

# Changing Nordic Approaches to Bargaining and Participation: Some Implications for Australia

Russell D. Lansbury\*

## Abstract

*This paper presents an overview of industrial relations in Nordic countries. Key features are a high degree of centralisation, high levels of unionisation, a tripartite approach to government decision making and a keen interest in employee participation. The last decade has seen the onset of more turbulent economic forces, moves to decentralisation and a shift in wage determination towards a greater role for enterprise bargaining. Several parallels with Australian experience are explored. A critical difference is that Nordic unions have escaped the significant falls in membership suffered by Australian unions.*

## Introduction

Many of the characteristics which have been long associated with industrial relations in the Nordic countries are undergoing extensive change. This is the result of broader economic and political influences which have been felt throughout Europe and beyond (see Bamber and Lansbury, 1993). Systems

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\* Professor of Industrial Relations, University of Sydney

of collective bargaining, some established for more than fifty years, are being challenged, as are approaches to employee participation. There is a widely held view that the Nordic countries have reached a turning point, although the processes of change are taking different forms in each country. According to Bruun (1994) three key factors have contributed to changes in the Nordic model of industrial relations. First, internationalisation has occurred through major corporations acting on the international level, a trend encouraged by the Nordic countries' involvement in the European Community. Second, there has been decentralisation of the national level negotiation systems and the wage setting processes. Third, there has been a dramatic deterioration in the employment situation in most Nordic countries. These influences are being felt at the workplace level throughout the region.

While industrial relations in Australia is clearly different in many respects from the Nordic countries, there are some interesting parallels (see Lansbury et al, 1992). Australian industrial relations has been in a process of transition since the late 1980s as pressures for decentralisation and deregulation of the labour market have increased. Like many of the Nordic countries, Australia has been traditionally viewed as a highly centralised system of industrial relations. In Australia, however, centralisation was achieved through a network of arbitration tribunals, at both federal and state levels. This system has been gradually eroded by the actions of employers, unions and Governments which have sought to introduce various forms of enterprise bargaining.

Unlike the Nordic countries, however, there has been less obvious support for an expansion of employee participation or industrial democracy in Australia. Indeed, Botsman (1989) has argued that Australian trade unions need to learn from Nordic experience and move 'beyond the problematics of employee participation and socio-technical design to take up the problems and possibilities of the collective resources approach. Unless this occurs, the power and initiatives will lie with the employers who will develop employee participation and share ownership schemes to exclude unions'. While the union movement in most of the Nordic countries has maintained and even increased its numerical strength during the past decade, Australian unions have experienced a steady decline in their coverage of the labour force (see Peetz, 1990). A major challenge for trade unions in Australia is to remain vigorous and relevant institutions able to exert a positive influence on the direction of the national economy while simultaneously participating in work reform at the enterprise level. In these areas, the Nordic unions have been more successful than their Australian counter-

parts, notwithstanding the Accord between the union movement and the Australian Labor Party since 1982 (see Lansbury, 1985).

### **Characteristics of the Nordic Model**

The normal definition of the Nordic countries is wider than that of Scandinavia and encompasses Sweden, Denmark, Norway, Iceland and Finland. The exception to the Scandinavian grouping is Finland, which is linguistically and culturally dissimilar to the other countries. Although some commentators object to these countries being joined together in a single model (see Strobj Jensen et al, 1994), it is generally accepted that they share a number of structural and institutional characteristics which are distinctive, particularly in regard to industrial relations. One of the strongest characteristics is the central role played by the trade union movement. More than 80 per cent of wage earners in Sweden are unionised, over 70 per cent in Denmark and Finland and just under 60 per cent in Norway. This high level of unionisation is due, in large part, to the success of the trade unions organising both private sector white collar workers and public sector employees. The Nordic trade unions have also become well-integrated into Government decision-making over many years, and their significant role is generally accepted particularly with regard to labour market policy.

The influence of the Nordic trade union movements has been enhanced by the close links between the Social Democratic Party and the main central union confederations: the LO in Denmark, Norway and Sweden, and the FFC in Finland. The political influence of the labour movement on Government (even when the Social Democrats have been in coalition with other parties) is seen in the development of the welfare state, as well as in policies concerning structural change and industrial rationalisation in which workers have been afforded protection. The trade union movements in the Nordic countries have been generally supportive of growth policies, increased productivity, new technology and active labour market policies, all of which have given strong emphasis to retraining programs.

Another characteristic of the Nordic model has been a high degree of centralisation. National collective agreements have long been the most important decision-making level for regulating wages and working conditions. Local branches of the unions have been generally subordinate to the national unions' decision-making bodies, where decisions of principle were taken. Not only have the trade unions organised on a national level, but so too have a high percentage of employers. However, as noted later in this

paper, this aspect of the Nordic model has been under increasing pressure to change, particularly in the past decade.

Finally, it should be noted that the Nordic countries have traditionally followed an egalitarian approach to social policy, as evidenced by the fact that the right to social security has applied to all inhabitants on an individual basis. By separating paid work from the entitlement to coverage under the social security system, it has been possible to extend basic security to all. Compared with other European countries, those in the Nordic group have sustained less income differentials and had a much smaller proportion of their population living in poverty. Strong emphasis on labour market policies and lower unemployment levels were characteristics of most Nordic countries, at least until the end of the 1980s, although they have undergone considerable change during the 1990s. In these areas, however, the Nordic countries have remained closer to their traditions of social democracy than has Australia.

### **Pressures for Change in the Nordic Model**

Like Australia, the Nordic economies all experienced serious recessions during the late 1980s and 1990s. This led to the adoption of unprecedented austerity policies and changes to long-held traditions, particularly those held by the trade unions and social democratic Governments. All of the Nordic countries embarked on policies which liberalised financial institutions and, with the exception of Finland, aligned their currencies with the European Community, thereby reducing their financial autonomy. Economic problems led three of the Nordic countries (Sweden, Norway and Finland) to devalue or permit their currencies to float. All Nordic Governments, irrespective of their political affiliation, adopted more liberal economic policies which accelerated their incorporation into the European and international economies. Australia followed a similar path under the Hawke and Keating Labor Governments.

In all Nordic countries, during the past decade, the cost of the welfare state has come under close scrutiny and various measures have been undertaken to 'denationalise' some social services to make the public sector (including state and local Government) more competitive, to reduce the workforce and lower the costs of welfare provisions. Among the long-established benefits which have been trimmed are sick pay, holidays and unemployment benefits. Major budget cuts have also been made by both social democratic and conservative Governments in Sweden and Finland since the late 1980s. In Sweden, the increase in unemployment prompted

two kinds of response from the Bildt Conservative Coalition Government during the early 1990s. On the one hand the Government followed the traditional Swedish line of an active labour market policy and increased investment in this area. On the other hand, the levels of compensation paid by the unemployment insurance scheme was reduced while monitoring of the unemployed was increased. Furthermore, workers' rights were deregulated and atypical forms of employment were expanded. Statutory opportunities for trial employment and short-term jobs were increased and trade union veto rights on contracting-out work were weakened. However, both Norway and Denmark pursued more traditional active labour market policies during the recession.

### **Trends in Bargaining and Participation**

Within an international context, industrial relations in the Nordic countries appear to have been extremely centralised, even though there has long been a high level of interaction between the local and central levels. During the 1980s and 90s, there was a trend towards increasing involvement on the part of the state. Increased competition between white collar, public sector and blue collar unions led to serious tensions, a surge in wage rises, fragmentation of centralised negotiations, wage drift and increased industrial conflict. In several countries, such as Sweden, the Government attempted to stem the disintegration of centralised negotiations in favour of 'negotiated incomes policies' and involvement by mediators and arbitrators. However, there was little support for these policies among employers, who pressed for further decentralisation. In this respect, there were parallel developments in Australia.

The employers' offensive, which aimed at breaking down centralised systems, was most pronounced in Sweden. In 1992, the Swedish Employers' Federation (SAF) withdrew from most tripartite bodies and put pressure on the Government to pass more flexible employment legislation. In Finland, the employers also adopted a radical program of deregulating and decentralising collective bargaining. In Norway, however, the employers have faced a serious internal crisis and a series of scandals which has eroded their credibility. With the re-emergence of a Social Democratic led Government in Sweden in 1994, however, their appears to be a softening of the decentralising trend. Furthermore, an analysis of some well-known examples of decentralised agreements, such as the ABB co-worker agreement, reveals that this is actually a supplement to a sector-wide agreement. Furthermore, after a strike in the building industry in 1994, the SAF and the

Swedish Association of Building Contractors agreed to set up a working group with the unions to re-examine the principles of wage setting in the industry.

The development of 'centralised decentralism' in Denmark has provided an example of how to introduce local negotiations within the traditional Nordic system (see Lund, 1994). Within the Danish metal industry, for example, an agreement has been reached whereby wages are comprised of four parts. The first part is the basic wage, which is the same fixed rate of pay for everyone; second, there is a pay supplement component (e.g. overtime compensation) as stipulated in the central agreement. The third part is a skills component, with nine factors applied to determine the skills level of the individual employee. The fourth component is a function of work results. The amount payable for the final two components is contained in local agreements. In some respects, the Danish system is similar to the 'two tier' approach, which applied during the late 1980s in Australia. These are also reflected in some current approaches to enterprise bargaining.

Considerable debate has occurred over several decades about appropriate forms of employee participation in decision making within the enterprise. In the 1970s, the main emphasis in Nordic countries was on **indirect** forms of participation through institutions such as consultative committees and employee representation at board level. In this context, unions were generally the main channel of representation for employees. More recently, the focus has switched to **direct** forms of participation, defined by Sisson (1994) as: 'opportunities which management provide, or initiatives to which they lend their support, at workplace level for consultation with and/or delegation of responsibilities and authority for decision-making to their subordinates either as individuals or as groups of employees relating to the immediate work task, work organisation and/or working conditions'. Sisson notes that while comparatively little is known about the extent and significance of direct forms of participation, it is commonly held that they represent a key element in management strategy for maintaining competitiveness in increasingly global markets. Nevertheless, there is considerable disagreement about the wider implications. Some view direct participation as creating greater management control and work intensification while others see it providing opportunities for the humanisation and democratisation of work.

Research on the diffusion of participative practices in Europe, particularly in regard to new information technology, has indicated a wide diversity of approaches to both direct and indirect forms of participation (Gill and Krieger, 1992). The authors of this major study, under the auspices of the European Community, conclude that five variables play a critical role in

shaping opportunities for participation. These include: management style and its attitude to participation; management's reliance on the workforce to achieve its objectives for introducing new technology; the bargaining power of organised labour to force management to negotiate or consult with the representatives in the absence of any voluntary disposition on the part of management to do so; regulatory provisions which lay down participation rights for employees or their representatives on a range of matters at the enterprise level; and the degree of centralisation of the industrial relations system in the particular country. Although Gill and Kreiger warn that these criteria are no more than generalisations, their study provides an important reminder of the complex array of factors that influence the types and levels of participation found in Nordic countries.

During the 1970s a number of Governments in Nordic countries adopted legislation on employee participation, although few were as extensive as the German system. In Sweden, which traditionally favoured nationally bargained agreements, new rules for indirect participation were established in the 1976 Act. In Denmark, the role of works councils has also been strengthened in recent years, but through collective agreements rather than by legislation (see Due et al, 1991). France and the Netherlands adopted legislation on participation in the form of employees' right of expression. Even in the UK, under a 1982 Act, enterprises with more than 250 employees are required to submit an annual report on steps taken to introduce, maintain or promote participation, even though this is essentially only a formality (Marchington et al, 1993). In this regard, Australia is closer to the British model than the Nordic, despite having more than a decade of Labor Government at the national level.

Although there have been positive developments at the level of individual countries, attempts to harmonise the national legislation of members of the E.C. in the area of participation have been fraught with problems. This is of particular importance to the Nordic countries now that all except Norway and Iceland have voted to join the E.C. One of the most widely discussed initiatives in recent years has been the draft directive by the E.C. Commission in 1991 which would require the establishment of European Works Councils (EWC) in transnational corporations operating within the E.C. This is the latest in a long and often controversial series of proposals by the E.C. which began more than 20 years ago (see Pipkon, 1984). A number of measures requiring information, consultation or participation in respect to certain issues have been adopted by the Council of Ministers. However, proposed legislation requiring more systematic, institutionalised employee participation within corporate decision-making has been consistently blocked, especially where it has been seen as incompatible with

member states' national laws and practices. The European Trade Union Confederation (ETUC) has expressed general satisfaction with the EWC proposal, although it has suggested the inclusion of stronger consultation rights and lower workforce size thresholds. The European Employers' Confederation (UNICE), however, has objected that requirements of the proposed EWC are incompatible with decentralised management structures and that consultation is most appropriately carried out at workplace level with workers directly affected by a particular decision.

The European Foundation for the Improvement of Living and Working Conditions has launched a major investigation into the extent and nature of direct participation and organisational change (Geary and Sisson, 1994). The project began in 1993 and focuses on the twelve member states of the E.C., as well as some Nordic countries such as Finland and Sweden. The Foundation's project on direct participation advances a number of hypotheses. In comparison with older experiments, it is expected that recent direct participation initiatives will be far more coherent and strategic in their formulation and implementation. They are also likely to go hand-in-hand with a codified set of human resource management (HRM) techniques. It is expected that there will be a large variety of forms and dimensions of direct participation: indigenous forms co-existing with the importation of foreign models. It is unlikely, in the view of the Foundation, that organisations will implement text book applications of direct participation. Rather, they are likely to adapt prescribed models to suit their own circumstances.

Sisson (1994) draws a distinction between two main forms of direct participation. **Consultative participation** exists where employees are encouraged and enabled, either as individuals or as members of a group, to make their views known. Management, however, retains the right to accept or reject the employee's opinions, as well as reserving the right to take action. An example is quality circles, which can recommend actions to management but are not normally empowered to enact. **Delegative participation** occurs where employees are given responsibility for decision-making that was traditionally the exclusive preserve of management. In its purest or most developed form, management may grant autonomy to workers to design and prepare work schedules, monitor and control their own work tasks and methods, to be more or less self managing. At the other end of the continuum, management may merely delegate autonomy within a relatively narrow range of tasks.

Some of the examples of direct participation in Nordic countries, which are cited in the European Foundation's project, highlight the fact that direct and indirect forms of participation are often complementary. In fact, it would appear that the establishment of a strong institutional basis for



indirect participation is likely to stimulate the emergence of direct forms. For example, Lund (1994) has shown, in the case of Denmark, two conditions are likely to facilitate direct participation. First, the social partners have agreements which ensure joint regulation of the workplace on issues such as employee rights, grievance procedures and various social benefits. Second, there is a consensus between employees and employers about their common interest in ensuring the successful operation of the enterprise. However, Lund also recognises that there may exist legitimate differences of interests regarding the extent of employee influence on decision-making between employers and unions, even where a broad consensus is achieved.

Drawing upon experience in Finland, Alasoini et al (1994) make the useful point that while opportunities for direct participation by employees in the workplace have increased in the past decade, many employees also report that the content of their work has become more demanding, thereby adding to their psychological work load as well as exacerbating social conflicts in the workplace. The introduction of 'lean management', in both private and public sector organisations, has involved the streamlining of organisational structures, use of team work and delegation of decision-making. However, these measures have been criticised where they have simply been used to reduce costs and increase productivity without improving the quality of work which is performed or raising the standards of working life for employees.

In Norway, works councils have existed since the 1960s, but expanded their role under the Work Environment Act of 1977 to take a stronger role in health and safety issues at the workplace level. They are different from the German Works Councils, however, in that they are elected by all employees and are structured around local union representation. An important new initiative since 1982 has been the HFB program which is jointly sponsored by the Norwegian employers' confederation (NHO) and the Norwegian LO. This program follows the tradition of social-technically inspired industrial democracy projects of previous decades, but seeks to establish a democratic dialogue between management and employees (see Gustavsen, 1992). Another important initiative, which is an example of direct participation, has been taken by the Norwegian Centre for Improvement of Working Life. This is an independent foundation established in 1988, which is jointly sponsored by the Government, employers organisations and the union movement, and seeks to promote participative approaches to improving quality and competitiveness at the enterprise level. Currently there are more than 80 projects involving 350 to 400 organisations under this program.

## Conclusions

Approaches to bargaining and participation in the Nordic countries are clearly in transition. The traditions of a consensual style of industrial relations have not disappeared, but strains between the various parties have emerged during the past decade. The economic recession of the 1980s and early 1990s was deeper in Finland and Sweden, compared with the other Nordic countries, and employers were more aggressive in seeking to reform the previously centralised system of industrial relations. In these respects, there are parallels with the situation which has pertained in Australia. However, unlike Australia, union membership has remained strong in all Nordic countries, and even expanded in some areas, so that employers have been limited in the changes which they were able to achieve. Indeed, unions have shown that they are willing and able to adapt to many aspects of the more decentralised approach to collective bargaining and are willing to adopt more direct forms of participation. As in Australia, however, a major problem still to be solved in most Nordic countries, is the continuing high levels of unemployment. Another challenge which faces most of the Nordic countries (with the exception of Norway) is how membership of the European Community will affect long-held traditions of industrial relations and labour market policies. In some ways, however, the introduction of the Social Charter by the European Community and the prospects of legislation on the European Works Council means that other European countries are moving in the direction of the Nordic model. Australia faces different challenges, particularly in the context of Asia, but traditional approaches to industrial relations are also under considerable pressures for change. The way in which the Nordic countries resolve their current problems will be of considerable interest and relevance to Australia.

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