationalised water and electricity industries	Recogco combined (electricity and water) subsidiary of regional utility	Indivco combined (electricity and water) subsidiary of regional utility
Method and level of regulation: method level	collective bargaining, sectoral	collective bargaining, company	personal contracts company: managerial decision
Relevant period	to 1990/92	1996-99	1996-99
Time to interviews since company's inception (months)	n.a.	12, 36	9, 30
Bargaining coverage	100%: all grades	>90%: all except senior managerial, marketing and IT staff	0%
Employment (at first interview)	n.a.	1,700	2,500
Determination of pay and working methods	both: sectoral, through four occupationally-defined National Joint Industrial Councils; local negotiation over implementation	pay: long-term group-wide pay formula; methods: managerial determination, with consultation	pay: annual individual pay review methods: managerial determination

Sources: NJICWI (1984), NJICESI (1990), company documents and personal interviews

**Table 2: Attributes of employment relations by case study**

Attribute	Nationalised industries, ca. 1989: industry-wide bargaining	Recogco, 1997 Company bargaining	Indivco, 1997: managerial decision
Basis of annual pay rise for all employees	annual bargaining  general real increase	no annual bargaining pay formula with RPI indexation, no general real increase	no bargaining pay fixed individually as to target attainment and appraisal results  no general real increase
Holiday entitlements (days p.a.)	22-36 (water); 21-28 (electricity)	23-30	26-30 (full-time)
Working time and overtime pay	37-38 hour, five-day week; overtime pay for hours worked outside that. Flexibility: hours may be staggered across six days; one hour per week of incidental overtime excepted)	37 hour week; no pay for extra hours inside operational hours; time off in lieu for extra hours outside operational hours (84 p.w., customer services, 50 elsewhere); overtime pay on rest days	37 hour week; no pay for extra hours worked inside operational hours, and time off in lieu for extra hours outside operational hours (72 per week); overtime pay only for working rest days
Special payments for specific conditions, locations times, etc.	extensive	none	none
Performance appraisal	none	formal: all employees, annual actual: partial implementation only	formal and actual: all employees, six monthly
Performance-related pay	none	none; informal gifts for favourable appraisal results	bonus pay linked to appraised individual performance
Two-tier (market-rated) pay	none	new hires paid at lower rates in call centre (-10%) and meter reader (-30%) occupations	new hires paid at lower rates in call centre (-25%) and meter reader (-20%) occupations; market testing of pay for all from 1998

**Table 2, cont.**

Job security	formal: unspecified informal: high	promise of no compulsory layoffs during life of agreement (permanent employees not on personal contracts)	no promise of no compulsory layoffs; voluntary redundancy available on enhanced terms
Temporary employment share	n.a. (negligible)	20% (1999); most recruits start on temporary contracts	20%; most recruits start on temporary contracts
Functional flexibility	'unnecessary demarcation' to be avoided but the 'important principle of demarcation' recognised	demarcation not formally recognised	demarcation not formally recognised
Vertical hierarchy (no. of grades)	14-18	5	5
Employee consultation: existence of body eligible employees	consultative joint committees at sectoral, district and works levels trade union representatives	consultative forums: departmental, company and group levels trade union representatives	consultative forums: departmental, company and group levels all employees; seats reserved for union officials

Sources: Table 1

**Table 3: Indices of output, employment and labour productivity in electricity meter reading in 1998, domestic customers (1989=100)**

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	Recogco	Indivco
(1) Output (meters read)	236 <sup>a</sup>	110
(2) Employment <sup>b</sup>	160	87
(3) Average labour productivity <sup>c</sup>	147	126

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Notes

a. Frequency of reading changed from six monthly to quarterly in 1997

b. Full-time equivalent

c. (1)/(2)