The London School of Economics and Political Science

Mediating EU Liberalisation and Negotiating Flexibility: A Coalitional Approach to Wage Bargaining Change

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Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

Abstract

How do we explain divergent trajectories of change in wage bargaining institutions? The advancement of European economic integration, leading to markets liberalisation and increased competition, was expected to bring the breakdown of centralised bargaining arrangements. This expectation was even stronger given the internationalisation of new management practices, pushing European firms to enhance their competitiveness *via* increasing flexibility. Despite strong theoretical expectations towards a generalised breakdown of wage bargaining, one finds divergent trajectories of change across European countries and sectors. The task of this thesis is to explain the puzzle of varied responses in otherwise similar sectors. Banking and telecommunications sectors in Italy and Greece display a diversity of paths of institutional change: breakdown of bargaining, reform of bargaining, successful centralisation, and failed centralisation.

The direction of the paths of institutional change may be explained in large part by two factors ignored by earlier literature: 'employer associability' and 'labour-state coalitions'. On the one hand, it is argued that employers associations which possess the legal competence and take into account the collective interests of both large and smaller firms, may reform the wage bargaining institution, getting the 'best of both worlds' for their members. Additionally, a 'labour-state coalition' may moderate the destabilising pressures to wage bargaining, as long as trade unions are able to speak with a 'single voice'. The government will not only be motivated by electoral concerns, but also support centralised bargaining to gain 'room for manoeuvre' for tactical policy trade-offs advancing its agenda. Overall, the thesis refines earlier propositions, suggesting a more nuanced causal mechanism to explain institutional change. The argument speaks to wider debates in comparative political economy and comparative employment systems; it fleshes out empirically the role of the state in Mediterranean capitalism and highlights factors that moderate pressures to convergence to the Liberal Market model.

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This thesis is the final destination of a four year journey at the London School of Economics. Luckily, I was not alone in this journey. It is with great pleasure that I write these pages, thanking all those people, who –as fellow travellers– helped me to find my way or made the journey more pleasant and interesting. First and foremost, I would like to express my gratitude to my two supervisors, Kevin Featherstone and Christa van Wijnbergen.

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List of Abbreviations

ABI: Italian Banking Association *[Associazione Bancaria Italiana]*

ACRI: Association of Italian Foundations and Savings Banks [*Associazione Fra Le Casse Di Risparmio Italiane]*

ADEDY: Confederation of Greek Civil Servants' Trade Unions [*Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων]*

AETE: Greek Telephone Company *[Ανώνυμος Ελληνική Τηλεφωνική Εταιρεία]*

AGCOM: Authority for Communications Guarantees *[Autorità per le Garanzie nelle Comunicazioni]*

ASKE: Independent Trade Union of Employees *[Ανεξάρτητη Συνδικαλιστική Κίνηση Εργαζομένων]*

ASSBANK: National Association of Private Banks *[Associazione Nazionale Aziende Ordinarie di Credito]*

ASSICREDITO: Association of Credit Institutions *[Associazione Sindacale fra le Aziende di Credito]*

ASSTEL: Association of Telecommunications Services Companies *[Associazione delle Imprese Esercenti Servizi di Telecomunicazioni]*

CEO: Chief Executive Officer

CGIL: Italian General Labour Confederation *[Confederazione Generale Italiana del Lavoro]*

CISL: Italian Workers' Trade Unions Confederation *[Confederazione Italiana Sindacati Lavoratori]*

CME: Coordinated Market Economy

CNA: National Confederation of Arisanal, Small and Medium-sized Enterprises *[Confederazione Nazionale dell' Artigianato e della Piccola e Media Impresa]*

CNEL: National Council of Economy and Labour *[Consiglio Nazionale dell'Economia e del Lavoro]*

COBAS: Workplace Committes *[Comitati di Base]*

CONFAPI: Italian Confederation of Small and Medium Private Industry *[Confederazione Italiana della Piccola e Media Industria Privata]*

DAKE: Democratic Independent Faction of Workers *[Δημοκρατική Ανεξάρτητη Κίνηση Εργαζομένων]*

DC: Christian Democratic Party [*Democrazia Cristiana]*

DCS: Digital Cellular Service

DEH: Greek Public Electricity Company *[Δημόσια Επιχείρηση Ηλεκτρισμού]*

DHSYE: Democratic Trade Union Unity *[Δημοκρατική Συνδικαλιστική Ενότητα]*

DIRCREDITO: National Association of Directors and other Professionals in Banking *[Associazione Sindacale Nazionale dell'Area Direttiva e delle Alte professionalità del Credito]*

DSL: Digital Subscriber Line

DT: Deutsche Telekom

EEKT: Association of Companies in Mobile Telephony *[Ένωση Εταιρειών Κινητής Τηλεφωνίας]*

EET: Hellenic Banks Association [*Ελληνική Ένωση Τραπεζών]*

EETT: National Committee of Telecommunications and Post *[Εθνική Επιτροπή Τηλεπικοινωνιών και Ταχυδρομείων]*

EKA: Athens Labour Centre *[Εργατοϋπαλληλικό Κέντρο Αθηνών]*

ENEL: Italian Public Electricity Company *[Ente Nazionale per l'Energia eLettrica]*

ESEE: National Confederation of Greek Commerce [*Εθνική Συνομοσπονδία Ελληνικού Εμπορίου]*

EU15: the group of 'old member-states' before the 2004 enlargement (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom).

EURO-FIET: *European Regional Organisation of the International Federation of Commercial, Clerical, Professional and Technical Employees*

FABI: Autonomous Union Federation of Italian Banks *[Federazione Autonoma Bancari Italiani]*

FALCRI: Autonomous Federation of Workers in Italian Banks *[Federazione Autonoma Lavoratori del Credito e del Risparmio Italiani]*

FDI: Foreign Direct Investment

FIBA-CISL: Italian Federation of Banking Insurance Employees *[Federazione Italiana Bancari Assicurativi]*

FILPT-CGIL: Federation of Italian Workers in Post and Telecommunications *[Federazione Italiana Lavoratori Poste e Telecomunicazioni]*

FIM-CISL: Federation of Italian Metalworkers *[Federazione Italiana Metalmeccanici]*

FIOM-CGIL: Trade Union of Metallurgical Workers *[Federazione Impiegati Operai Metallurgici]*

FISAC-CGIL: Italian Union Federation of Employees in Insurance and Banks [*Federazione Italiana Sindacale dei lavoratori delle Assicurazioni e del Credito]*

FISTEL-CISL: Trade Union Federation of Information, Broadcasting and Telecommunications *[Federazione Sindacale della Informazione dello Spettacolo e delle Telecomunicazioni]*

FITA: Italian Federation of Tertiary Sector, Services and Innovation *[Federazione Italiana del Terziario Avanzato per I Servizi Innovativi e Professionalli]*

GESASE: General Confederation of Agricultural Associations of Greece *[Γενική Συνομοσπονδία Αγροτικών Συλλόγων Ελλάδας]*

GSEE: Greek General Confederation of Labour [*Γενική Συνομοσπονδία Εργατών Ελλάδας]*

GSEVEE: Hellenic Confederation of Artisans [*Γενική Συνομοσπονδία Επαγγελματιών, Βιοτεχνών, Εμπόρων Ελλάδας]*

GSM: Global System for Mobile Communications, originally *Groupe Spécial Mobile*

IKA-ETAM: Foundation of Social Insurance *[Ίδρυμα Κοινωνικών Ασφαλίσεων – Ενιαίο Ταμείο Ασφάλισης Μισθωτών]*

IMI: Italian Industrial Finance Institute *[Istituto Mobiliare Italiano]*

IRI: Institute of Industrial Reconstruction *[Istituto di Reconstruzione Industriale]*

ISDN: Integrated Services Digital Network
ISTAT: National Statistics Institute of Italy *[Istituto Nazionale di Statistica]*

KEDKE: Central Association of Municipalities and Communities of Greece [*Κεντρική Ένωση Δήμων και Κοινοτήτων Ελλάδας]*
KKE: Communist Party of Greece [*Κομμουνιστικό Κόμμα Ελλάδας]*

LME: Liberal Market Economy

M&A: Mergers and Acquisitions
MIG: Marfin Investment Group

ND: New Democracy *[Νέα Δημοκρατία]*

OIYE: Federation of Private Sector Employees of Greece *[Ομοσπονδία Ιδιωτικών Υπαλλήλων Ελλάδος]*
OKE: Economic and Social Committee *[Οικονομική και Κοινωνική Επιτροπή]*
OMED: Organisation for Mediation and Arbitration *[Οργανισμός Μεσολάβησης και Διαιτησίας]*
OME-OTE: Federation of OTE Employees *[Ομοσπονδία Εργαζομένων OTE]*
OTE: Hellenic Telecoms Organisation [*Οργανισμός Τηλεπικοινωνιών Ελλάδος]*
OTOE: Federation of Banking Employees in Greece *[Ομοσπονδία Τραπεζοϋπαλληλικών Οργανώσεων Ελλάδος]*

PAME: All Workers Militant Front *[Πανεργατικό Αγωνιστικό Μέτωπο]*
PASE Vodafone: Pan-Hellenic Trade Union of Employees in Vodafone *[Πανελλήνιο Σωματείο Εργαζομένων Vodafone]*
PASEGES: Pan-Hellenic Confederation of Agricultural Cooperatives *[Πανελλήνια Συνομοσπονδία Ενώσεων Γεωργικών Συνεταιρισμών]*
PASE-TIM/WIND: Pan-Hellenic Trade Union of Employees in TIM/WIND [*Πανελλήνιο Σωματείο Εργαζομένων TIM/WIND]*
PASKE: Pan-Hellenic Militant Trade Union Movement of Employees *[Πανελλήνια Αγωνιστική Συνδικαλιστική Κίνηση Εργαζομένων]*
PASOK: Pan-Hellenic Socialist Party *[Πανελλήνιο Σοσιαλιστικό Κίνημα]*

PCI: Italian Communist Party [*Partito Comunista Italiano]*

PRP: Performance Related Pay Systems

PSI: Italian Socialist Party *[Partito Socialista Italiano]*

PSTN: Public Switched Telephone Network

RSU: Unitary Workplace Representation *[Rappresentanza Sindacale Unitaria]*

SATPE: Greek Licensed Telecommunication Providers Association [*Σύνδεσμος Αδειοδοτημένων Τηλεπικοινωνιακών Παρόχων Ελλάδος]*

SEPE: Federation of Hellenic Information and Communication Technology Enterprises *[Σύνδεσμος Επιχειρήσεων Πληροφορικής & Επικοινωνιών Ελλάδας]*

SEV: Hellenic Federation of Enterprises *[Σύνδεσμος Επιχειρήσεων και Βιομηχανιών]*

SILCEA: Italian Trade Union of Workers in Credit [*Sindacato Italiano Lavoratori Credito Enti Assimilati]*

SILT-CISL: Italian Trade Union of Workers in State Telephony [*Sindacato Italiano Lavoratori Telefonici Stato]*

SINFUB: National Federation of Autonomous Trade Unions in Banks, Finance and Insurance *[Federazione Nazionale Sindacati Autonomi – Personale di Credito, Finanza e Assicurazioni]*

SIP: Italian Telephone Company *[Società Italiana per l'Esercizio Telefonico,* originally *Società Idroelettrica Piemontese]*

SLC-CGIL: Trade Union of Workers in Communications *[Sindacato Lavoratori Comunicazione]*

SME: Small Medium-sized Enterprise

SMT: Trade Union of Waged Engineers *[Σύνδεσμος Μισθωτών Τεχνικών]*

SYN: Coalition of the Left of Movements and Ecology [*Συνασπισμός της Αριστεράς των Κινημάτων και της Οικολογίας]*

TQM: Total Quality Management

UGL: General Union of Workers *[Unione Generale del Lavoro]*

UIL: Italian Union of Workers *[Unione Italiana del Lavoro]*

UILCA-UIL: Italian Union of Workers in Banks and Insurance *[Credito Esattorie e Assicurazioni]*

UILCOM-UIL: Italian Union of Workers in Communications *[Unione Italiana Lavoratori Comunicazione]*

UILM-UIL: Italian Union of Workers in Manufacturing *[Unione Italiana Lavoratori Metalmeccanici]*

UILTE-UIL: Italian Union of Workers in Telephony *[Unione Italiana Lavoratori Telefonici]*

VoC: Varieties of Capitalism

Chapter 1 EU Liberalisation, Work Flexibility, and Wage Bargaining Institutions: Explaining Divergent Trajectories of Change

1.1. Introduction

The progress of European economic integration and the internationalisation of employee management practices were expected to have far-reaching consequences on national wage bargaining institutions across advanced capitalist countries. Responding to what is commonly perceived as the move from Fordism to the post-Fordist era, European firms sought to enhance their competitiveness by pushing for more labour flexibility. This 'search for flexibility' (Atkinson, 1984; Boyer, 1988; Deakin and Reed, 2000; Freeman, 2005; Marsden, 1995; Streeck, 1987) would involve –among other things– the breakdown of long-standing wage bargaining institutions along Anglo-Saxon lines. However, the direction of change proved to be more nuanced and differentiated than initially anticipated. In this thesis I examine the divergent trajectories of change in wage bargaining institutions.

The early 1990s marked a crucial turning point for the progress of European integration. On the road from the Single European Act of 1986 until the completion of the Single Market in 1992 the focus of rules harmonisation within the European Union shifted from traditional industries towards utilities and services. The European Commission held that distortions in competition could come from sectors providing a backbone to economic activity. Therefore 'network sectors' such as telecommunications, financial services, transportation (railways, shipping, airlines), and energy (electricity, gas) became part of the agenda of EU liberalisation (Begg and El-Agraa, 2004; Mercado *et al.*, 2000:101; Young, 2005:109). Notably, legislation over the single market required the liberalisation of state monopolies, but it did not require a change in the ownership of state firms (Featherstone, 2005:232). Nevertheless, national governments across Europe launched a series of privatisation programmes reducing the extent of public ownership in these sectors.

The twin processes of liberalisation and privatisation marked the withdrawal of the state from direct regulation and ownership of those sectors. Regulation was delegated to independent regulatory authorities, and ownership transferred to private actors. These processes were expected to have a 'domino effect' on national wage bargaining institutions leading to a generalised decentralisation of bargaining (Crouch, 2000a; Dolvik, 2004; Wallerstein, 1998). Although the 'convergence' of wage bargaining arrangements was not a preoccupation of the EU-level negotiations for the Economic and Monetary Union (Dyson and Featherstone, 1999:785), the expectation was based on several grounds. The opening up of these markets to competition was thought that it weakened the incentive for cost-standardisation from the part of the firms. The process of privatisation was expected to modernise the internal work organisation of the firms, introducing new and more flexible management practices, thus transforming bureaucratic organisations into competitive firms. Overall, the pressures from EU liberalisation and international diffusion of work flexibility were the implicit forces putting pressure for institutional convergence to the Liberal market model of decentralised industrial relations.

Despite the above strong pressures, a uniform trend towards decentralised pay setting is not observed in Europe (Wallerstein *et al.*, 1997). Indeed, there is a drive towards breakdown of wage bargaining in some sectors, but this is mostly observed within Anglo-Saxon countries (Brown and Walsh, 1991; Wallerstein, 1998). This contrasts sharply with sectors in Continental Europe, which opted for a reform of wage bargaining institutions.

How do we explain the different trajectories of change in wage bargaining institutions, despite the common pressures from liberalisation and flexibility? More specifically, why do we see a breakdown of bargaining arrangements in some sectors, whereas in other similar sectors there is a reformation of wage bargaining institutions? Even more, how do we explain the successful efforts to centralise bargaining in some sectors, while other similar sectors centralisation fails and they remain decentralised? The aim of this thesis is to refine earlier theoretical conjectures, by explaining the puzzle of divergent trajectories of institutional change in wage bargaining. The thesis develops a novel conceptual framework based on actors' coalitions to explain the dynamics of change in wage bargaining institutions. More specifically, I focus on the interactions between employers associations, trade unions organisations, and governments, and their coalitional strategies. The relevance of the argument is suggested by four case studies from liberalised and privatised sectors within the Mediterranean model of capitalism (on case selection criteria see Section 1.5).

The focus on Southern Europe is justified on the basis of received wisdom from the scholarship on different varieties of capitalism (Albert, 1993; Amable, 2003; Berger and Dore, 1996; Crouch, 2005a; Crouch and Streeck, 1997; Dore, 2000; Hall and Soskice, 2001; Hancké *et al.*, 2007; Hollingsworth and Boyer, 1997; Kitschelt *et al.*, 1999; Schmidt, 2002; Streeck and Thelen, 2005). This burgeoning literature suggested that the institutional configuration of European countries differs markedly. Each county approximates a different model of capitalism, having distinct modes of coordination and different 'interlock' of institutions. Most notably the Anglo-Saxon Liberal Market Economies and the Coordinated Market Economies in Continental Europe are considered as the more 'coherent' models of capitalism with institutional complementarities that keep the institutional pieces tightly together. In contrast, the Mediterranean model of capitalism (also termed as Mixed Market Economies) (Amable, 2003; Hancké *et al.*, 2007; Molina and Rhodes, 2007; Schmidt, 2008) is characterised by 'incoherence' and weak or inexistent institutional complementarities. Thus, the pressures from liberalisation, intensification of competition, and increased flexibility are expected to alter the institutional arrangements within the Mediterranean model countries. They are generally considered as more susceptible to institutional change (Hall and Thelen, 2009:26) and more vulnerable to convergence to the Liberal Market model (Amable, 2009:20).

The rest of this introductory chapter is structured as follows. The next section discusses the puzzle of divergent paths in wage bargaining change placing it in the wider debate of institutional change across advanced capitalist countries. The third section briefly reviews the sources of the pressures for convergence in wage bargaining institutions and criticises the blind spots of earlier theoretical conjectures. The fourth section previews the conceptual contribution of the thesis, outlining a coalitional approach to wage bargaining change. The fifth section considers the research design of the thesis and related methodological issues. The final section concludes with an overview of thesis' chapters.

1.2. The Puzzle: Divergent Trajectories of Change in Wage Bargaining Institutions across Europe

One of the central research questions in the debate around varieties of capitalism has been whether countries are becoming institutionally more similar over time. This process of greater institutional similarity has been typically understood as convergence to the Liberal Market model of capitalism. Indeed, several scholars from different disciplinary fields predicted that convergence to a single model of capitalism was inevitable (Albert, 1993; Strange, 1997) and the prime driver of change was the 'stateless enterprise' which adopts whatever best practice confers comparative advantage in a 'borderless world' (Ohmae, 1989; Womack and Jones, 1994). These convergence theorists were challenged by scholars in the 'varieties of capitalism' strand, who argued that diversity persisted among advanced capitalist countries and comparative advantage was embedded on institutional distinctiveness (Dore *et al.*, 1999; Soskice, 1999; Streeck, 1996).

Indeed, according to Crouch (Crouch, 2005b:439) one of the main accomplishments of the varieties of capitalism literature is that it provided an ‘intellectual counterweight to easy arguments about globalisation’.

In any model of capitalism, the industrial relations sphere occupies a central place in the overall institutional configuration. In this sphere, the market pressures push for convergence towards the Anglo-Saxon model of decentralised bargaining. The experience of collapse of centralised wage bargaining institutions in various sectors of Liberal Market Economies (LME) during the 1980s was interpreted as a glimpse of the future for the rest of the advanced industrialised world (Katz, 1993). Product market liberalisation was unambiguously followed by wage bargaining decentralisation. Even the countries with strong corporatist institutions, such as Sweden, did not seem to be able to evade this trend of convergence to the Anglo-Saxon model (Pontusson and Swenson, 1996). As a result a large body of research in US and UK (Kapstein, 1996; Katz, 1993; Mueller and Purcell, 1992; Reder and Ulman, 1993) suggested that a generalised pull for convergence towards the Liberal market model would occur in wage bargaining institutions of advanced capitalist countries.

Yet, empirical reality defied strong theoretical expectations and centralised wage bargaining arrangements proved to be much more resilient than a large body of literature assumed. Wallerstein *et al.* (1997) showed that wage bargaining institutions in Northern and Central Europe proved to be resilient at least until the late 1990s. Even more, the second chapter of this thesis uses novel empirical data to show that the expectation for a generalised decentralisation is barely observed across EU15[1] up until the late 2000s. Instead, the trajectories of change across EU countries are divergent, which presents us with an intriguing empirical puzzle with a wider relevance.

The growing body of work around varieties of capitalism offers a few insights to partly explain those divergent trajectories of change. Continental European countries were considered as part of Coordinated Market Economies; in which certain institutions 'clustered together' and produced increasing returns derived from 'institutional complementarities' (Hall and Soskice, 2001:17). As a result complete breakdown of wage bargaining was avoided, because decentralisation would likely jeopardise the provision of collective goods (such as skill-formation) or because new production strategies have increased employers' dependence on social peace (Thelen, 2000; Thelen and Van Wijnbergen, 2003).

Instead of an outright decentralisation of the Anglo-Saxon type, liberalisation of industrial relations was resisted and in the greater part of Continental Europe the response of unions and employers was an 'organised' reform of wage bargaining institutions (Crouch, 2000a). In this case the sectoral-level bargaining was retained, but firm level bargaining increased in relative importance. The sectoral level was kept to set minima in wages and working conditions across a sector, while more (and more substantial) issues (e.g. working time) were deferred to the firm level, so as to promote flexibility and better suit the needs of individual enterprises. This type of change was dubbed as '*organised decentralisation'*

[1] EU15 refers to the group of 'old member-states' before the 2004 enlargement: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

(Crouch, 2000a; Traxler, 1995:7). However, this term was little more than an observation and certainly fell short of explaining this counter-trend. As Thelen (2010:189-192) notes, these developments still pose a challenge for conventional wisdom in the literature.

While the VoC insights on institutional complementarities offer a start for an explanation for the resilience of wage bargaining institutions in Continental Europe, they leave wanting an explanation for the survival of wage bargaining arrangements in Mediterranean capitalism. In the latter 'complementarities' of the CME type are weak or absent, organised interests are not 'encompassing' enough to ensure provision of collective goods (Molina and Rhodes, 2007), and industrial conflict is endemic (Visser, 2002).

Thus, one would expect that when Mediterranean model countries experience the process of liberalisation in a given product market, wage bargaining will face severe destabilising pressures, following a path of institutional convergence towards the Liberal Market model. The lack of complementarities will not hold the institutional arrangements intact. Nevertheless, this development is not uniformly observed, and this still poses a challenge for earlier conjectures. Before advancing a novel conceptual framework to explain the dynamics of change in wage bargaining, I will first turn to the received wisdom in the literature outlining the pressures associated with a breakdown of wage bargaining institutions.

1.3. The Conceptual Frame: Pressures to Wage Bargaining Institutions from Liberalisation and Flexibility

The received wisdom on wage bargaining change can perhaps be grouped in two hypotheses, which highlight the changed business preferences *vis-à-vis* wage bargaining institutions. The first hypothesis could be termed '*the liberalisation hypothesis'*. The emphasis here is on the external and increasingly competitive business environment that firms face, and how this alters their preferences. In relatively closed and protected product markets, oligopolistic firms preferred to 'take the wages out of competition' (Marginson *et al.*, 2003; Swenson, 1989) through sectoral wage bargaining. But the increased integration of product markets 'weakens this logic' (Marginson et al., 2003:165) and firms' incentives to bargain with trade unions are reduced, thus favouring abandonment of sectoral bargaining (Reder and Ulman, 1993; Streeck and Schmitter, 1991).

The second hypothesis entails a more diverse list of factors, which could be dubbed '*the flexibility hypothesis'*. This includes the adoption of new flexible work organisation inside firms in response to technological changes (Katz, 1993:14-15; Pontusson and Swenson, 1996:235; Wallerstein and Golden, 1997:700-701) as well as the need to link closely pay with individual performance (Brown and Walsh, 1991:51-53; Iversen, 1996:406-407; Pontusson and Swenson, 1996:236-237). The more general point is that the model of a firm based on Fordist mass production with 'internal labour markets' is gradually diminishing. Internal labour markets entailed permanent employees with fixed and stable wages, who carried out simple tasks and responsibilities in the division of labour, and their management was based on strict hierarchies (Grimshaw *et al.*, 2001). Instead, the post-Fordist era includes a move to 'lean and mean' organisation of production, with increased pay flexibility, need for employees with polyvalent skills, and a flatter job classification system. The common implication from all these changes is that the detailed specification of wage levels and working conditions in sectoral wage agreements inhibits 'flexibility'. Therefore, business preferences change towards favouring decentralisation of bargaining.

There are good reasons to doubt *a priori* the plausibility of the above hypotheses, not least because they are focused solely on business needs. While they describe well the triggers that may change individual firms' preferences, they do suffer from the weaknesses of functionalism. They assume a simplistic causal chain between changing needs and changing institutions, and are likely to miss crucial *mediating factors* that may moderate pressures or may transform the nature and direction of institutional change. Firms are portrayed as automatically pursuing a single-best strategy that serves their interests irrespective of place and context. This conception misses the point that firms are creative and adaptive rational actors (Streeck, 1997) and their responses are far from mechanical.

Furthermore, the empirical developments proved to be inconsistent with the expectations of the above hypotheses. As mentioned above, there is no trend towards generalised breakdown of centralised bargaining across EU15, despite the apparent pressures from liberalisation and flexibility. Instead the trend across Europe is characterised by divergent trajectories of change. In some countries there is indeed decentralisation, in others stability of wage bargaining level, and in some others a trend towards centralisation. To put it in other words, while the scope conditions of liberalisation and flexibility are present in a wide range European capitalist countries, the outcome of breakdown of wage bargaining appears only in a handful of Anglo-Saxon cases (cf. Wallerstein, 1998:201). As a corollary, there is a lack of a conceptual framework to understand these divergent trajectories of change. Therefore, the task of this thesis is to develop an alternative approach, which could account for the divergent trajectories of institutional change in wage bargaining. The next section previews the argument of the thesis.

1.4. Preview of the Argument: A Coalitional Perspective on Change of Wage Bargaining Institutions

I argue that the factors pinpointed by earlier hypotheses may constitute triggers of preference change for individual firms; however, they alone are not sufficient to bring institutional breakdown (i.e. decentralisation of bargaining). In other words, these pressures provide necessary but not sufficient conditions for the breakup of wage bargaining institutions. Instead, the way that these pressures will play out depends on the coalitions that the relevant actors will be able to form. A *coalitional approach* to wage bargaining change suggests that there are two crucial mediating conditions –ignored by earlier literature- that may moderate or block the pressures towards abandonment of wage bargaining institutions: *employer associability* and *labour-state coalitions*.

1.4.1. Employer Associability: A Coalition of Small and Large Firms

The first factor that was neglected by the earlier literature was the role that employers associations may play *vis-à-vis* wage bargaining change. Drawing on the literature on business associations (Doner and Schneider, 2000; Schmitter and Streeck, 1999; Traxler, 2001) I argue that employers associability is likely to be a *mediating* factor between individual firms preferences and institutional outcomes. Employer associability is a wider concept than just an employer association. It not only means that an association possess the legal competence to represent the members' interests in labour relations (as an employer association), but also the internal representation process is balanced so that decision making does not result in a skewed representation towards one or another group of members. Therefore, employer associability is missing in two occasions: (i) when an association does not have the legal competence to represent firms on labour relations (i.e. is just a trade association representing narrow interests) and (ii) when representation is skewed towards one category of firms in the sector (e.g. large firms vs. small firms).

Following from the above, the first hypothesis is that if employer associability exists, then destabilising pressures in wage bargaining are likely to be moderated. Drawing on insights offered by Schmitter and Streeck (1999:13) 'collective interest associations' are in a better position than individual firms to appreciate and protect the long-run interests of their membership, even if this requires to enforce their decisions upon reluctant or resisting members. But given the new competitive environment, an employer association will also recognise its members' needs for greater flexibility. Therefore, it is likely to strike a compromise getting 'the best of both worlds' for its members by reforming the wage bargaining institution. The sectoral wage agreement would set a level-playing field with minimum standards across the sector, lowering drastically transaction costs and ripping off the benefits from social peace. At the same time, issues regarding more pay and work organisation flexibility can be deferred to the firm level. The first research hypothesis follows from the above analysis:

Hypothesis I: Whilst pressures from liberalisation and flexibility may act as triggers changing individual firms' preferences towards abandoning centralised bargaining, the presence of 'employer associability' will likely moderate destabilising pressures and lead to a reform of the institution.

1.4.2. Labour-State Coalition: Labour Unity and Government Agenda

In addition to employer associability, there is another mediating factor that has been neglected by earlier literature and may temper the pressures towards the abandonment of wage bargaining institutions: labour-state coalitions. Admittedly, there is a long literature documenting and explaining the decline in trade unions' membership across advanced industrialised countries (Ebbinghaus and Visser, 1999; Freeman, 1995; Western, 1995). This picture of union power decline enhanced the expectation for a generalised breakdown of wage bargaining arrangements. However, trade union power should not only be conceptualised in terms of membership, but also in unions' ability to invite the government to intervene (Rees, 1989:35). Especially in the Mediterranean model of capitalism, trade unions have developed clientelistic and particularistic relationships with political parties, investing in 'political power' (Featherstone and Papadimitriou, 2008; Molina and Rhodes, 2007). But more generally, the importance of the role of the state in steering social bargaining across Europe was highlighted by a large literature on social pacts (Crouch, 2000a; Rhodes, 2001; Schmitter and Grote, 1997). I borrow from this literature the insight that bargaining is likely to take place in the 'shadow of hierarchy' namely the shadow of the state. Subsequent accounts of social pacts and welfare reform fleshed out the causal mechanism that links the motivation of state steering social partners' bargaining, pinpointing the role of party politics and electoral pressures (Green-Pedersen, 2003; Hamann and Kelly, 2007). The above insights support *a priori* the plausibility of the hypothesis that the institution of wage bargaining may not only rest on a 'cross-class' coalition as Swenson (1989:34) suggested, but also on a 'labour-state' coalition.

Indeed, in the context of steep union membership decline, I argue that organised labour is unlikely to be able to stem alone the employers' challenge to centralised bargaining. Still, if labour steers the interest of the government, it may hinge on its coercive (and persuasive) power and forge a labour-state coalition. Thus, an institutional arrangement may be enforced to resisting individual firms. There are, however, two important conditions. First, labour should be able to speak with a 'single voice' irrespective of the decline in membership or the organisational structure of trade unionism. This denotes the interest representation on the side of labour. Second, union members' vote should be significant for the party in government; and retaining wage bargaining institutions should be congruent with tactical policy trade-offs in the rest of the government's agenda. Therefore, a labour-state coalition cannot be forged in two occasions: (i) if labour is divided and cannot unite to pursue or defend centralised bargaining or (ii) if electoral pressures are weak and priorities in government agenda clash with the support of wage bargaining institution. The above analysis results in the following hypothesis:

Hypothesis II: Whilst pressures from liberalisation and flexibility may act as triggers changing individual firms' preferences towards abandoning centralised bargaining, the presence of a 'labour-state' coalition will likely moderate destabilising pressures and lead to a survival of the institution.

In a nutshell, the above hypotheses refine the earlier conjectures by introducing two factors (employer associability and labour-state coalitions). Both factors allude to the coalitions of domestic actors that may transform the direction of institutional change. To use quantitative terminology the hypotheses suggest two 'intervening variables' which mediate the relationship between the 'dependent variable' (wage bargaining agreements) and the 'independent' variables' (liberalisation and flexibility). The next section considers the overall research design of the thesis.

1.5. Research Design

1.5.1. Case Selection Criteria

The thesis suggests the plausibility of the hypotheses applying them to explain four ‘most likely’ (Eckstein, 1975; George and Bennett, 2005) sectoral case studies: Greek banking, Italian banking, Italian telecommunications, and Greek telecommunications, which are arranged in matched pairs.

There are several reasons that justify lowering the unit of analysis from national level to sub-national level. First, the composite indicators of national wage bargaining centralization (used in the second chapter) are not suitable for the research question and can only document trends over time. National level institutions change very slowly over time, and thus the analysis is better off locating those ‘rare events’ of significant and abrupt institutional change. Thereby, one can inquire the motives and interactions between actors *via* in depth sectoral case studies. By contrast, the composite indicators would tend to identify *stability* even in cases where the *change is subtle*, as in the case of reform of wage bargaining towards ‘organised decentralisation’. Despite the actual change in the relative importance between levels of bargaining, the composite indicators would still count the same level of centralisation.

In addition, all four cases exhibit the scope conditions of earlier theories, namely they are liberalised sectors in which competition intensified, and the privatisation accelerated the diffusion of flexibility in work organisation. Thus, the pressures for destabilisation appeared strong and their convergence to decentralised bargaining was 'most likely'. Although their starting points differ (in banking sectors the starting point is sectoral bargaining, whereas in telecoms the starting point is firm level bargaining); still, the expectation was that all of them will converge to the LME decentralised bargaining structure.

Simultaneously, the wider institutional context of the countries strengthens this research expectation. Italy and Greece belong to the Mediterranean model of capitalism, which is also 'most-likely' for institutional convergence to the Liberal Market model. On the one hand, these cases are institutionally incoherent; unlike CMEs, wage bargaining is not part of strong institutional complementarities that keep the system together. On the other hand, both cases share similar traditions of extensive state ownership in the economy and state involvement in the industrial relations realm (Baccaro and Pulignano, 2011; Ioannou, 2010). This 'controls' for substantial differences in national-level institutions. Indeed, as Culpepper (2005a) argues, this research strategy may help holding constant a number of pertinent explanatory variables, such as differences in national-level institutions and state traditions.

In spite of the strong expectation for a common trajectory of change, we observe that the paths of institutional change diverge. On the one hand, there is survival and reform of sectoral wage bargaining in Italian banking, whereas there is a breakdown of sectoral wage bargaining in Greek banking. On the other hand, there is a successful centralisation of bargaining in Italian telecoms and there is a failure to centralise bargaining in Greek telecoms, which remains decentralised.

Hence, the cases are also matched on pairs following the *most similar systems/different outcomes* comparative design (Collier, 1993; Mahoney, 2004; Przeworski and Teune, 1970). The dependent variable is binary, i.e. the presence (or absence) of a sectoral wage agreement. Extreme selection bias is avoided because case selection allows 'for at least some variation on the dependent variable' (King *et al.*, 1994:129). The different timing of the case studies is determined by the difference in the timing of the processes of liberalisation and privatisation, and accordingly, the different times that the destabilising pressures appeared. In Italian banking and telecoms the pressures appeared around the late 1990s, whereas in Greek banking and telecoms around the mid 2000s.

More generally, the 'universe of cases' (Ragin, 2004) comprises of liberalised and privatised sectors in Southern Europe. There is a clear EU regulatory impact on these sectors, since they have been liberalised in the 1990s and the state withdrew from their regulation. Second, these sectors shared a tradition of state ownership, while privatisation signified the withdrawal of the state during the 1990s. Following from their privatisation, these sectors underwent intensive restructuring and work organisation flexibility was introduced. The second half of the third chapter examines these systemic pressures in more detail.

1.5.2. Data Collection Method

The data for the case studies were collected via interviews with key informants. Elite interviewing was chosen as the most appropriate data collection method to answer a research question that seeks to trace the process of change and unveil actors' motivation (George and Bennett, 2005; Hall, 2006). The key informants included representatives from sectoral and national trade union organisations, representatives from sectoral business associations, representatives of governmental political parties, as well as experts who had deep and intimate knowledge of the developments in those sectors. The typical length of interviews was about one hour, ranging from a minimum of thirty minutes to a maximum of two and a half hours. Most of the interviews were tape-recorded (unless the informants preferred not to) with a commitment not to attribute quotes and to respect confidentiality. The discussion was based on a semi-structured interview protocol with open questions.

Interviewing is a research technique that has clear strengths with respect to unearthing original empirical detail, which is usually possessed by few informants in key positions. It is especially well suited to garner evidence pertaining to actors' strategies and motivations. Still, interviewing is also a technique with weaknesses, which were also considered in the research design stage and there was an effort to minimise those weaknesses. Notably, the validity and credibility of informants' insights was cross-checked via *triangulation* (Denscombe, 2007:201) of the information either with other informants and/or with other primary and secondary sources. Hence, the case studies also rely on several sources including *inter alia:* press releases and official announcements, wage bargaining agreements, newspaper articles, and expert reports on sectoral developments. If the informants' insights were judged to be debatable and were not confirmed by other sources, those pieces of evidence were dropped. Finally, the total number of interviews was 28. The final section outlines the structure of the thesis' chapters.

1.6. Outline of the Thesis

The next chapter starts by reviewing the scholarly works dealing with institutional change across and within varieties of capitalism, and then examines the more specific works on wage bargaining institutions. Those works lie at the intersection of comparative political economy and comparative employment systems literatures.[2] The works on wage bargaining institutions are reviewed with two questions in mind: (i) what are the benefits that actors perceived to get from sectoral wage bargaining institutions in the Fordist era?; and (ii) how do the post-industrial pressures towards destabilisation of those institutions manifest themselves? Thus, the chapter elaborates on the causal mechanisms behind the liberalisation and the flexibility hypotheses. The hypotheses are then criticised on theoretical grounds and this outlines the conceptual lacuna that this thesis seeks to fill. The rest of the chapter examines empirical data on national level wage bargaining trends across Europe since the 1990s. The central finding is that despite the liberalisation of markets and introduction of flexibility across EU15, wage bargaining centralisation followed divergent trajectories of change. This

[2] On the one hand, *comparative political economy* is a strand of literature that has its roots on comparative politics, for an overview see Gamble (1995:525-527) and Hall (1997). On the other hand, *comparative employment systems* examine both the institutional context of industrial relations and human resources practices within firms; for example see Dore (1996) or Katz and Darbishire (2000). Although there were earlier attempts to bridge the two fields (e.g. Wever and Turner, 1995), the two literatures started talking to each other more intensely after the publication of the Hall and Soskice (2001) varieties of capitalism theory. This thesis lies at the intersection of those fields.

strengthens the empirical puzzle of the thesis and suggests the broader relevance of the research question.

The third chapter presents a novel coalitional approach to wage bargaining change. Coalitional approaches have already been used in comparative political economy to examine institutional change. Notwithstanding, a coalitional perspective has not been applied (to the best of my knowledge) to explain the dynamics of change in wage bargaining institutions up until now. The core insight of the thesis suggests that although structural factors of liberalisation and flexibility pull towards a generalised breakdown of centralised bargaining, the particular trajectory of change will be determined by the coalitions of collective actors. Thereby, employer associability and a 'labour-state coalition' are presented as crucial mediating factors explaining divergent trajectories of change. The logic of the hypotheses is set out *via* synthesising and cross-borrowing insights from related literatures on business associations and state's role in social pacts. This strengthens their *ex ante* plausibility, before getting to the empirical evidence. The second part of the chapter examines the systemic pressures across European banking and telecommunications sectors. Both sectors have felt the European regulatory impact with an opening up of those markets and intensification of competition. At the same time, the international diffusion of flexible working practices had an impact on the internal work organisation of firms in those sectors.

The fourth chapter starts with an in-depth examination of labour politics in the Greek banking sector. It begins with an overview of the Greek industrial relations system since the 1980s, introducing the main actors and setting the institutional context at the national level. Then it briefly examines the banking sector under state ownership until the late 1980s, before turning to the processes of liberalisation and privatisation that mainly took place during the 1990s. It is shown that the two processes facilitated the increase in competition within the market. The opening up allowed the entrance of foreign banks, accelerated mergers and acquisitions, and intensified competitive pressures. In addition, the privatisation process accelerated the modernisation of banks with introduction of new technologies and new management practices towards working time and pay flexibility. The purpose of those sections is to pin down the presence of strong destabilising pressures towards abandonment of wage bargaining institutions. Then the chapter turns to the wage bargaining rounds in the 2000s paying close attention to the interactions between the three major actors and their underlying motives. The wage bargaining institution survives until the mid 2000s, but broke down in the late 2000s. This 'within-case variation' is explained by the the presence or absence of a labour-state coalition.

The fifth chapter turns to the Italian banking sector, which provides a sharp contrast to the Greek case. In Italian banking sectoral wage bargaining did not break down, but was reformed to meet new needs. The chapter begins with an overview of the Italian industrial relations system since the 1980s and introduces the main actors at the national level. Then it examines the banking sector under state ownership, before turning to the processes of liberalisation and privatisation of the system during the 1990s. Afterwards, the chapter sketches the pervasisve introduction of flexible working practices in banks. The purpose of those sections is to show that the destabilising pressures towards wage bargaining institutions were strong. However, this outcome did materialise. The account of wage bargaining rounds in the late 1990s shows that the trajectory of reform of the wage bargaining system towards 'organised decentralisation' was facilitated by employer associability *and* a labour-state coalition.

The sixth chapter shifts the focus to the Italian telecommunications sector, where wage bargaining is centralised from firm level to sectoral level. It briefly reviews the sector under state ownership until the late 1980s and then turns to the liberalisation and privatisation of the system during the 1990s. Afterwards, it presents the penetration of flexible working practices during the 1990s in both the privatised Telecom Italia and new telecom operators. The purpose of those sections is again to pin down the strong expectation towards a decentralised wage bargaining structure. The account of wage bargaining rounds in the early 2000s pays close attention to the interactions between the three major actors: employers, labour and the state. The role of the state in supporting the institution of wage bargaining appears more vividly in the mid 2000s when call-centre firms resist their inclusion under the remit of the sectoral agreement. Overall, the case study shows that the centralisation of wage bargaining solidified due to employer associability and a labour-state coalition.

The seventh chapter examines the Greek telecommunications sector, where wage bargaining remains decentralised at firm level (*inertia*) despite the effort to centralise it as in the Italian case. It briefly reviews the sector under state ownership until the late 1980s and then turns to the liberalisation and privatisation of the system during the 1990s. Afterwards, it presents the penetration of flexible working practices during the 1990s and early 2000s. Those sections pin down the strong pressures that militated against a centralised wage bargaining arrangement. However, the chapter refines earlier theories showing that the decentralised bargaining structure is explained, because the stronger union in the sector was simply not interested in such a strategy and was focused on pursuing narrow interests. Additionally, firms' associations were narrow representing only product market interests, while labour was organisationally and ideologically divided and the conditions to forge a coalition with the state for centralisation of bargaining were missing.

The final chapter brings everything together by reviewing the main argument and summarising the central empirical findings. Thus, the conceptual and empirical contributions of the thesis are clearly set out. The chapter also gauges the wider applicability of the argument and outlines how it can be tested to further cases. Moreover, the implications of the argument and empirical findings for broader academic debates in comparative political economy and comparative employment systems is discussed. In comparative political economy, the thesis contributes to fleshing out empirically the role of the state in shaping institutional change within the Mediterranean model of capitalism. More generally, the cases suggest that divergent trajectories of institutional change are possible even within cases belonging to the same model of Mediterranean capitalism. Finally, the implications for comparative employment systems literature are discussed. The findings of the thesis corroborate other works' findings that despite internationalisation of flexible working practices, this does not lead to institutional convergence across countries. Instead, the diffusion and introduction of ‘flexible’ practices is mediated by domestic actors and their coalitions. Finally, the last section concludes by discussing the prospects for institutionl change in the context of the current crisis and the role of wage bargaining institutions in those economies.

Chapter 2 Institutional Change in Wage Bargaining: Theoretical Framework and Empirical Puzzle

2.1. Introduction

The purpose of this chapter is twofold. First, I will review the broader debate of institutional change within varieties of capitalism, and then I will turn to the more middle-range theoretical conjectures on wage bargaining, which expected the generalised breakdown of centralised wage bargaining and its convergence to the Liberal Market model. Second, I will examine empirically the destabilising pressures across Europe, and then look at national level data on wage bargaining centralisation across the EU15. Thus, I will enhance the empirical underpinnings of the empirical puzzle: despite liberalisation and flexibility, centralised bargaining in Europe took divergent trajectories of change.

The distinction between *background theory* and *focal theory* is useful here. Following Phillips and Pugh (2005:57-58), *backround theory* refers to the wider field of study in which a thesis is placed, whereas *focal theory* refers to the narrower set of hypotheses, which relate to the precise topic of analysis. Thus, the debates on institutional change within varieties of capitalism provide the *background theory* of the thesis, while the middle range propositions on wage bargaining provide the *focal theory* of the thesis.

The link between the two is that the industrial relations system is one of the five[3] central institutional spheres for varieties of capitalism models (Hall and Soskice, 2001:22-33). In the stylised picture of Liberal Market Economies, wage bargaining is decentralised at the firm level and organised interests behave as 'narrow interests' unable to provide collective goods. In the stylised picture of Coordinated Market Economies, wage bargaining is centralised at the sector-level and firm level bargaining is a complementary second-level of bargaining, while labour and business act as 'encompassing interests' providing collective goods. Finally, in the Mediterranean model of capitalism (or Mixed Market Economies) the institutional arrangement is more of a hybrid: bargaining tends to be centralised, however, organised interests are not encompassing enough to ensure the provision of collective goods (Almond, 2011; Molina and Rhodes, 2007). As a consequence, a move from centralised (sector level) to decentralised (firm level) bargaining would be indicative of convergence to Liberal market model of decentralised industrial relations (Marginson and Sisson, 2002:671; Pérez, 2000; Traxler, 1996:282). However, these stylised pictures exhaust the usefulness of the –admittedly– highly abstract capitalist ideal types.

Indeed, scholarship has moved further, examining the dynamics of change in specific institutions, rather than merely constructing static typologies of capitalism. Although there is a sizeable body of literature on the dynamics of change in institutional spheres such as the corporate governance/financial system

[3] The other institutional spheres are: the corporate governance or financial system, the education and training system, the internal structure of the firm, and the structure of inter-company relations.

(for instance see Cioffi and Höpner, 2006; Culpepper, 2007; Deeg, 2005), our understanding of institutional change in wage bargaining has lagged behind. Therefore, one of the primary aims of the thesis is to fill this gap, by developing a coalitional approach to understand the dynamics of change in wage bargaining institutions. Still, if one wants to explain specific changes in this institution, one has to lower the level of abstraction and turn to more middle-range theoretical propositions on wage bargaining. These insights dwell either on the comparative political economy or the comparative employment systems literatures.

The structure of the rest of the chapter is as follows. The next section starts with a brief review of the recent debates around institutional change across varieties of capitalism. The third section delves into the wage bargaining literature and elaborates on the causal mechanism expecting pressures to wage bargaining institutions due to liberalisation and flexibility. The review is guided by two main questions: (i) what are the benefits that actors perceived to get from sectoral wage bargaining institutions in the Fordist era?; and (ii) how do the post-industrial pressures towards destabilisation of those institutions manifest themselves? This part concludes with an *ex ante* critique of earlier theoretical conjectures identifying blind spots and outlining the gap to be filled. The second part of the chapter seeks to strengthen the empirical underpinnings of the thesis' puzzle. It shows that although liberalisation and flexibility appeared as pressures across EU15, yet, wage bargaining centralisation took divergent trajectories of change. Thus, it suggests the relevance of the research question for a wider set of countries.

2.2. Institutional Change Between and Within Advanced Capitalist Countries

2.2.1. Convergence and Divergence across Capitalisms

The debate between theorists expecting a convergence of advanced capitalist countries to a single model, and others maintaining that there is persisting diversity is not recent. It can be traced back to the works of the 'Harvard team' of institutional labour economists, who set out to refute the Marxian predictions of an inevitable self-destruction of capitalism. After completing a seminal comparative study of trade unionism across US and Western Europe, Clark Kerr, John Dunlop and their colleagues (1960) claimed that advanced capitalist countries are likely to converge to a single model of 'pluralistic industrialism'; in which trade unions' militancy would be reduced, as the labour movements matured and the economy developed shifting from the agrarian sector to industrial production. Unlike Marx's idea that trade unions would become 'schools of war' to overthrow capitalism, Kerr *et al.* (1960) suggested that trade unions would become embedded into the mode of production and transformed into forces of stability for the capitalist system.

The argument of convergence towards 'pluralistic industrialism' was picked up several years later by a team of political economists under the auspices of Oxford's John Goldthorpe. They challenged the Kerr *et al.* argument of convergence to pluralistic industrialism, highlighting the divergent responses of the United States and European countries towards the stagflation crisis of the 1970s (Goldthorpe, 1984). Notably, they emphasised that trade unions were differently embedded into the capitalist system across countries. Accordingly, the responses of different countries to the crisis of the 1970s differed, with Western Europe pursuing corporatist incomes policies, whereas Anglo-Saxon countries using monetary policy tools.

The convergence argument reappeared in the 1990s under the guise of the wider globalisation debate. A series of popular and polemical works led the discussion; putting forward the proposition that – in the context of globalisation – different models of capitalism would be subject to pressures, which will force countries to converge to the Anglo-Saxon model (Albert, 1993). This expectation was shared by scholars from different disciplinary fields. For instance, international political economy (IPE) scholars recognised the potential for clash between different models of capitalism (Cox, 1994) and argued that global market integration pushes countries towards convergence (Strange, 1997).

Global market integration pressures were manifested either top down or bottom up. The top down pressures were associated with the increasing liberalisation of product markets regulation as a result of dismantling tariffs after GATT/WTO agreements, the completion of the single market in Europe, and the 'changing policy paradigms towards liberalisation and privatisation spreading from US and Britain' (Scharpf, 2003:375). On the other hand, the bottom up pressures towards convergence were emphasised by scholars studying the behaviour and management of firms. They argued that market pressures push firms to adopt 'best practice' models of industrial production (e.g. lean production) and therefore divergent forms of business organisation were bound to converge to a single international model of the ‘lean enterprise’ (Rubery and Grimshaw, 2003; Womack and Jones, 1994). Others also argued that multinational firms operate in a ‘borderless world’ (Ohmae, 1989) and therefore they owe allegiance to no national state and locate wherever on the globe market advantage dictates (Rees and Edwards, 2011:12). Thus, the ‘best practices’ in production were diffused internationally via multinationals, which also put pressure to states to converge in institutional arrangements. Thereby, the prospect of convergence to a single Liberal Market model of capitalism gained credence in literature.

In response to these arguments, scholars from comparative political economy (CPE) substantiated the alternative vision of ‘persisting diversity’. An exploding literature touched different institutional realms and showed that there is a surprising diversity of institutional arrangements clustering into models of capitalism (Berger and Dore, 1996; Crouch and Streeck, 1997; Gamble *et al.*, 2000; Hall and Soskice, 2001; Kitschelt *et al.*, 1999). One of the main tenets of their argument was that similar pressures from globalisation and liberalisation are mediated differently across models of capitalism, refuting the neo-liberal convergence thesis. Additionally, scholars from comparative employment systems literature reached similar conclusions. Despite the prophesied expansion of ‘lean production’ one finds a diversity of work organisation systems within firms, which are congruent with different national institutional arrangements (Appelbaum and Batt, 1994; Katz and Darbishire, 2000; Marsden, 2004; Turner and Auer, 1994).

2.2.2. Varieties of Capitalism: From Comparative Statics to the Dynamics of Change

In their hallmark contribution to the varieties of capitalism (VoC) literature, Hall and Soskice (2001) argued that there are two main varieties: *Liberal Market Economies* (LMEs) with examples such as the United States and the United Kingdom; and *Coordinated Market Economies* (CMEs) such as Germany and Sweden. Each model of capitalism is characterised by a particular configuration of 'complementary' institutions, which jointly contribute to high economic performance. The CME ideal-type is based on non-market (strategic) coordination among collective actors and thus produces 'institutional complementarities' between long term employment relationships in labour markets, a stakeholder value approach in corporate governance, bank-based/patient capital funding, training systems that emphasise specific skills, and their comparative advantage lies in sectors that require incremental product innovation (machine tools, transport vehicles, consumer durables, etc.). On the contrary, the LME ideal-type is based on market coordination across spheres of the political economy and thus produces 'institutional complementarities' between flexible labour markets, a short-term/shareholder value approach in corporate governance, equity based financial systems, training systems that emphasise general skills, and their comparative advantage lies in sectors that require radical innovation (e.g. biotechnology, semi-conductors, telecommunications, medical engineering).

Later contributions elaborated on additional types of capitalism dubbing them as *Southern European/Mediterranean model of capitalism* (Almond, 2011; Amable, 2003; Featherstone and Papadimitriou, 2008; Hyman, 2004; Karamessini, 2008) or as *Mixed Market Economies* (Hancké *et al.*, 2007; Molina and Rhodes, 2007; Schmidt, 2008). This model is conceived as a more statist hybrid between LMEs and CMEs, has weak institutional complementarities and is prone to low economic performance. Empirical examples included countries such as Italy, Greece, Spain and Portugal.

Naturally, the literature was not simply placing countries into boxes. Amongst the many contributions of the VoC framework was that it 'provided an intellectual counterweight to easy arguments about globalisation, which predict an inevitable trend towards similarity among the world's economies' (Crouch, 2005a:439; Crouch, 2005b). Instead, the VoC framework stressed that rational actors (firms, unions) will resist the trend towards convergence, choosing to adopt practices congruent with their institutional environment (Grimshaw and Rubery, 2007:83).

In spite of the valuable insights of the VoC framework, the literature also attracted considerable criticism. Blyth (2003:222) charged VoC with a 'manufacturing bias'; a picture that was based on relationships and institutions in the manufacturing sectors, which were not representative of the whole economy. Similarly, O'Reilly (2006:735) suggested that the models told a succinct story for the 1980s, but already in the 1990s and certainly in the 2000s the paradigm cases had changed and deviated a great deal from their respective ideal-types. Additionally, scholars began to hesitantly identify signs of convergence across models of capitalism, even if this was ‘convergence at variable paces’ and distinguished between policy convergence, institutional convergence and outcome convergence (see Hay, 2004).

Another important criticism was that VoC was far too firm-centred. It ignored the role that the state may play in altering incentives of actors and steering institutional change with government policies (Featherstone, 2008; Schmidt, 2003; Thatcher, 2007a). Finally, the framework was also criticised for having a static view of interlocking institutions (Grimshaw and Rubery, 2007:83), with all feedback tending to ‘sustain and reproduce the existing system’ (Thelen and Van Wijnbergen, 2003:860). Hence, ‘if the only change recognised as fundamental is of a sort that is practically impossible, social systems are stable almost by definition’ (Yamamura and Streeck (2004) cited in Culpepper, 2005b:174). These criticisms encouraged the shift in the debate from comparatively static ideal-types to an examination of ‘institutional change’.

Institutional change is certainly an elusive concept. For instance, what one could call as an ‘institution’ in everyday parlance may be quite different from what one would define as an institution in the context of scholarly work. Following Douglas North, ‘institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction’ (North, 1990:3). While still a very broad definition, it helps distinguish, as North does, between two basic types of institutions: on the one hand, there are formal institutions such as statute law, common law and contracts, and on the other, there are informal institutions such as conventions, codes of conduct and norms of behaviour (North, 1990:6). Indeed, this thesis examines an institution that falls in the category of formal institutions: wage bargaining contracts.

Turning to the concept of ‘change’ this might be equally a source of confusion, and result in diametrically opposed interpretations. As Streeck and Thelen (2005:26) argue, this has been especially the case with ‘path dependence’: scholars understand it either as very minor and more or less continuous change or very major but then abrupt and discontinuous change. As a remedy to this weakness, scholarship sought to integrate a dynamic analysis ‘introducing more agency’ to track and explain institutional change and unveil ‘how actors can circumvent or recast those institutions toward new ends’ (Jackson and Deeg, 2008:554). Along these lines, Crouch (2005a:25) argued that to study institutional change and diversity:

> ‘…we need to deconstruct the taken-for-granted wholes of contemporary neo-institutionalism and discover their constituent elements - elements which are able to survive in combinations other than those identified in the taken-for-granted wholes’.

Similarly, Hall and Thelen (2009) supported a turn to studying institutional change in varieties of capitalism. They suggested that ‘we need to disaggregate the concept of “liberalisation” and explore each of its dimensions’ and to what extent different manifestations of liberalisation tend to occur together (2009:22).

The above remarks summarise neatly the rationale behind this thesis. It does not aspire to study institutional change in models of capitalism as wholes. Rather, it focuses on the industrial relations realm, exploring to what extent liberalisation in product markets tends to occur together with a liberalisation (i.e. breakdown) of wage bargaining arrangements. The next section considers in more detail the dynamics of change in wage bargaining.

2.3. The Dynamics of Change in Wage Bargaining Institutions

2.3.1. Wage Bargaining: an Institution that Rests on a 'Cross-Class Coalition'

Wage bargaining was according to Sidney and Beatrice Webb one of three types[4] of employment regulation (Clegg, 1976:2). In this type of regulation, rules are made by agreement between employers and trade unions and involve setting wages and working conditions. As Peter Swenson (1989:34) convincingly argued wage bargaining can be construed as an institution rested upon a 'cross-class coalition' between labour and capital. The explanation of such a coalition is based on actors' motivations and specifically the benefits they perceive to get from the institution. The next sub-sections elaborate on the benefits that actors get from sectoral bargaining, outlining how centralised wage bargaining became the norm across Europe in the Fordist era.

2.3.1.1. Firms' Benefits from Sectoral Wage Bargaining.

Firms are expected to be favourable to industry-wide bargaining because it provides a degree of market control by taking labour costs (wages and working

[4] The other types included statutory regulation (state's employment law) and unilateral trade union regulation (rules set by craft unions, which practically no longer exist).

conditions) out of competition within the given product market (Marginson et al., 2003:164). Especially under conditions of labour scarcity (full employment) it stabilises the cost of wages from rising too high (in an 'auction bidding' style). As a corollary, individual firms avoid 'poaching' by other firms, which may offer a premium on wage or working conditions to attract highly skilled labour (Swenson, 1989:29). Moreover, industry-wide bargaining maximises employers' bargaining power in dealing with trade unions and can protect them from 'whipsawing' tactics (Zagelmeyer, 2005:1627). Any action will be orchestrated across the sector and therefore the threats of 'lockout' and 'investment strike' are credible and effective. Additionally, sectoral wage bargaining reduces transaction costs associated with multiple firms bargaining with firm level trade unions over wages and conditions (Marginson *et al.*, 2003). Lastly, the institution promotes industrial peace (linked with 'peace-clauses') and cooperative relations within firms, because the 'distributive conflict' is taken out of the workplace (Thelen, 2000:162).

2.3.1.2. Trade Unions' Benefits from Sectoral Wage Bargaining

Trade unions are also expected to be favourable to sectoral wage bargaining for a number of reasons. First, it ensures uniform levels of wages and working conditions (and uniform increases) for the same job description across the industry, covering small firms where unions are not always well-organised (Marginson et al., 2003:164). The idea of uniformity (and setting a 'common rule' or a 'rate for the job') complies with unions' concerns over distributive and procedural justice among their members. Since the median wage in a firm or sector is normally less than mean pay, then a median voter model of union organisation suggests that over half of union members will favour redistribution towards the lower paid, and therefore unions will have a preference for standardising wages and reducing wage differentials (Metcalf *et al.*, 2001:63). Especially under conditions of high unemployment, this standardisation of wages protects them from falling too much, if firms engage into a 'competitive undercutting'. Similarly, regulating working conditions (work organisation, working time, health and safety, etc.) provides a 'level-playing field' as individual firms cannot obtain a cost advantage by deteriorating these conditions. Additionally, sectoral wage bargaining maximises trade unions' bargaining power *vis-à-vis* employers and protects them from employers' 'divide-and-rule' tactics (Zagelmeyer, 2005:1631). Industrial action is expected to be orchestrated across the sector and therefore the threat of strike is credible and effective. Lastly, trade unions benefit from the reduction of transaction costs and industrial peace offering a steady flow of income to their members.

2.3.1.3. Governments' Benefits from Sectoral Wage Bargaining

Finally, governments are expected to support sectoral wage bargaining, because the peace clause (which is usually attached to wage agreements) minimises industrial conflict and disruption in investment, employment, production and consumption. Wage bargaining institutionalises the class-conflict (Marginson et al., 2003:164) through established rules of conciliation, mediation and arbitration between the two sides of the industry. Last but not least, wage bargaining is an invaluable instrument for price stability, since it is a policy complement for monetary policy to stabilise inflationary pressures from wage increases through ‘wage restraint’. This was exemplified by Germany’s response to the stagflation of the 1970s, in which the *Bundesbank* ‘coordinated with the powerful and centralised unions to contain cost-push inflation through effective wage restraint, (Scharpf, 2011:6).

2.3.2. Pressures for Change in Wage Bargaining Institutions

The previous section provided a picture of the three main actors’ preferences *vis-à-vis* wage bargaining and outlining why centralised wage bargaining became institutionalised across Europe in the Fordist era by highlighting the motivations behind actors’ preferences and conceptualising the institution as a positive-sum game. These motivations notwithstanding, a significant literature in the 1990s predicted a breakdown of centralised bargaining arrangements and their convergence on more decentralised models of industrial relations (Kapstein, 1996; Katz, 1993; Katz and Darbishire, 2000; Martin and Ross, 1999; Mueller and Purcell, 1992). Employers’ search for flexibility in the post-Fordist era pushed for the dissolving of wage bargaining institutions.

As mentioned in the introduction, the main drivers behind this trend can be grouped under two hypotheses: the *liberalisation hypothesis* and *the flexibility hypothesis*. Both these sweeping forces altered the payoffs/perceived benefits that mainly firms derive from the institution of wage bargaining. The common implication of these changes was that they rendered bargaining institutions increasingly unnecessary. In the rest of this section I shall briefly examine the *causal mechanism* through which the pressures are linked with an expected breakdown of centralised wage bargaining.

2.3.2.1. External Pressures: Markets Liberalisation and Intensification of Competition

The first hypothesis expecting a generalised trend towards breakdown of centralised bargaining emphasises the *external* and increasingly more competitive business environment in which firms operate (Reder and Ulman, 1993; Streeck and Schmitter, 1991). Integration of product markets may be the outcome of several processes: product market liberalisation due to changing policy paradigms (as in the case of Reagan and Thatcher administrations); intensified global competition from newly industrialised (and low-cost) countries; or -as in the European Union context- liberalisation stemming from the single market programme. As barriers to trade across countries are eliminated, capital controls abolished, and protection of industries removed, competition within the (national) product markets is increased and extended across the EU-wide single market.

The integration of product markets is expected to weaken the logic of 'taking wages out of competition' within the nation-state (Marginson et al., 2003; Swenson, 1989:29) and bring about decentralisation of bargaining. More specifically, the increasing integration of product markets across countries erodes the institution of wage bargaining as a positive sum game. Trade unions are unable to enforce wage agreements beyond the national product market. Although wages are kept 'out of competition' within the geographical area that a wage agreement covers, it does not keep wages out of competition from neighbouring product markets. As a result, the most likely outcome of increased product market competition is expected to be breakdown of centralised bargaining.

2.3.2.2. Internal Pressures: Introduction of Flexible Working Practices

The second hypothesis entails a more diverse list of factors, which allude to changes in the *internal* organisation of firms and stem from the diffusion of flexible working practices. One could include the adoption of new production strategies in response to changes in technology (Katz, 1993:14-15; Pontusson and Swenson, 1996:235; Wallerstein and Golden, 1997:700-701), the need to link closely pay with performance and alter pay systems (Brown and Walsh, 1991:51-53; Iversen, 1996:406-407; Pontusson and Swenson, 1996:236-237) and the diversification of corporate structure and shift towards multi-divisional forms with flatter management hierarchies (Brown and Walsh, 1991:49-51; Katz, 1993:15-16). The common implication is that the framework of sectoral wage agreements becomes increasingly rigid and inhibits the implementation of the above changes; or significantly reduces the benefits to firms. Again this set of explanations points to the changing needs of the firms.

Changes in product market demand or production technology require adoption of **new work organisation** strategies. Individual firms are expected to prefer suiting work organisation changes to their respective needs. Industry-wide bargaining will be regarded as too ‘inflexible’ to accommodate these firm-specific requirements. This ‘inflexibility’ will be more pronounced when there are 'information asymmetries' between the higher and lower levels of bargaining. In other words, the firm level actors may possess information about changes needed, which central bargainers cannot acquire (Zagelmeyer, 2005:1630) or even if they do, they may not be able to reconcile different firms' needs. In sum, this will alter the incentives of firms, and firms are expected to prefer abandoning sectoral wage bargaining and seek decentralisation to the firm level. One should note of course, that changes in production technologies have a more direct impact on the way that industrial production is organised, and therefore on work organisation in manufacturing rather than services (see Mueller and Purcell, 1992). Still, 'best practice' models in manufacturing (e.g. lean production or 'just in time') are adjusted and transferred to services sectors (e.g. total quality management - TQM). Additionally, increasing other ingredients of work organisation flexibility (e.g. working time flexibility) is commonly sought in both manufacturing and services sectors. Finally, automation and new technologies have been also introduced into services sectors.

Furthermore, the widespread adoption of **new pay systems** has been put forward as an important pressure towards destabilisation of bargaining. Central negotiators can only set wages in broad job descriptions/classifications (Zagelmeyer, 2005:1630). However, this practice is expected to be insufficient, when remuneration is linked with performance at even lower levels such as the branch/plant level (workgroup incentive schemes and bonuses) or individual level. These schemes are expected to have firm-specific or group-specific characteristics and manifest a trend towards individualisation of pay. Sectoral wage bargaining will be regarded as constraining such 'pay flexibility' and therefore firms will likely seek decentralisation (cf. Traxler *et al.*, 2008:406-407). Trade unions' are expected to oppose the introduction of 'variable pay' because it contradicts the 'common rule' for its members (Marginson *et al.*, 2008:329). Their concerns over procedural justice skew their preferences towards seniority-based rules both in pay and promotion (Baron and Kreps, 1999:127).

Finally, corporate restructuring and the shift towards **flatter management hierarchies** is expected to alter the preferences of firms. The decentralisation of firms' internal organisational structure may act as a precursor of wage bargaining decentralisation (Katz, 1993), since the former 'fits' better with the latter. A related argument holds that companies which diversify their business across sectors may find the provisions of different sectoral agreements conflicting (Marginson *et al.*, 2003:165). In either case firms are expected to prefer abandoning sectoral wage bargaining and seek decentralisation. Overall, the above hypotheses held well in the literature. Nevertheless, they can be criticised on theoretical grounds for leaving blind spots. The next section elaborates on this critique.

2.3.3. Critique and Blind Spots: the Need to Refine Earlier Theoretical Conjectures

To begin with, the hypotheses appear overly *functionalist*. Functionalist explanations are based on the doctrine that actors have 'needs' and that we can explain institutions in terms of the 'functions' they perform for the actors that support them. Therefore, institutions are expected to change when the needs of the actors change. In the instance of wage bargaining, centralised bargaining is expected to be abandoned because of the changing needs of firms. The main problem with functionalist explanations is that they assume a simplistic causal chain between changing needs and changing institutions. Thus, they are likely to miss crucial *mediating factors* that facilitate, obstruct or transform the nature of institutional change. As I will argue in the next chapter, actors' coalitions are likely to operate as mediating factors, which moderate destabilising pressures and alter the expected direction of institutional change.

Related to the above critique, is that these functionalist explanations assume a mechanistic response of actors to external *stimuli*. Based on the above theoretical conjectures, for instance, whenever one sees a shift to performance related pay systems, one should also expect to see breakdown of wage bargaining. This expectation misses the point that rational actors themselves are 'creative' (Streeck, 1997) and therefore their responses are far from mechanical. The relevant example of a 'creative response' here is what Franz Traxler (1995:7) dubbed as 'organised decentralisation'. In this case the sectoral level of bargaining is retained, albeit reformed. Firms' needs for flexibility are accommodated at the lower levels of bargaining, while the industry-level sets uniform minimum standards for all firms in a sector. This point resonates with the Weberian insight that really resilient institutions 'could perform many different functions and even restructure themselves quite substantially in order to survive' (Schmitter and Grote, 1997:6).

Furthermore, the hypotheses are overly focused on firms, whereas the ability of labour to shape changes is downplayed and the state's role is almost entirely missing. The role of trade unions and their ability to shape institutional change is downplayed because of the generalised trend of union membership decline, which signified a loss of power. However, this conception miss the fact that trade unions' power may stem from its investment in links with political parties as happens in the Mediterranean model of capitalism (Molina and Rhodes, 2007). Thus, the unions may be able to compensate for falls in membership with an increase in their political influence.

Finally, the focus of the above literature was solely on one direction of change: breakdown of centralised wage bargaining and generalised decentralisation. Given the determinism of the earlier theoretical conjectures, this was the only possible direction of change. Thus, we lack of a conceptual framework to understand other (theoretically possible) trajectories of change: reform of centralised wage bargaining or even centralisation of wage bargaining. The next section documents how reality proved to be inconsistent and with this deterministic expectation.

2.4. The Empirical Puzzle

How has wage bargaining centralisation evolved across Europe in light of the pressures from liberalisation and flexibility? A seminal study on the plausibility of the 'decentralisation thesis' by Michael Wallerstein, Miriam Golden and Peter Lange (1997:396-7) concluded that 'overall the data indicate that recent institutional change is less universal' and that 'a general process of decentralisation is not evident'. However, they qualified their argument admitting that 'wage setting may become much more decentralised...in the future. Our point is that such a change has not happened yet' (Wallerstein et al., 1997:398). The aim of this section is to partly replicate and partly extend this seminal study.

The differences between the Wallerstein *et al.* (1997) article and this section are summarised as follows. First, Wallerstein *et al.* looked at a time period from 1950 until 1992, while this section picks the thread from 1992 onwards. This will allow the analysis to inquire Wallerstein *et al.* qualification that 'decentralisation may happen in the future'. Second, Wallerstein *et al.* looked at a sample of eight Northern and Central European countries (Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Norway and Sweden). By contrast, this section looks at the whole range of EU15 countries, which were affected by the completion of the Single Market Programme since 1992. Third, Wallerstein *et al*. took for granted the hypothesised changes in product markets and work organisation/payment systems. Instead, this section provides empirical evidence from novel OECD indicators and European survey data that these changes have indeed taken place. Finally, Wallerstein *et al*. used various proxies of wage bargaining centralisation (interconfederal concentration, statutory authority, collective bargaining coverage) to measure the centralisation level and gauge the plausibility of the 'decentralisation thesis'. The section presents a novel composite indicator on wage bargaining centralisation available from the ICTWSS database. The use of this composite indicator is superior to the previous proxies, because it was developed to capture precisely the phenomenon under study and thereby has increased validity (cf. footnote 7).

The next sub-section starts by examining the trends towards liberalisation of product markets across EU15, before gauging the extent of diffusion of flexible working practices. Finally, the section presents the trends of wage bargaining centralisation across Europe using novel indicators. It shows that a generalised decentralisation has not still happened. Instead, divergent trajectories of change are observed across Europe.

2.4.1. Systemic Pressures to Wage Bargaining Institutions across Europe

2.4.1.1. Single Market and the Liberalisation of European Product Markets

As regards product markets liberalisation[5] in Europe there was a decisive impact of the Single Market programme launched by the European Commission. The Single European Act of 1986 aimed at constructing a single market within the European Union and had a direct impact on the regulatory frameworks of national product markets, requiring the removal of protection from sectors and dissolving of monopolies. Therefore 'network industries' such as transportation (railways, shipping, airlines), energy (electricity, gas), telecommunications, and financial

[5] The concept of liberalisation is preferred over the concept of deregulation. The single market indeed abolished restrictions, however, leading to a reregulation of product markets, rather than complete 'deregulation'; cf. Thatcher (2007a:33,fn57).

services became part of the agenda of EU liberalisation (Begg and El-Agraa, 2004).

The single market has brought about harmonisation of technical standards not only in products but also in production processes, which were largely seen as not-tariff barriers to trade (Young, 2005:109). On balance the completion of the internal market has led to substantial restructuring of industries facilitating greater competition in a wide range of sectors (Mercado et al., 2000:101). Indeed, the effects of the single market completion are reflected on product market indicators developed by the OECD (Table below).

Table 2.1. Product Market Regulation across EU15, 1998 - 2008.

Year	*AT*	*BE*	*DK*	*FI*	*FR*	*DE*	*EL*	*IE*	*IT*	*LU*	*NL*	*PT*	*ES*	*SE*	**UK**
1998	2.33	2.17	1.59	2.08	2.52	2.06	2.99	1.65	2.59	..	1.66	2.25	2.55	1.93	1.07
2003	1.76	1.59	1.18	1.30	1.75	1.60	2.58	1.35	1.81	1.48	1.36	1.64	1.68	1.49	0.82
2008	1.45	1.43	1.06	1.19	1.45	1.33	2.37	0.92	1.38	1.56	0.97	1.43	1.03	1.30	0.84
Source: Wölf *et al.* (2009).															

In almost all European countries – with the exception of Luxembourg – there is a downward trend in product market regulation. However, the extent of liberalisation varies from one country to another. By 2008 the LMEs of United Kingdom and Ireland are the member-states with the least economy-wide product market regulation. In contrast, Greece has reduced the regulation of product markets compared to late 1990s, but remains still one of the most regulated in Europe.

2.4.1.2. *The Internationalisation of Flexible Working Practices and their Diffusion in Europe*

The internationalisation of 'best management practices' and their diffusion across Europe has been the outcome of best practice benchmarking and more generally mimetic modelling. For instance, Ronald Dore (2002:117) insists that the diffusion of best practice methods and principles can be partly attributed to business schools teachings which are universalised through their Masters in Business Administration (MBA) graduates. While the term 'globalisation' has been a popular buzzword to describe this process, the thesis takes internationalisation as a more appropriate term. Indeed, research suggests that 'global' practices are usually transformed considerably when they are introduced into domestic economies (Ferner *et al.*, 2005). Hence, the weak development of globally oriented firms is consistent with a continuing internationalising economy, but much less so with a rapidly globalising economy (Rees and Edwards, 2011:19-21). This line of argument concurs with other scholars who criticised the strong 'globalisation' thesis (see also Thatcher, 2007a:34)**.**

Flexible working practices entail a range of different types of flexibility: (i) functional flexibility, (ii) numerical flexibility; (iii) temporal or working time flexibility and (iv) financial or pay flexibility (Casey *et al.*, 1999:71; Procter and Ackroyd, 2009:497-8; Treu, 1992). Functional flexibility denotes a qualitative adjustability in work organisation such as team-work and task rotation between employees with polyvalent skills, who may carry out different tasks in responses to fluctuations in demand. Unfortunately, the extent to which these practices have surfaced in European manufacturing and services sectors is difficult to measure.

However, there is evidence that the other three types of flexibility have been on the ascendance in Europe. Forms of numerical flexibility (such as fixed-term contracts, part-time work, and temporary/agency work) have been increased in Europe during the 1990s (Brewster *et al.*, 1997; Tregaskis and Brewster, 2006:121). Additionally, working time flexibility (e.g. flexitime) and pay flexibility (e.g. performance-related pay systems or PRP) have been increasingly used by European firms. Regrettably, there are no longitudinal data on the magnitude of change since the 1990s. Instead, a recently released survey from the European Foundation for Working and Living Conditions provides compelling evidence on how widespread they are in Europe (Tables below). The data refer to companies with 10 or more employees. This sampling does not pose a problem for our hypotheses, because workplaces with less than 10 employees are likely to be outside the remit of wage bargaining agreements anyway.

Table 2.2. Percentage of Companies (%) with Flexi-time across EU15, 2009.

	AT	*BE*	*DE*	*DK*	*EL*	*ES*	*FI*	*FR*	*IE*	*IT*	*LU*	*NL*	*PT*	*SE*	UK
Industry	48.8	46.5	51.3	68.4	38.4	52.8	78	46.9	49.5	38.7	48.3	55.3	42.9	60.3	64.6
Services	54.7	55.8	61	69.7	33	56.9	84.8	52	63.1	56.6	61.5	59.6	50.9	68.7	71.1
All	53.1	53.8	58.5	69.4	34.3	55.6	82.8	50.8	60.6	48.8	58	58.7	48.1	67	70.1
Source: European Foundation (2009).															

Indeed, flexitime practices are widespread across Europe, with Greek companies having the lowest percentage of companies (34 per cent) and Finish companies having the highest percentage (83 per cent). Notably, in twelve out of fifteen European countries the majority of companies over 10 employees use flexitime arrangements. Interestingly, there are no significant differences between services and manufacturing sectors.

Table 2.3. Percentage of Companies (%) with Employees Receiving Performance related Pay across EU15, 2009.

	AT	*BE*	*DE*	*DK*	*EL*	*ES*	*FI*	*FR*	*IE*	*IT*	*LU*	*NL*	*PT*	*SE*	UK
Individual Performance Related Pay Systems															
Industry	85.7	84	89.5	85.8	93.8	95.7	79.5	86.3	89	94.7	95.9	88.8	92.6	67.6	81.1
Services	86.5	88.5	92.3	87.5	92.7	90.6	81.7	94.1	92.6	91.2	94.2	94	89.8	73	86.5
All	86.3	87.6	91.6	87.1	93	92.1	81	92.2	92.1	92.6	94.6	93	90.6	71.4	85.6
Group Performance Related Pay Systems															
Industry	44.4	59.9	43	49.6	34.9	50.3	64.2	54.2	61.9	47.2	34.9	45.9	51.5	54.6	66
Services	47.8	67.2	41.5	53	29.5	62.4	59.4	59.3	59.7	43.2	26.8	60.6	63.1	51.3	56.5
All	47	65.8	41.9	52.2	30.6	58.8	60.8	58.1	60	44.8	28.7	57.8	59.5	52.3	58.1
Source: European Foundation (2009).															

Similarly, the table above provides evidence for the widespread application of performance related pay systems in both services and manufacturing sectors. The percentage of firms utilising individual-based performance related pay ranges from 71 per cent in Sweden to almost 95 per cent in Luxembourg. Similarly, there are very high percentages of firms using group-based performance related pay systems ranging from 30 per cent in Greece to 66 per cent in Belgium.

2.4.2. Divergent Trajectories of Change in Wage Bargaining Centralisation

The expectation for a generalised breakdown of centralised bargaining was also associated with a generalised trend of decline in union membership across advanced industrial countries (Katz, 1993). Indeed the decline has taken place not only in Anglo-Saxon countries, but also across Europe. The next table substantiates this constant decline in union density[6] across EU15 since the 1990s. Overall, the evidence suggests that in fourteen out of fifteen European countries union density has been in constant decline since the 1990s. Only Spain managed to increase union members by a few percentage points between 1990 and 2006. Still, Spain and France share the lowest union densities in Europe, standing at 15 per cent and 8.5 per cent respectively. The countries which recorded the greatest losses (ranging from 10.4 per cent to 20.8 per cent) are Greece, Portugal, Austria, Germany, the United Kingdom and Ireland.

Table 2.4. Union Density Rates across EU15, 1990 - 2006.

Year	*AT*	*BE*	*DK*	*EL*	*ES*	*FI*	*FR*	*DE*	*IE*	*IT*	*LU*	*NL*	*PT*	*SE*	*UK*
1990	40.5	53.9	75.3	37.5	12.5	72.5	10.1	31.2	56.7	38.8	47.3	24.3	31.7	81.5	39.3
1991	40.2	54.3	75.8	37.0	14.7	75.4	9.9	36.0	56.9	38.7	46.5	24.1	30.0	82.8	38.5
1992	39.6	54.3	75.8	36.5	16.5	78.4	9.9	33.9	57.0	38.9	45.7	24.8	29.0	85.0	37.2
1993	37.6	54.3	77.3	36.3	18.0	80.7	9.6	31.8	55.6	39.2	44.6	25.3	28.0	87.1	36.1
1994	35.0	53.8	77.5	35.0	17.6	80.3	9.2	30.4	54.0	38.7	44.0	25.6	27.0	87.4	34.2
1995	32.7	55.7	77.0	33.6	16.3	80.4	9.0	29.2	52.3	38.1	43.4	25.2	25.4	86.6	32.6
1996	31.1	54.7	77.4	32.0	16.1	80.4	8.3	27.8	49.1	37.4	42.8	24.9	25.0	85.1	31.7
1997	30.3	54.6	75.6	31.0	15.7	79.5	8.2	27.0	49.1	36.2	42.3	24.4	24.3	82.0	31.0
1998	28.1	53.7	75.5	29.2	16.4	78.0	8.0	25.9	45.5	35.7	43.6	23.8	23.0	82.3	30.1
1999	25.7	51.8	74.9	29.0	16.2	76.3	8.1	25.3	42.6	35.4	43.5	23.5	22.0	81.6	29.8
2000	24.7	50.5	74.2	28.0	16.9	75.0	8.2	24.6	40.8	34.7	43.4	23.1	21.0	80.1	29.7
2001	24.5	50.8	73.8	27.0	16.1	74.5	8.1	23.7	39.7	34.2	43.3	22.6	20.0	78.0	29.3
2002	23.1	51.9	81.4	26.0	16.4	73.5	8.2	23.5	39.8	33.6	43.2	22.4	18.9	77.7	29.2
2003	23.0	52.9	72.4	26.3	16.4	72.9	8.4	23.0	39.5	33.5	43.1	22.5	16.6	77.2	29.3
2004	22.7	52.9	71.7	25.0	16.0	74.1	8.4	22.1	38.1	34.0	43.0	22.4	17.0	78.0	28.8
2005	22.4	52.5	71.8	23.1	15.5	73.3	8.5	21.6	35.9	34.4	43.0	22.3	17.0	76.5	29.0
2006	20.3	..	69.4	23.0	15.1	72.4	8.5	20.9	..	34.8	..	21.8	17.0	75.3	28.4
Source: Visser (2007).															

Nevertheless, this picture of generalised decline in union density is not matched by a generalised breakdown of centralised wage bargaining. Despite the liberalisation of markets across Europe and the introduction of flexible working

[6] Union density is the conventional indicator of the strength of union membership. It is derived as follows: actual members in trade unions divided by the potential members (i.e. total of employed wage earners).

practices, which were documented in the previous subsections, the evidence below suggest that wage bargaining centralisation held well, even if it took divergent trajectories of change. Taking advantage of a newly constructed indicator[7] from the ICTWSS database, we are able to gauge the trends in wage bargaining centralisation across EU15 countries since 1992.

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[7] According to Visser (2007) this indicator is a summary measure of centralisation of wage bargaining, which takes into account both union authority and union concentration at multiple levels. It is derived from Iversen's centralisation index, taking values from 0 to 1.The formula is given by the equation: **√[(Cfauthority* Hcf) + (Affauthority* Haff)]**, where: **Cfauthority:** authority of union confederation over its affiliates; **Hcf:** Membership concentration at central or confederal level (Herfindahl index at central level); **Affauthority:** authority of affiliate over their local or workplace branches and representatives; **Haff:** Membership oncentration at the industry level, within union confederations (Herfindahl index at sectoral level).

Table 2.5. Wage Bargaining Centralisation across EU15, 1992 - 2006.

Year	***AT***	***FR***	***PT***	***LU***	***UK***	***EL***	***SE***	***BE***	***DK***	***IT***	***NL***	***ES***	***IE***	***DE***	FI
1992	0.523	0.269	0.391	0.419	0.299	0.462	0.519	0.512	0.425	0.375	0.583	0.376	0.451	0.438	0.396
1993	0.534	0.278	0.389	0.417	0.298	0.470	0.520	0.513	0.430	0.389	0.573	0.373	0.450	0.438	0.422
1994	0.441	0.287	0.385	0.412	0.296	0.463	0.521	0.514	0.430	0.389	0.563	0.373	0.450	0.438	0.420
1995	0.440	0.283	0.385	0.412	0.298	0.457	0.518	0.514	0.429	0.390	0.573	0.373	0.449	0.438	0.421
1996	0.414	0.273	0.385	0.408	0.301	0.457	0.516	0.514	0.429	0.388	0.593	0.373	0.505	0.436	0.465
1997	0.416	0.272	0.382	0.405	0.302	0.452	0.548	0.514	0.429	0.388	0.594	0.374	0.505	0.434	0.465
1998	0.424	0.268	0.382	0.415	0.299	0.449	0.546	0.514	0.429	0.388	0.643	0.375	0.504	0.502	0.459
1999	0.424	0.268	0.382	0.412	0.302	0.447	0.550	0.514	0.427	0.388	0.642	0.376	0.502	0.516	0.459
2000	0.424	0.267	0.377	0.412	0.302	0.447	0.541	0.514	0.427	0.388	0.643	0.367	0.502	0.518	0.460
2001	0.420	0.263	0.378	0.407	0.303	0.453	0.537	0.515	0.426	0.388	0.641	0.375	0.503	0.538	0.461
2002	0.420	0.265	0.379	0.407	0.303	0.458	0.534	0.528	0.426	0.389	0.640	0.417	0.503	0.528	0.460
2003	0.421	0.261	0.377	0.401	0.303	0.465	0.532	0.529	0.425	0.389	0.632	0.416	0.503	0.527	0.460
2004	0.421	0.257	0.377	0.407	0.302	0.465	0.531	0.529	0.421	0.389	0.632	0.418	0.503	0.501	0.472
2005	0.421	0.255	0.377	0.407	0.301	0.464	0.529	0.530	0.442	0.388	0.631	0.419	0.503	0.498	0.471
2006	0.421	0.252	0.377	n.a.	0.300	0.465	0.529	0.530	0.440	0.389	0.629	0.419	0.501	0.497	0.470
1992-06 (Δ)	**-0.102**	**-0.018**	**-0.014**	**-0.012**	**0.001**	**0.003**	**0.009**	**0.017**	**0.015**	**0.014**	**0.046**	**0.043**	**0.051**	**0.059**	**0.073**
1992-06 (%)	**-19.55%**	**-6.53%**	**-3.64%**	**-2.86%**	**0.24%**	**0.75%**	**1.78%**	**3.37%**	**3.47%**	**3.60%**	**7.84%**	**11.41%**	**11.24%**	**13.43%**	**18.54%**
Trajectory	**Decentralisation (< -3.5%)**			**Stability (± 3.5%)**						**Centralisation (> 3.5%)**					
Source: Visser (2007).															

The evidence against the 'decentralisation thesis' is overwhelming. In spite of liberalisation of markets and internationalisation of flexible working practices, *there is no generalised trend towards breakdown of centralised bargaining across Europe*. This confirms the earlier finding of Wallerstein et al. (1997:398) that there is little evidence to support this claim and that the expectation of decentralisation was not borne out (Ferner and Hyman, 1998). Instead, a picture of divergent trajectories emerges, with some countries experiencing decentralisation and some others centralisation, while most are somewhere in the middle with stability in the centralisation of bargaining.

2.5. Conclusion

The aim of this chapter was, first, to set out the theoretical frame dwelling on comparative political economy and comparative employment systems, examining institutional change generally and wage bargaining institutions more specifically. The earlier theoretical conjectures were criticised for leaving blind spots thus outlining the gap to be filled. A preliminary examination of wage bargaining trends across Europe strengthened the empirical underpinnings of the puzzle. There is no generalised trend towards breakdown of centralised bargaining across Europe, despite the systemic pressures from markets liberalisation and internationalisation of flexible working practices.

The review of earlier literature elaborated on the causal mechanism of the two main hypotheses that stipulate the pressures to wage bargaining institutions: liberalisation and flexibility. The first dwells on changes external to the firm, whereas the second emphasises changes inside the firm. These explanations were criticised for being overly functionalist, based on a simplistic causal chain. Thus, they are likely to miss mediating factors or 'creative responses' of actors to reform the wage bargaining institution in order to meet new needs. Moreover, they suffer from a determinism that allows only for a single direction of change, while we totally lack a conceptual framework to understand alternative trajectories of change in wage bargaining institutions. Finally, they downplay the role of collective actors such as the state. The next chapter develops a coalitional approach to wage bargaining change so as to refine the earlier hypotheses and address their weaknesses.

Chapter 3 A Coalitional Approach to Wage Bargaining Change

3.1. Introduction

The main criticism of the thesis to earlier theoretical conjectures is that they missed an important part of the dynamics of wage bargaining change; they overplayed the power of structural changes – the intensification of competition due to liberalisation and the internationalisation of flexible working practices – and downplayed the mediating role of agency on the part of collective actors. The previous chapter examined why wage bargaining as an institution rested on a 'cross-class coalition' in the Fordist era, and how the structural changes in the post-industrial age are expected to put pressures and disturb the coalition of unions and employers that underpin centralised bargaining (Swenson, 1989:30). This chapter contends that the coalitional perspective is best suited to understand wage bargaining dynamics in light of the structural pressures, and thus puts collective actors and their coalitions at the centre of the analysis.

It is not surprising that earlier literature downplayed the role of employers associations or ignored the role of the state in wage bargaining change. The starting points of institutional collapse were located on Liberal Market Economies. In this institutional context, employers associations were generally weak or inexistent, and the state never assumed an interventionist role in the industrial relations sphere. However, employers associations remain important in the post-Fordist era in a wide range of countries, and they may cater their members' changed needs by striking new compromises with the unions. Similarly, trade unions may be losing members in the last two or three decades, but their political clout has not fallen accordingly. They may shape the direction of institutional change via forging coalitions with other actors such as the state. In a nutshell, the thesis suggests that new coalitions may be forged to reform the institution of wage bargaining or just save the institution from collapsing. In sum, a coalitional approach is used to shed light on the dynamics of change in wage bargaining.

3.2. An Alternative Perspective: Collective Actors and Coalitions

The coalitional perspective is not entirely new in the comparative political economy field. Indeed, it has been strongly recommended by comparative political economists[8] to explain institutional change (Hall and Thelen, 2009). Moreover, it has been fruitfully applied to explain change or inertia in several spheres such as corporate governance (Cioffi and Höpner, 2006; Deeg, 2005) or regulatory institutions (Thatcher, 2007b). Still, the application of the coalitional perspective to explain changes in wage bargaining institutions is novel and forms part of the conceptual contribution of the thesis.

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[8] The coalitional approach examining the interactions between trade unions and employers associations is certainly also a political economy approach, since trade unions and employers are the political expressions of supply and demand in the labour market. I wish to thank Waltraud Schelkle for pointing this out to me.

3.2.1. Employer Associability: A Coalition of Large and Small Firms

This section introduces the concept of 'employer associability'. Employer associability is defined as having two fundamental properties (i) member firms have delegated the legal competence to negotiate labour relations issues to a representative association and (ii) a coalition between large and small firms', so that decision making processes can take into account both large and small firms' interests. Thus, employer associability is missing if an association does not have the legal competence to represent firms in labour relations, or if a group of firms dominates the decision making process.

The concept relies on received wisdom from the business associations' literature. Schmitter and Streeck (1999:13) have argued that 'collective interest associations' are in a better position than individual firms to appreciate and protect the long-run interests of their membership; even if this requires 'enforcing their decisions upon reluctant or resisting members'. Drawing on these insights, I argue that an employers association is better able to appreciate the continued benefits of industry-wide wage bargaining in the post-Fordist era. Thus, an employers association may strike a compromise between the standardisation of costs at the sectoral level and flexibility at the firm level.

It is important to note that *trade associations* (also called product market associations) do not have legal competence to negotiate labour relations issues, and their representation is based on a much narrower set of interests (Traxler, 2001). Their main aim is to influence or lobby the product market regulation of a sector. Therefore, in the sphere of labour relations their members' relationships are competitive. In contrast, firms which have delegated the legal competence to negotiate labour relations to their *employer associations* are bonded with a much wider set of common interests.

The representation of firms in the labour market realm is not totally independent of their representation in the product market realm. The link between the two is exemplified with the case of 'whipsawing tactics' of unions which may lead to unfair competition. Crucially, the employer association can protect member-firms from 'whipsawing tactics' of unions, because of the peace obligation that is usually part of wage agreements. In sharp contrast, a trade association cannot protect its members from such an occasion.

The logic of the argument can be explicated as follows. Suppose that in a given sector we have two firms: firm A and firm B. In this hypothetical example, the two firms are members of a trade association, so wage bargaining is decentralised at the firm level. In the long run this risks creating situations of 'unfair competition'. For example, if firm A concludes an agreement with its firm level union, but firm B has difficulties in reaching an agreement, and then the firm level union in firm B is likely to call a strike. While firm B is closed down, firm A monopolises the market and will likely capture some of the market share from firm B. These kinds of disruptions in competition and production led to the self-organisation of employers in the first place. The argument of the thesis is that these kinds of disruptions are likely to reappear even in the post-Fordist era.

The second fundamental characteristic of ‘employer associability’ relates to the dynamics that may occur between the associations’ members. Most commonly, the divide between firms in a sector is based on market power, i.e. between large and small firms. For instance, large firms may be averse to sectoral centralised bargaining, because they do not need the peace clause. They can keep their employees content by paying a premium wage in firm level agreements. If employees are strongly organised in smaller firms, their unions may create disruptions in the operation of small firms, by asking for comparable wages to those in larger firms. Thus, the large firms may indirectly drive small firms out of the market in a ‘cut throat competition’ situation. But the opposite preference is possible as well. Large firms in a sector may prefer centralised bargaining to keep their firm level unions peaceful. By negotiating wages at the industry level, they may avoid disruptions to their own production process.

The same logic can be applied to smaller firms’ preferences, which will depend on the how far the wage set at the sectoral level is affordable for them. For instance, if the wage level set is too high, small firms may prefer not to have centralised bargaining, because they cannot afford to pay it. In contrast, if the wage-level set is affordable for smaller firms, the latter may prefer to participate in sectoral-bargaining, so as to take advantage of the ‘social peace’ clause.

Following from the above analysis it is clear that the specific preferences of large and small firms cannot be defined *ex post* (cf. Ulman, 1966:37-42), and the relative preferences will depend on several factors: e.g. the intensity of competition and relative market shares, the unionisation in small and large firms, and the level of wages that the industry agreement sets. However, the concept of employer associability suggests that *whatever* the relative preferences, small firms and large firms reach compromises that cater the collective interests of both groups *without* one group dominating another.

The case of reforming the sectoral bargaining institution to meet new needs is an instance of such a compromise, which has been dubbed as 'organised decentralisation' (Crouch, 2000b; Traxler, 1995). It is clear by now, that the pressures coming from liberalisation and flexibility may upset traditional arrangements in wage bargaining institutions. Organised decentralisation denotes a shift in the relative importance between sectoral and firm level bargaining. More (and more substantial) issues are not rigidly regulated in sectoral agreements, but are delegated to firm level bargaining. Thus, the firms in a sector can get the 'best of both worlds': they can still take advantage of the benefits of the centralised bargaining, and at the same time, 'loosen the straightjacket' of sectoral agreements. The continued benefits of sectoral wage bargaining is that it minimises transaction costs, it safeguards social peace and sets a level-playing field ensuring fair inter-firm competition via standardisation of costs at the lowest common denominator. At the same time, the locus of flexibility shifts towards the firm level, where firms agree changes in work organisation to suit their individual needs. The above reasoning is formulated in a hypothesis as follows:

Hypothesis I: Whilst pressures from liberalisation and flexibility may act as triggers changing individual firms' preferences towards abandoning centralised *bargaining, the presence of 'employer associability' will likely moderate destabilising pressures and lead to a reform of the institution.*

3.2.2. Labour-State Coalitions: Labour Unity and Government Agenda

This section introduces the concept of a 'labour-state coalition' to further shed light on the coalitional dynamics that underpin wage bargaining change. A labour-state coalition is implicit and is defined as a congruence of preferences between organised labour and the state *vis-à-vis* a specific issue – in this case wage bargaining. A labour state coalition possess two fundamental properties (i) labour is able to speak 'with a single voice' despite organisational or ideological fragmentation and therefore can steer the interest of the state (ii) the state is interested in forging a coalition with labour not only for electoral benefits, but also for tactical policy trade-offs to advance the government agenda.

The ability of labour to speak with a 'single voice' echoes what Wallerstein and Golden (1997:701) called as 'capacity of trade unions to act collectively'. Conventional accounts linked the move to the service economy and the decline in union membership with a reduced capacity of unions to act collectively, and mobilise members for strikes. However, this conceptualisation neglects the possibility to invest in 'political power' through links with political parties and the state (Molina and Rhodes, 2007:27-28). Although unions' ability to put pressure to employers via industrial action may have weakened, I argue that this can be compensated by an increase in their political clout.

Notably, trade unions have to be able to speak with a single voice, in order to steer the interest of different political parties in government. Single voice refers to unions' actual ability to come up with a common negotiating platform or organise coordinated actions (e.g. strikes) to support sectoral wage bargaining. If their links can go both ways, either to the Left or to the Right, then they are able to use state's coercive (and persuarive) power to put pressure to individual firms. In this case, the 'market pressure' that is exerted to firms *via* strikes may be complemented with 'political pressure' *via* government's intervention. This mechanism is likely to hold in the Mediterranean model of capitalism where organised interests invest in 'one kind of asset - political power' (Molina and Rhodes, 2007:227-228). But putting the state at the centre of the coalitional analysis is also based on a wider literature of social pacts across Europe.

Indeed, the importance of the role of the state in steering social bargaining and reviving neo-corporatism was highlighted by the literature on social pacts (Baccaro and Lim, 2007; Crouch, 2000a:213-220; Fajertag and Pochet, 2000; Hassel, 2003; Rhodes, 2001). One of the most useful insights of this literature is that this new form of 'competitive corporatism' took place in the 'shadow of hierarchy' namely the shadow of the state (Rhodes, 2001:177). Subsequent accounts of welfare reform and social pacts fleshed out the causal mechanism that led to neo-corporatist revival, pinpointing the role of party politics and electoral pressures as a motivation behind state steering the pacts (Green-Pedersen, 2003; Hamann and Kelly, 2007; Van Wijnbergen, 2002:13-18). These insights support *a priori* the plausibility of the hypothesis that the coalition between state and labour is likely to go a long way towards explaining the dynamics of wage bargaining change.

But why would the state be interested in supporting unions and the institution of sectoral wage bargaining? State motivation will likely entail electoral concerns, but those should not vary along partisan identity (left/right), because unions which speak with a single-voice do not neatly fit as voting constituencies of either centre-left or centre-right parties.[9] Thus, government's interests will likely be more state-functional including tactical policy trade-offs in government agenda. Siding with the unions for an institution that is not costly for the government coffer will likely leave more 'room for manoeuvre' in other policy-domains (privatisation, labour market, welfare state reform). However, if labour appears unable to speak with a single-voice then the government will have little interest in supporting centralised wage bargaining. Still, the state may forge (narrower) coalitions with segments of organised labour to advance its government agenda. The above reasoning leads to the second hypothesis:

Hypothesis II: Whilst pressures from liberalisation and flexibility may act as triggers changing individual firms' preferences towards abandoning centralised bargaining, the presence of a 'labour-state' coalition will likely moderate destabilising pressures and lead to a survival of the institution.

[9] This contrasts with British Trade Union Congress (TUC) which was clearly a constituency of the Labour Party during the Margaret Thatcher Downing Street years. Instead, in most of Europe, trade unions have been more diversified politically, with some coming from Catholic/Christian-democratic traditions, others from Socialist/Social-democratic and others linked with Communist parties.

The next section considers the system pressures from liberalisation and flexibility which were common across European banking and telecommunications sectors.

3.3. Sector-specific Pressures across European Banking and Telecommunications Industries

3.3.1. The Liberalisation of European Banking

Banking sectors across Europe have been strongly influenced in the 1990s by developments in European economic integration. The principle of 'mutual recognition' for the Single Market was followed by the European Commission to establish a Single Financial Market. More specifically, the Second Banking Directive (89/646/EEC) 'represented a regulatory breakthrough' (Pagoulatos, 1999:80), because it amended several provisions of the First Banking Directive (77/780/EEC) and effectively removed obstacles for the further integration of national financial markets.

A major innovation was the provision of a 'single banking licence', whereby any bank licensed in one country was allowed to open a branch in any other EU country, thereby encouraging EU-wide branching (Story, 2000:94). Notably, there was a convergence towards the German-type of 'universal banking model' across the European Union (Pagoulatos, 1999:75). This permitted banks to undertake both commercial and investment banking activities and left to independent national regulators to control financial conglomerates, the ownership structure of banks, and their relationship with industry (Dermine, 1996:341).

Overall, the new regulatory framework set out that the licensing, regulation, and supervision were all retained by the home country; thereby, host country's powers in restricting entry were reduced, limiting national discretion to open or close their markets. The barriers to new market entrants were withdrawn, restrictions to free portfolio management carried out by banks were abolished, and international capital movements were liberalised (Pagoulatos, 1999:74). The next table documents the European Directives and Regulations which fostered the opening up of European banking sectors up until the late 1990s.

Table 3.1. The European Regulatory Impact on Banking in the 1980s & 1990s.

Year	*Directive*	*Main Provisions*
1977	*First Banking Co-ordination Directive*	Freedom of EC banks to set up branches in member states; authorisation and supervision remain with host-country authorities and national legislation
1983	*Supervision on a Consolidated Basis*	Supervising authority of the parent bank must apply the financial data of the whole group in monitoring compliance by the bank with its supervisory standards
1986	*Annual and Consolidated Accounts*	EC-wide harmonisation of accounting standards for credit and financial institutions
1989	*Publication of Annual Accounting Documents*	Branches no longer required to publish separate annual reports as long as parent bank publishes them
1989	*Own Funds*	Defines items to be included in the 'own funds' calculation; defines common rules on core and supplementary capital
1989	*Second Banking Co-ordination Directive*	Single banking licence; home country control; mutual recognition; basic supervisory standards (minimum capitalisation, limit on investments, control of major shareholders)
1989	*Solvency Ratio*	Establishes minimum solvency ratio at 8 per cent of bank's own funds; sets risk weights on on-balance and off-balance sheet assets
1991	*Prevention of Money Laundering*	Regulates against activities associated with illegal money laundering
1992	*Consolidated Supervision*	Supervision, including review of financial statements, risk exposure and management, must take place annually on a consolidated basis
1992	*Controlling Large Exposures*	Harmonisation of monitoring and

		controlling of large exposures; sets limits on large exposure of banks by category of borrowers
1993	*Investment Services*	Establishes rules governing the minimum amount of capital required by investment firms against exposure to market risks and foreign exchange risks
1994	*Deposit-Guarantee Schemes*	Home-country responsibility to be applied to deposit protection arrangements; establishes minimum level of protection
1995	*'Post-BCCI' Directive*	Defines terms regarding bank head offices, rules of secrecy, disclosure of information, cooperation of supervisory authorities
1997	*Cross-Border Credit Transfers*	Regulates conditions of transparency and minimal obligations in cross-border credit transfers
1998	*Settlements Finality*	Regulates against systemic risk in interbank funds and security transfers
Source: Pagoulatos (1999:78).		

By the mid-2000s the evidence suggest that a level playing field was created, with a regulatory convergence toward a minimum set of regulations on banking license, capital, and large exposure limits (Dermine, 2006:63). Of course the integration of the financial markets was an ongoing process that continued over the 2000s. After the introduction of the single currency across Eurozone member-states, there was renewed momentum in the further integration of financial markets with the *'Lamfalussy process'*. The process was a hard fight between a 'market-making' and a 'market-shaping' advocacy coalition and the resultant four Lamfalussy Directives marked the completion of the single market in financial services (Quaglia, 2010:1017).

3.3.2. The Internationalisation of Flexible Working in Banking

Banking sectors across advanced industrial nations were rapidly changing already in the 1980s. Banking has been a services-sector organised along Fordist lines and was challenged by post-Fordist pressures for greater flexibility. The transition was anything but smooth, as it clashed with the tradition of banks having 'internal labour markets' (Grimshaw et al., 2001) based on job security, internal career ladders and seniority-based pay.

The introduction of new technology reshaped the way banking transactions are carried out. On the one hand, there was a rapid expansion of automated teller machines (ATMs). Customers would no longer need to go to the teller to gain access to simple banking services. The exponential expansion of ATMs across all European countries is shown on the Table below. On the other hand, the increasing use of phone banking and internet banking since the mid-1990s gave the choice to carry out transactions without even visiting a local branch. The introduction of new technologies led to self-service and remote banking, and facilitated the separation of back-office operations from branches (Arrowsmith *et al.*, 2010:2717). ATMs and Internet banking are classic examples of substitution of labour by capital; as the access to these services was spreading, fewer employees were necessary than before. In other words, the prospect of redundancies following automation did not only hit classic manufacturing, but also labour-intensive services sectors such as banking.

Table 3.2. Number of ATMs per 1 mil. Inhabitants across EU15, 1993 - 2009.

Year	***AT***	***BE***	***DK***	***FI***	***FR***	***DE***	***EL***	***IE***	***IT***	***LU***	***NL***	***PT***	***ES***	***SE***	**UK**
1993	324	280	108	829	327	308	82	220	262	294	292	283	557	255	321
1999	660	606	496	422	535	563	290	381	524	711	424	886	1,062	291	476
2009	1,005	1,415	533	548	851	1,010	813	760	902	941	514	1,618	1,336	356	1,006
Source: EMI (1996) and ECB (2001; 2010).															

Apart from new technologies, work organisation patterns were deemed as necessary to change. Banks gradually realised that their opening times were not optimally arranged to match fluctuation in demand. Increased competition pushed banks to try meeting customer demand by increasing opening hours (O'Reilly, 1992:46). This change towards more working time flexibility clashed with standard working patterns outlined in wage agreements and being part of a 'Fordist' organisation of work.

Finally, banks adopted performance related pay systems, which altered the ratio between fixed and variable part of total pay. European banks introduced pay flexibility (Arrowsmith et al., 2010; Traxler et al., 2008), so as to link pay with attainment with objectives (e.g. achieving sales targets in loans or credit cards). The change itself followed from the gradual change in the job content of the typical banking employee. Employees have been transformed 'from tellers to sellers', being much more 'customer-oriented' (Regini, 1999). This alignment of pay with 'performance' (sales) clashed with detailed pay scales set out in wage agreements and the seniority-based pay structures of the earlier period.

3.3.3. The Liberalisation of European Telecommunications

The liberalisation programme in European telecommunications was influenced by two concurrent transnational developments: tehnological advances and overseas reforms (Thatcher, 2007a). On the one hand, sweeping technological change greatly accelerated over the 1980s and 1990s, allowed the application of computing (e.g., the digitisation of switching and transmission), new methods of transmission (e.g. optical fibre cables and satellites) for quicker, cheaper telephony and provision of new value added services (Humphreys and Simpson, 2008:851; Thatcher, 2004:765). On the other hand, overseas reforms during the 1970s and early 1980s altered the traditional conception that telecommunications were a 'natural monopoly'. The first mover was the United States, with a speedily reformed telecommunications market. AT&T's monopoly was reduced, new entrants emerged (e.g., MCI and Sprint), and then AT&T was broken up in 1984 into seven "baby Bells" (Ramirez *et al.*, 2007:500). Similarly, the monopoly of British Telecom in Britain ended in 1984, after the Conservative government gave to Mercury a 25 year licence as a public operator (Thatcher, 2007a:169).

The reforms in US and Britain unleashed a global dynamic of international 'regulatory competition' and 'competitive emulation' and the Continental Europeans became persuaded that liberalisation was unavoidable if they were to retain their international competitiveness (Humphreys and Simpson, 2008:851). After overcoming disagreements between member-states in the late 1980s (Schneider, 2001), the European Commission accelerated the implementation of its liberalisation agenda particularly targeted to dissolving national telecom monopolies. A series of Commission Directives necessitated their gradual abolition within a finite deadline on the 1st of January 1998 (Table below).

Table 3.3. The European Regulatory Impact on Telecommunications in the 1980s and 1990s.

Year	*Directive/Regulation*
1983	*Commission outlines strategies for a common telecommunications policy. Establishment of expert group SOGT.*
1984	*Council recommendation on harmonisation in the field of telecommunications.*
1986	*Council directive on mutual recognition of terminal equipment.*
1987	*Green Paper on the Common Market for telecommunications services and equipment*
1988	*Commission Directive on competition in the markets in telecommunications terminal equipment*
1989	*Council decision to gradually liberalize telecommunication with the exception of telephony and public infrastructures*
1990	*Commission Directive on telecommunications services liberalizing all services with the*

	exception of telephony, mobiles and satellite communications. Council Directive on Open Network Provision requiring the separation of operating and regulating functions
1993	*Council Decision to open all telecommunications services to competition as of 1.1.98*
1994	*Council Resolution on universal service principles. Commission Directive extending competition to satellite communication. Council decision to liberalize telecommunications infrastructures as of 1.1.98*
1995	*Commission Directive liberalizing the use of alternative infrastructures as of 1.7.96*
1996	*Commission Directive extending competition to mobiles. Commission Directive to implement full liberalisation of the telecommunications market*
Source: Schneider (2001:64).	

The opening up of the market was gradual, first targeting specific segments such as satellite communications and mobile telephony, until the whole range of telecommunications services was fully liberalised. The resultant re-regulation in a wide range of 'network services' sectors, is reflected on an OECD indicator, which measures product market regulation of non-manufacturing industries (Table below).

Table 3.4. Product Market Regulation on Non-manufacturing Sectors (telecoms, electricity, etc) across EU15, 1990 - 2007.

Year	*AT*	*BE*	*DK*	*FI*	*FR*	*DE*	*EL*	*IE*	*IT*	*LU*	*NL*	*PT*	*ES*	*SE*	UK
1990	4.4	5.5	4.8	4.6	5.2	4.7	5.7	5.6	5.8	..	5.4	5.3	4.8	4.6	3.0
1991	4.4	5.2	4.7	4.4	5.2	4.6	5.7	5.6	5.7	..	5.3	5.3	4.8	4.2	2.8
1992	4.4	5.2	4.5	4.3	5.2	4.6	5.7	5.6	5.7	..	4.4	5.3	4.7	3.8	2.8
1993	4.2	4.9	4.1	4.2	4.9	4.3	5.5	5.3	5.3	..	4.1	5.1	4.5	3.6	2.2
1994	4.2	4.7	4.0	3.8	4.9	4.0	5.5	5.3	5.2	..	3.7	5.0	4.4	3.4	1.9
1995	4.0	4.2	3.5	2.9	4.9	3.9	5.5	5.2	4.9	..	3.6	4.8	4.3	3.2	1.7
1996	4.0	4.1	3.4	2.8	4.8	3.4	5.4	5.1	4.9	..	3.4	4.5	4.1	2.8	1.6
1997	4.0	4.1	3.2	2.7	4.6	3.3	5.3	5.1	4.7	..	3.2	4.4	3.9	2.7	1.6
1998	3.9	3.6	3.0	2.8	4.4	2.8	5.3	4.4	4.7	3.9	2.9	4.3	3.6	2.6	1.4
1999	3.5	3.3	2.7	2.6	4.0	2.3	5.1	4.0	4.1	3.7	2.5	4.1	3.1	2.5	1.2
2000	3.1	3.0	2.4	2.6	3.9	2.2	5.0	3.7	3.9	3.5	2.3	3.6	2.9	2.3	1.2
2001	2.7	2.7	1.9	2.6	3.8	2.0	4.7	3.5	3.3	3.1	2.2	3.2	2.6	2.3	1.1
2002	2.6	2.5	1.7	2.5	3.4	1.8	4.1	3.3	3.1	3.0	2.1	2.9	2.2	2.3	1.1
2003	2.5	2.4	1.6	2.4	3.0	1.7	4.0	3.2	2.9	2.9	1.9	2.8	2.0	2.1	1.1
2004	2.2	2.3	1.5	2.4	2.8	1.6	4.0	3.1	2.8	2.9	1.8	2.7	2.0	2.0	1.0
2005	1.9	2.0	1.2	2.3	2.4	1.3	3.4	3.1	2.0	2.5	1.8	2.7	1.6	1.8	0.9
2006	1.7	1.9	1.2	2.3	2.3	1.2	3.3	2.8	2.0	2.5	1.8	2.6	1.6	1.8	0.9
2007	1.7	1.8	1.2	2.2	2.2	1.1	3.2	2.7	2.0	2.4	1.6	2.4	1.6	1.7	0.9
Source: Conway and Nicoletti (2006).															

Again there are variable paces in the liberalisation path across European countries. However, there is *not a single country* which has not reduced the regulation of network industries. Again UK is at the forefront, having the least regulation of network industries, with Germany having the second lowest regulation. On the other hand Greece and -perhaps surprisingly- Ireland have also reduced regulation, but to a lesser extent than other countries. As a consequence of the European liberalisation programme, dozens of incumbents telecom operators –previously perceived by some as inefficient 'lame ducks' fit only for privatisation– rapidly transformed into world class multinational corporations (Clifton *et al.*, 2010:988). The process of domestic liberalisation triggered a strategy of internationalisation of several of the incumbent telecoms operators. Thus, the previously bureaucratic organisations were quickly transformed into internationally competitive firms which adopted flexible management practices.

3.3.4. The Internationalisation of Flexible Working in Telecommunications

As mentioned in the previous section, the lead in technological change was observed in the United States and Britain, which liberalised their telecoms sectors already in the 1980s. Conventional cable networks were digitised, shifting towards fibre optics (Katz, 1996). In addition to that, rapid technological change was observed in the mobile telephony networks with a gradual upgrading from analogical signal (1G), to GSM or DCS (2G) in the 1990s, and finally to 3G in the 2000s. In both fixed telephony and mobile telephony the new technologies afforded higher capacities, necessary to accommodate an increasing demand for services. In parallel, the 1990s marked the expansion of Internet in constantly higher speeds and bandwidths (from PSTN to ISDN and finally xDSL technologies). This in turn allowed the parallel transmission of voice and data over broadband, and the trend towards a 'combined business model' that led to industry convergence (Katz and Woroch, 1997) tying together telephony operators and Internet providers (the so-called 'double-play' services), and more recently cable TV ('triple-play' services).[10]

These profound changes in technology were destined to affect work organisation within the telecoms firms. The differences are monumental, if one considers that most of European telecoms operators in the 1980s were an extended part of slow moving public bureaucracy, sometimes merged with the postal office (Thatcher, 2007a). At that time, work organisation was characterised by high job security, internal labour markets, seniority-based promotion and pay, and a strict job classification system (Katz and Darbishire, 2000). By the early 2000s the ex-monopolies found themselves operating in very competitive markets, and employment practices shifted towards new performance management and work redesign with increased working time flexibility (Doellgast, Nohara *et al.*, 2009:387-389).

[10] 'Converge or else: the future for the industry lies in the convergence of products and services' *Business Europe (The Economist Intelligence Unit),* (1 July 2004), p.2.

3.4. Conclusion

The main aim of this chapter was to develop a coalitional approach to wage bargaining change, thus addressing the inadequacies of earlier theoretical conjectures. It was argued that earlier literature missed an important part of the dynamics of wage bargaining change by overplaying structural changes – the intensification of competition due to liberalisation and the internationalisation of flexible working practices – and rather downplaying the mediating role of agency on the part of collective actors.

Following from this, the role of 'employer associability' and 'labour-state coalitions' in mediating change in wage bargaining was elaborated. It was argued that collective interest associations of firms which posses the legal competence to negotiate labour relations issues and take into account the interests of both large and small firms in a sector are likely to moderate the pressures arising from liberalisation and flexibility. Instead, they are most likely to strike new compromises restructuring the institution to meet new needs. Thereby, their members' may get the 'best of both worlds' standardisation and fair competition at the sector level and flexibility at the firm level.

In addition, it was argued that labour alone cannot stem the firms' challenge on wage bargaining arrangements. Still, if labour is able to speak with a single voice it may forge a coalition with the state, steering its electoral interest. That said, the state will not only be interested due to electoral incentives, but also for tactical policy trade offs in the government agenda. If state sides with the unions to support an institution that is not costly for the state's budget, then it can gain 'room for manoeuvre' in other policy domains (privatisation, labour market reform, pension reform, etc.).

Finally, the chapter examined the systemic pressures to banking and telecommunications sectors across Europe. On the one hand, these sectors experienced the European Union regulatory impact which required their opening up and liberalisation. On the other hand, the international diffusion of flexibile working practices altered the internal work organisation of banks and telecom operators, which were modernised adopting new management practices. The next chapter begins with an examination of the Greek banking sector.

Chapter 4 The Breakdown of Centralised Wage Bargaining in the Greek Banking Sector

4.1. Introduction

The previous two chapters set out the theoretical context of the thesis and presented a coalitional approach that helps throw light on divergent paths of change. More specifically, the theoretical background dwelled on the debate of institutional change within and across varieties of capitalism, with a focus on change of wage bargaining institutions. In brief, the earlier theoretical conjectures expected a generalised pull towards breakdown of institutions. The fourth chapter begins with the empirical examination of the Greek banking sector. The trajectory of change has followed the Anglo-Saxon path of breakdown of centralised wage bargaining. However, within-case variation suggests the pertinence of the mediating conditions of 'employer associability' and labour state coalitions.

The Greek banking sector is exemplary of an industry in which sectoral wage bargaining was the norm before the liberalisation of the market. Wage bargaining agreements were concluded in the Greek banking sector since 1974. However, the pressures from the liberalisation of the sector and the need to introduce flexible working practices during the 1990s led to a trajectory of institutional convergence to the Liberal Market model of decentralised bargaining. Before the liberalisation of the sector, there were few competitive pressures and the market resembled an oligopoly dominated by state-owned enterprises. In this context, bargaining flourished at the sector level and employees from both public and private banks were represented by a strong sectoral trade union. The opening up of the sector started in the late 1980s and by the late 1990s new players had entered the market. At the same time, public banks were privatised and banks' internal work organisation was modernised towards adopting more flexible management practices. As a consequence of the dual pressures from liberalisation and flexibility, tensions over the institution surfaced in the early 2000s. Although the sectoral wage bargaining institution survived until the mid 2000s, it finally broke down in the late 2000s. What can possibly account for this trajectory of change? The aim of the chapter is to answer this question with the backdrop of the coalitional framework developed in the previous chapter.

The first factor explaining this trajectory of change is the absence of employer associability which would have been able to strike compromises between firms towards the reform of the wage bargaining institution. Firms were organised in a trade association which lacked the legal competence to negotiate labour relations issues, and the employers' side was marked by divisions between large and small banks. Yet, an implicit labour-state coalition was able to prevent the collapse of sectoral wage bargaining until the mid 2000s. The labour side was able to speak with a single voice in a unitary sectoral association, despite ideological divisions.

The sectoral trade union (OTOE) managed to steer the government's interest in supporting the institution of wage bargaining, irrespective of political party in government. It retained links with the both centre-right and centre-left parties and invited the government to intervene when negotiations were blocked. Thus, a labour-state coalition saved the institution from collapsing. The government's interest did not only lay in electoral concerns, but also in advancing the government agenda for privatisation and pension reform. As the chapter shows, when the government agenda priorities shifted, this was the end of the labour-state coalition, and employers' drive towards the breakdown of sectoral wage bargaining was left loose.

The structure of the chapter is as follows. I will first provide an overview of the wage bargaining system in Greece presenting the main actors and the major turning point of Law 1876/1990. Then I will turn to the banking sector, briefly examining developments until the 1980s. Afterwards I will provide an overview of the sweeping structural changes that are observed during the 1990s, namely the EU liberalisation, the privatisation of state owned banks, and the intensification of competition. The next section, gauges the pervasive introduction of flexible working practices in both privatised and private banks. Following from this, the chapter will shift the focus on changes observed in the representation of labour and business. Finally, the account of events during the 2000s will pay close attention to the interactions between the main actors leading up to the collapse of centralised bargaining at the end of the decade. The final section concludes.

4.2. The Greek Wage Bargaining System: Continuity and Change

Scholars of the Greek system of industrial relations have traditionally assigned it a very statist character and dubbed it either as *state corporatism* (Mavrogordatos, 1988:57) or *étatisme* (Ioannou, 2000:220). The state's intervention in the system and especially in trade unions' internal politics has been historically pervasive. In the turbulent period between the end of World War II and the restoration of democracy in 1974, the Greek society went through a civil war, an interlude of 'restricted democracy' and a seven-year dictatorship (1967-74). The state patronage of organised labour in this period has been so direct to the point that unions' internal democracy was scrapped; and union officials were directly appointed by the Minister of Labour (Ioannou, 2000:222; Kritsantonis, 1998:514).

After the restoration of democracy in 1974 and until the 'freeing' of wage bargaining in 1990; political patronage remained, albeit took more indirect forms. The socialist PASOK government pushed reforms to democratise trade unions during the 1980s, establishing a proportional representation voting system in their internal elections. But democratisation was accompanied by extreme involvement of political parties. Elections took place among competing union factions, which had clear party affiliation. Political parties manipulated organised interests through the development of a dense web of clientelistic relations, patronage and political favours (Featherstone, 2005:229-230) and acted largely as 'transmission belts' of political parties' will (Mavrogordatos, 1988:56). For sure, Greek unions were deprived of the 'autonomy' that -for instance- German trade unions gained soon after the end of the war. Thereby, the antagonistic relations between different parties in the political arena were mirrored, more often than not, in the relations between employees' representatives.

The crucial turning point for the Greek wage bargaining system is manifested by Law 1876/1990. The law was enacted by the 1990 coalition government[11], known as 'ecumenical', under Prime Minister Xenophon Zolotas. Apart from all political parties, the law's provisions were also endorsed by all social partners: the peak labour confederation (GSEE) as well as the three peak employers associations (SEV, GSEVEE, ESEE).[12] Although this monumental institutional change was passed as a Law and did not take the form of a 'social pact' (as the equivalent 1993 Tripartite Accord in Italy, see next chapter), it is certainly considered as a functional equivalent of a 'social pact' (cf. Ioannou, 2010). This is justified by the wide-ranging consensus it enjoyed; not only from social partners, but also from parties across the political spectrum, including the 'Unified Left'.

The main thrust of this Law reformed and modernised the wage bargaining system in several respects: (i) social partners 'autonomy' was restored and two levels of wage bargaining were formally recognised (industry-level and firm level) assuming priority over the outdated craft/occupational levels (*omoioepaggelmatikes*); (ii) the scope of wage bargaining was expanded to

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[11] Coalition governments, and especially all-party coalitions, is a rare event in the Greek political history. The 1990 coalition was only the second time that such a coalition was formed after the 1974 'national unity' government during the transition to democracy. The 1990 government was formed amidst political scandals, included all parties, but was short-lived lasting for only four and a half months.

[12] Opinion of the Economic and Social Council. '*Social Dialogue in Greece: Evaluation – Trends – Prospects*' 1(86), (18 December 2002), p.17. (In Greek).

include more non-wage issues (e.g. health and safety, working time, etc.); (iii) labour tribunals were abolished and compulsory arbitration[13] abandoned, while a modern system of mediation and arbitration was introduced with the establishment of the Organisation for Mediation and Arbitration (OMED).[14]

Following this institutional change, the prospects for the Greek system of social dialogue looked promising. The much sought 'freeing' of wage bargaining (i.e. freeing from state patronage) was eventually attained, while social partners' autonomy was restored, converging to West European norms. Additionally, the institution of Economic and Social Council (see Table below) was put in place in 1994, directly transposed as 'best practice' from the EU-level Economic and Social Committee. This institution replaced for good a range of similar Councils that appeared in Greece from the 1930s until the 1980s (see Ioannou, 2000:222), which can at best be viewed as parodies of social dialogue venues. The Greek industrial relations system was thought to be well on a trajectory of modernisation and convergence to the European model of social partnership.

Table 4.1. Main Organisations in the Greek Interest Representation System.

Organisation	***Function***	***Membership***
Economic and Social Council of Greece (OKE) Est. 1994	Advisory council to the government; set up by government via Law 2232/1994; modelled after the EU Economic & Social Committee; Govt may request advice from OKE, but it is not binding; OKE can publish advisory documents and opinions on its own-initiative.	*Employers*: SEV (4); GSEVEE (4); ESEE (4); Hellenic Banks Association (1); Hotel-owners Federation (1); Ship-owners Association (1); Construction Firms Association (1). *Employees:* GSEE (11); ADEDY (5). *Various Interests:* Farmers Associations: PASEGES & GESASE (7); Professionals Chambers: lawyers, doctors, engineers, economists, agricultural scientists (4); Consumer Organisation (1); Local

[13] Compulsory arbitration was not a unique feature of Greek industrial relations. For instance, this practice was also prevalent in Australia.
[14] Opinion of the Economic and Social Council. '*Social Dialogue in Greece: Evaluation – Trends – Prospects*' 1(86), (18 December 2002), p.17. (In Greek).

		Government: KEDKE (3).
Organisation of Mediation & Arbitration (OMED) Est.1990	Public authority; set up by govt (Law 1876/1990); Provides mediation & arbitration services at the request of at least one of parties; cannot start arbitration/mediation on its own initiative, but arbitration decisions are legally binding.	Government appointed Experts; The Body of Mediators and Arbitrators has 21 members; mediators and arbitrators are chosen either after agreement of the parties or via drawing lots.
Greek General Confederation of Labour (GSEE) Est.1918	Peak trade union confederation representing all employees under private law contracts; Signatory to the National General wage agreement, setting min. wages.	74 Sectoral Trade union Federations & 83 Regional Labour Centres; Total of 529,331 active members (2001).
Confederation of Greek Civil Servants' Trade Unions (ADEDY) Est.1926	Peak trade union confederation representing all civil servants working under public law contracts; is not allowed to bargain wages, only non-wage issues.	Sectoral Federations; Total of 240,463 active members (1998). Union factions: -PASKE (PASOK) -DAKE (ND) -PAME (KKE) -AP (SYN) -PSK (Leftist)
Hellenic Federation of Enterprises (SEV) Est.1907	Peak employers association representing (traditionally) big industrial firms; Signatory to the National General wage agreement, setting min. wages.	Includes both individual firms and sectoral associations.
Hellenic Confederation of Artisans (GSEVEE) Est.1919	Peak employers association representing small-medium artisan firms and self-employed; Signatory to the National General wage agreement, setting min. wages.	28 Sectoral Federations; 58 Regional Federations
National Confederation of Greek Commerce (ESEE) Est.1987	Peak employers association representing small-medium commercial firms & self-employed; Signatory to the National General wage agreement, setting min. wages.	13 Regional Federations;
Source: Author's Own Elaboration.		

4.3. Greek Banking until the 1980s: Oligopoly and State ownership

The industrial relations context of the banking sector resemble this 'excessive statism' that is characteristic of the national-level institutional arrangement. On the one hand, the majority of banks have been state-owned in the post-war period. Effectively, the state occupied the seat of the employer, but it also arbitrated relations between government-appointed management and employees. On the other hand, the trade union officials came from party-affiliated union factions.[15] The 'state interventionism' was obvious until 1990 and the Minister of Labour was among the signatories of the sectoral agreement, which was concluded at the premises of the Ministry.

The government intervention in the sector's wage bargaining during the 1980s is far from surprising. This intervention is circumscribed in the outdated institutional framework that prevailed until the 1990s. According to Law 3239 of 1955, wage agreements become legally binding only after a ministerial decision, adjudicated by the Minister of Labour. But there is another reason, why the government had a direct stake in arbitrating wage agreements in this sector. Since the majority of banks were state-owned, a potential loss in the balance sheets of banks[16] would carry a burden for the government budget. Thereby, the process of mediation in wage bargaining was indirectly part of government's incomes policy.[17]

The turning point of Law 1876/1990 had also implications for wage bargaining arrangements in the sector, since it made a special reference to banking (Art. 3, paragraph 4):

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[15] The banking trade union (OTOE) was dominated by leftist union factions in the late 1970s and early 1980s, so antagonisms surfaced both with the Constantine Karamanalis centre-right government (1974-1981) and the Andreas Papandreou socialist government (1981-1989). Since the mid-1980s the socialist faction is dominant in OTOE.

[16] Nevertheless, banks had traditionally retained very high profit margins.

[17] Although the majority of banks have been state-owned, it should be clarified that they were legal entities subject to private law provisions. Therefore, the banking trade union was affiliated to the General Confederation of Workers (GSEE) and not the Civil Servants Confederation (ADEDY). This allowed OTOE to bargain over wages, as opposed to civil servants, whose wages were set unilaterally by the government.

> Industry-wide wage agreements are concluded between [sectoral trade unions]… and employers associations, but *specifically for the employees in banks*, in the event that there is no sectoral employer association, [agreements are signed] by individual employer firms which are represented by [a] jointly authorised representative[s], only if these employers cover at least 70 per cent of employees in the sector (emphasis added).[18]

The banking trade union managed to incorporate this provision, in the knowledge that the Hellenic Banks Association (EET) was not willing to act as an employers association. Nearly two decades later, this provision would be at the heart of the dispute between trade unions and employers.

The banking sector trade union (OTOE) was in the vanguard of the modernisation of trade unions and convergence to West European norms in many different respects. OTOE was established in 1955 and was among the first to organise employees at sectoral level. This contrasted sharply with the outdated organisation of workers according to craft/occupation, which was a residual of the medieval 'guild system'. OTOE established a research institute (Institute of Labour-OTOE) to assist negotiators with scientific expertise in line with modern practices elsewhere in Europe. Additionally, it pursued closer cooperation with its European counterparts; it strengthened its coordination with banking unions in Southern Europe (Spain, Portugal, Italy, Turkey, Cyprus) and developed with them a Mediterranean conference under the auspices of the EU-level sectoral organisation EURO-FIET. In a similar vein, it developed bilateral relations with trade unions in the Balkan region. Finally, it actively sought to participate in

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[18] Law 1876/1990 'Free Collective Bargaining and Other Provisions' *Government Gazette* (*FEK*) No.27/A/1990.

European Works Councils of multinational banks operating in Greece, taking advantage of the innovative European Union Directive on Works Councils.[19] Since the early 1990s the institution of sectoral wage bargaining worked rather well and wage agreements were uninterruptedly signed for more than a decade, without interference from the Minister of Labour, and social partners' autonomy was preserved. Yet, the liberalisation of the market, the intensification of competition and the introduction of flexibility would put strong destabilising pressures to the institution of wage bargaining. The next section starts with the pressures arising from liberalisation.

4.4. Greek Banking in the 1990s: State Withdrawal and the Market Unbound

4.4.1. EU Liberalisation, Privatisation and Intensification of Competition

The liberalisation of the financial market in Greece was launched later than other OECD countries, but progressed rapidly from the second half of the 1980s. The liberalising initiative had five main elements: abolition of capital movement restrictions; freeing of interest rates; end to credit controls; allowing *Bancassurance* activities; and creation of a vast market in government securities (Soumelis, 1995:40-41). The opening up of the market and the removal of barriers to entry facilitated the appearance of new players in the sector. There was an aggressive expansion strategy from foreign banks entering the market by

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[19] On the European Works Councils Directive (94/45/EC) see Falkner (1996).

setting up branches (not subsidiaries) in the early 1990s such as HSBC, Citibank and Bank of Cyprus, taking advantage of the EU 'single licence' (Eichengreen and Gibson, 2001:545-546). Indeed, the sector has been one of the most popular sectors in Greece in terms of attracting Foreign Direct Investment (FDI) as a result of the liberalisation of the market (Filippaios, 2006). Increased competition from new entrants is also documented by the rate of growth in foreign banks' branches network[20] and the expansion of foreign banks was much more intensive than the average expansion of both domestic and foreign banks (Table below).

Table 4.2. Penetration of Foreign-owned Banks in Greece, 1996 - 2005.

	1996	***2002***	***2005***	***Δ% 96-05***
	Firms			
All Banks	39	43	43	10,26%
Foreign-owned	22	21	22	0,00%
	Bank Branches Network			
All Banks	2676	3107	3358	25,49%
Foreign-owned	130	188	242	**86,15%**
	Employees			
All Banks	56407	58237	59131	4,83%
Foreign-owned	4144	4795	5381	**29,85%**
Source: OECD (2008:268).				

Simultaneously two other processes were taking place: privatisation of state-owned banks and successive mergers and acquisitions (M&As). Privatisation of Greek banks accelerated in the early 1990s (Pagoulatos, 1996) and was largely completed by the early 2000s. Privatisation of state-owned banks was part of the agenda of both centre-right New Democracy government (1990-93) and continued with the socialist party government (1993-2004). Predictably, the trade

[20] It is likely that the percentage increases would be even more impressive, if there were available data since the early 1990s.

unions in the sector tried to resist privatisation initiatives with a series of strikes. However, the strike barricades were unable to stop the tide towards privatisation. On the one hand, concerns were raised over banks low efficiency in spite of high profitability (Eichengreen and Gibson, 2001). Inefficiency was attributed not only to the oligopolistic structure of the market, but also to the 'civil servant culture' of banking employees. On the other hand, the proceedings from privatisation were expected to reduce national debt and budget deficit, and thereby assist in the national target of entry to the Economic and Monetary Union (Pagoulatos, 1996). Finally, privatisations were only resisted from smaller leftist parties, which had minor parliamentary power. In the absence of strong political allies, the trade unions could not stem the process of privatisation. In parallel, mergers and acquisitions spanned the whole period until the late 2000s (see Table below). The two processes were not necessarily distinct. For example, the state-owned Ionian Bank was privatised through a competitive bid by the privately-owned Alpha Bank. Then a merger followed between the two banks.

Table 4.3. Merger & Acquisition Activity in Greek Banking, 1996 - 2007.

Year	*Target*	*Acquired by/Merged with*
2007	Egnatia Bank, Popular Bank, Marfin Bank	Marfin Popular Bank
2004	Investment Bank	Commercial Bank
	Geniki Bank	Societe General
2002	ETEBA	National Bank of Greece
	Unit Bank	EFG Eurobank
	ETBA	Piraeus Bank
2001	Telesis Investment Bank	EFG Eurobank
2000	Commercial Bank	Credit Agricole
	Novabank	BC Portugues
1999	Ionian Bank	Alpha Bank
	Ergobank	EFG Eurobank
	10% EFG Eurobank	Deutsche Bank
	NatWest (GR)	Piraeus Bank

	Dorian Bank	Telesis Investment Bank
1998	Mortgage Bank of Greece	National Bank of Greece
	Creta Bank, Bank of Athens	EFG Eurobank
	Macedonia-Thrace, Xiosbank, Credit Lyonnais (GR)	Piraeus Bank
	Bank of Central Greece	Egnatia Bank
1997	National Housing Bank	Mortgage Bank of Greece
	Chase Manhattan (GR)	Piraeus Bank
1996	Interbank	EFG Eurobank
Source: Author's compilation from Pagoulatos (2003:189) & Hellenic Banks Association web-site www.hba.gr.		

Crucially, this increased market concentration through M&As may cast doubt to the idea that competition has increased within the market.[21] However, studies for the Greek banking reach the conclusion that competition has increased since the 1990s due to single market liberalisation (Hondroyiannis *et al.*, 1999; Mamatzakis and Remoundos, 2003). The picture of increased competition following from liberalisation is further warranted by examining the rapidly changing market shares of the 'Big 5' (Table below).

Table 4.4. Market Shares (%) of Larger Banks in Greece, 1991 - 2005.

Banks	***Loan Market Share (%)***				***Deposit Market Share (%)***			
	1991	1995	2000	2005	1991	1995	2000	2005
National Bank	48.3	36.7	24.5	20.3	56.8	49.5	35.2	28
Commercial Bank	20.2	18.5	11.2	11	16	15.1	10.7	10.1
Ionian Bank	8.7	8.1	-	-	7.4	8.8	-	-
Alpha Bank	9.3	14.5	19.6	18.1	8.4	10.6	19.2	13.2
Ergobank	4.3	6.3	-	-	4.4	5.6	-	-
EFG Eurobank			13.3	18.1			11.8	16.8
Pireaus Bank			7.8	10.9			7.6	7.8
Source: Mamatzakis & Remoundos (2003:86) and Eurobank Research (2006:8).								

[21] In the relevant economics literature, there is a debate as to whether concentration (small number of firms) may co-exist with competition in a market, which is usually called a 'contestable market'. However, entering into the debate of whether the banking sector is an example of a contestable market goes well beyond the scope of this thesis. The studies and data cited next suffice to warrant the conclusion of increased competition.

The above data complement interview evidence that competition intensified after the market liberalisation.[22] The banks were caught in the wave of rapidly falling interest rates as part of the process of convergence to the Maastricht criteria. As a result, 'price wars' burst out between them reducing the interest rates of loans and diversifying financial products. The next section examines the changes observed in the internal organisation of Greek banks.

4.4.2. Restructuring the Banks: Working Time Flexibility, Pay Flexibility and Downsizing

In the 1980s Greek banks are characterised by the pattern of 'internal labour markets' (Petrinioti, 1998) with high job security, standardised working time patterns, and seniority-based pay and promotion rules. However, there was an additional reason why job security was guaranteed within the Greek banks. These firms were not only the large corporations that offered 'jobs for life' *a la* IBM (an exemplar of the 'internal labour market' model). Greek banks were also state-owned enterprises with high profit margins, and therefore the chance of redundancy was minimal. The introduction of flexible working practices, after the privatisation and technological modernisation of state-owned banks, was bound to change those favourable conditions.

The challenges stemming from the 'fading out' of Fordism are reflected in the working time changes during this period. The flagship 'non-wage' demand of the

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[22] Author's interviews with: sectoral labour representative 1 (3 March 2010); with sectoral business representative 1 (3 June 2010); with sectoral business representative 2 (21 July 2010).

General Confederation of Workers (GSEE) was the implementation of 35 hour working week without pay reductions *à la française*.[23] A committee with experts from employers and trade unions was set up in 1999 to study the potential implementation of the 35 hour week. As the issue gained some momentum, the banking sector was in the vanguard, agreeing a pilot implementation of the 35 hour week.[24] However, negotiations within the national committee reached a stalemate as the employers' side raised insurmountable concerns over the impact of such a measure on competitiveness, judging it as 'premature'.[25]

Apart from this short-lived experiment over 35-hour week, banking wage bargaining rounds are marked by a permanent conflict over working time changes throughout the 1990s and early 2000s.[26] On the one hand, the employers' side pursued an extension of banks' opening hours. On the other hand, this went against trade unions flagship demand for shortening working week. However, the conflict over flexibility in work organisation was not sufficient to lead to the

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[23] Such a measure was expected not only to improve working conditions for employed, but also to boost job creation reducing the persistently high unemployment rate. Certainly, the additional cost would mainly burden employers squeezing profit margins. But the estimates of this cost were variable, taking into account shorter breaks and expected increases in productivity.

[24] 'New banking agreement introduces pilot 35-hour week' , *European Industrial Relations Observatory,* (June 1999), available at: http://www.eurofound.europa.eu/eiro/1999/06/feature/gr9906135f.htm [last retrieved: 25 September 2011].

[25] 'Work of expert committee on working time reduction reaches impasse' *European Industrial Relations Observatory,* (January 2000), available at: http://www.eurofound.europa.eu/eiro/2000/01/inbrief/gr0001159n.htm [last retrieved: 25 September 2011].

[26] 'Collective agreement signed for banking sector 1997/8', , *European Industrial Relations Observatory,* (June 1997), available at: http://www.eurofound.europa.eu/eiro/1997/06/inbrief/gr9706117n.htm [last retrieved: 25 September 2011]; 'New banking agreement introduces pilot 35-hour week' , *European Industrial Relations Observatory,* (June 1999), available at: http://www.eurofound.europa.eu/eiro/1999/06/feature/gr9906135f.htm [last retrieved: 25 September 2011]; 'New agreement signed for banking sector' , *European Industrial Relations Observatory,* (June 2002), available at: http://www.eurofound.europa.eu/eiro/2002/06/inbrief/gr0206102n.htm [last retrieved: 25 September 2011].

breakdown of wage bargaining. Facilitated by state intervention, compromises were eventually reached. The formula entailed increasing opening hours in line with employers' demand, in exchange for a slight reduction in weekly working hours. In other words, work reorganisation squeezed the time for 'back office' operations (clearance, settlements, etc.) extending the 'front office' time. Finally, the introduction of incentive pay systems was also part of banks re-structuring strategy in order to align pay with performance. These changes were mostly reflected on the content of firm level bargaining during the 1990s, which introduced performance-related bonuses by business product unit.

In sum, the Greek banks in the 1990s caught up with international trends towards corporate re-structuring and streamlining operations. Privatisation facilitated the technological modernisation and adoption of modern management techniques. The strong 'internal labour markets' that characterised the earlier era were weakened, and banks adopted a 'segmented approach to hiring with multiple entry levels' (Panopoulou, 2005:19). Banks' human resources were replenished with younger graduates, shedding out senior labour through early retirement. Job content became more customer-oriented, transforming bank employees 'from tellers to sellers'.[27] Finally, working time was adjusted to meet customer demand, while pay systems were aligned to results. However, neither the pressures from intensified competition after liberalisation, nor the introduction of flexible working practices provided the necessary and sufficient conditions for the breakdown of wage bargaining. Instead, the introduction of flexible working

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[27] 'Banks: fewer tellers, more sellers' *Ta Nea,* (17 August 2002).

practices was just a trigger for change in the preferences of individual banks.[28] Despite conflict and disagreements during negotiations, and even more the bitter climate and personal antagonisms[29] following privatisations and mergers, the institution of industry wage bargaining was not questioned in the 1990s. Before delving into the account of events that led to the breakdown of wage bargaining in the late 2000s, the next section examines the structure of interest representation of labour and business.

4.5. The Representation of Labour and Business

4.5.1. Labour: Single Voice despite Internal Divisions

International studies of the decline in trade unions' power emphasise the fall in union membership, but also the sharpening of divisions between blue-collar workers in manufacturing and white-collar workers in services (Katz, 1993). Given that banking is a services sector such divisions are expected to be more subtle; for instance, between lower-skilled clerical employees and higher-skilled executives. The individualisation of pay determination is expected to favour the latter, since they have higher stock of human capital, thereby able to gain higher (increases in) wages than those set in wage agreements. This begs the question: how far have these (or other) divisions hindered the conclusion of wage agreements?

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[28] Author's interviews: with industrial relations expert 1 (2 February 2010); with industrial relations expert 2 (11 February 2010); with sectoral labour representative 1 (3 March 2010).

[29] Author's interview with industrial relations expert 2 (22 February 2010).

As it was mentioned above, banking employees were represented by a *unitary* trade union federation (OTOE). Yet, behind this 'veil of unity', there lies a multiple fragmentation. The first division is along ideological lines. Internal union factions are affiliated with opposing political parties and acted often as their 'transmission belts', reproducing the antagonisms in the political system. Banks also offered fertile ground for the development of clientelistic practices. Getting a 'job in a bank' would become one of the best career options for some generations. It was associated with high social status and prestige, and combined near-civil service job security with competitive remuneration and promotion opportunities. As a result, both socialist and centre-right governments distorted banks' recruiting processes to cater clientelistic relationships, and up until the early 1990s banking personnel was often appointed with political criteria (Papandreou, 1991). These practices gave rise to 'us and them' attitudes within the banks, since promotion criteria through the internal career ladder included 'political acquaintances' in the governing party. These practices were destined to change after the 1990s.

The extent of *partitocrazia* within OTOE was partly reduced, due to the rise of autonomous and apolitical union factions. The latter were concentrated in privately-owned banks and were a result of the generalised disenchantment with the political system. Political union factions remained important, but lost much of the support they enjoyed in the 1980s, accruing much lower percentages in the internal elections. Additionally, developments in the political system were reflected in union factions. Notably, the splitting up of the 'Unified Left' in the early 1990s into a pro-European Left party (SYN) and an anti-European

Communist party (KKE) weakened the general influence of the Left in the unions and allowed the rise of the socialist (PASKE) and centre right (DAKE) factions. Furthermore, the Communist party (KKE) nurtured separatist tendencies within OTOE through its trade unionist wing (PAME), which is still the most militant. This was in line with the permanent strategy of KKE to discredit official trade union leaders, accusing them for being 'sold out' (*poulimenoi)*. The separatist tendencies led to the establishment of a new federation for employees in the Finance sector (see table). However, this communist trade union never sought to sign agreements, remaining focused on organising separate strikes and protests. Paradoxically, PAME continued to exist also as a union faction within OTOE, taking part in the elections and trying to bring the leadership of OTOE into disrepute.

The second division within OTOE is along occupational lines. Affiliate members include firm level unions organising the lower echelons of 'clerical personnel' as well as the higher-skilled 'scientific personnel'. This fragmentation is a residual of the historical uneven and segmented development of unions within banks. In the early 1980s, the so-called 'university graduates problem'[30] almost endangered the complete break-up of OTOE (Tsakiris, 2006:274-278). These internal divisions faded out gradually, but still exist. For instance, there are still separate firm level unions within banks (mainly ex-state-owned); some organising 'clerical and technical personnel' and other for 'scientific personnel'. A final dividing line is between firm level unions of banks which merged. Firm level

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[30] In short, the points of contention were the differential promotion criteria and allowances (i) between university graduates coming from different disciplines and (ii) *between* university and high school graduates.

union mergers did not keep pace with banks mergers, and as a result there are still unions of 'ex-banks'. The reluctance to promote mergers between unions is attributed to the fact that trade unionists are attached to 'holding an office' or just because of sentimental attachment to one's old bank.[31]

One would reasonably expect that the multiple fragmentation sketched out above, would pose a severe threat to the labour's ability to speak with a 'single voice'. Surprisingly, this is not the case. Instead, a broader political consensus is usually achieved spanning from the left faction (AD) to the centre-right faction (DAKE); and from the apolitical factions (e.g. ASKE) to the dominant socialist faction (DHSYE/PASKE). As a result, the signing of sectoral wage agreements was consistently approved during the 1990s within the General Council with broad majorities. The next table summarises the labour representation in the Greek banking sector.

Table 4.5. Main Trade Union Organisations in the Greek Banking Sector.

Organisation	***Function***	***Membership/Affiliation***
Hellenic Federation of Bank employee Unions (OTOE) Est. 1955	Representative Employees Association; Signatory to sectoral wage agreement	24 firm level trade unions; Union density 85 per cent (in ex-state owned banks nearly 100 per cent); <u>Union factions:</u> DHSYE (PASOK); DAKE (ND); AD (SYN); PAME (KKE); ASKE (apolitical).
Trade Union of Employees in Finance of Attica	Separatist sectoral union of PAME; non-signatory to the sectoral wage agreement	Affiliate with the communist party(KKE)
Source: Author's Own Elaboration.		

[31] Author's interview with sectoral labour representative 1 (3 March 2010).

4.5.2. Business: The Lack of Employer Associability

The association that historically represented the interests of domestic and foreign credit institutions operating in Greece has been the Hellenic Bank Association (EET). The association was established in 1928, with the objective to self-regulate the sector. Thus, it filled gaps in the institutional framework and set rules governing the fierce competition between banks themselves, and between banks and non-financial firms (Kostis, 1997). Its main functions are: (i) to provide advisory input to the regulatory process of the financial sector, (ii) to participate in the decision-making procedures of international, European and national law-preparing and technical committees, and (iii) to cooperate with other countries' organisations and associations of the financial sector in the context of bilateral or multilateral agreements.

The association was borne as a trade association (or lobbying group) providing input in the regulatory issues (taxing, accounting standards, supervision, consumer protection, deposit guarantees). The resolve of the bankers to retain this status for the association is evidenced by the change in the statute in 1990. When the unions managed to insert the provision in Law 1876/1990, that in the absence of an employers association the banks would bargain with representatives from banks covering 70 per cent of employment, the Hellenic Banks Association responded to this by clearly stipulating in its statute that it was *not* an employers association.[32] Still, the 'labour-state' coalition at the time managed to create *quasi*-employer associability with this provision.[33]

In the years that followed, the Hellenic Bank Association remained focused on narrow interests' representation, acting more as a lobbying group.[34] The EET studied the import and domestic implementation of international regulations (e.g. laws and regulations issued by the Basel Committee on Banking Supervision) as well as European regulations and Directives. Therefore, it lacked historically the legal competence to negotiate labour relations issues on behalf of its members. Although there were some internal deliberations with regard to changing the association into an employers association, the larger banks, and especially the National Bank of Greece, were strongly against such delegation of competences.[35] The motivation lied on an unwillingness to mix 'apolitical' regulatory issues with politically-laden labour relations issues.[36]

The decision making process within the bankers association was and remains skewed towards favouring larger banks. The majority of important decisions are taken by the *presidium* which involves the general secretary, the president and the three-vice presidents, all of whom are coming from the larger banks.[37] While in the sub-committees there is an effort for consensus, the decision making process in the association is 'certainly not meant to be democratic'; instead, market power determines weight in the decision making process, and the smaller banks had

[32] Author's interview with sectoral business representative 2 (21 July 2010).
[33] Author's interview with government representative 2 (2 May 2011).
[34] Author's interview with sectoral business representative 1 (3 June 2010).
[35] Author's interview with sectoral business representative 2 (21 July 2010).
[36] Author's interview with sectoral business representative 2 (21 July 2010).
[37] Author's interview with sectoral business representative 2 (21 July 2010).

little say in the Hellenic Banks Association.[38] In practice, smaller banks' interests were 'beyond the radar screen' of the larger banks and EET was mainly the playfield of large banks.[39]

Table 4.6. Main Business Associations in the Greek Banking Sector.

Organisation	*Function*	*Membership*
Hellenic Bank Association (EET) Est.1928	According to by-laws "trade association" (not "employers association") But, holds a permanent seat on the employers' side within the Economic and Social Council	21 regular members (banks); 6 associate members.
Association of Co-operative Banks of Greece (ESTE) Est.1995	According to by-laws "trade association" (not "employers association")	17 regular members (regional co-operative banks); 8 associate members (regional credit co-operatives)
Source: Author's Own Elaboration.		

4.6. Greek Banking in the 2000s: Tensions and the Breakdown of Centralised Wage Bargaining

4.6.1. A Near Breakdown of Wage Bargaining in the mid 2000s

The uninterrupted sequence of concluding sectoral wage agreements was first broken in the early 2000s, when the initial tensions over the institution of wage bargaining appeared. In 2002 OTOE invited the banks to start negotiations over the new wage agreement. This was in line with the customary pattern of sending an invitation to employers; when the previous agreement was near to expire. Employers came reluctantly to the bargaining table, and soon after, negotiations broke down. In the face of this, the trade unions followed a two-pronged strategy.

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[38] Author's interviews with: sectoral business representative 1 (3 June 2010) and sectoral business representative 2 (21 July 2010).
[39] Author's interview with sectoral business representative 1 (3 June 2010).

On the one hand, they broke the 'peace-clause' attached to the previous agreement calling a strike. This was a tactical manoeuvre to put pressure to firms to sign an agreement. On the other hand, they asked from the Minister of Labour of the socialist governing party, Dimitris Reppas, to intervene. Indeed, only after the mediation by the Minister was it possible to resume negotiations and finally conclude a wage agreement.[40] The same pattern is also observed in the next bargaining round of 2004. The union invited the employers to start bargaining for a new agreement, employers joined reluctantly, but negotiations reached a stalemate. In both instances the major point of contention was working time changes. Employers wanted an increase in banks' opening hours, a change that clashed with union's demand for shortening working week. The trade union announced sector-wide strikes and asked the government to intervene, so that negotiations are resumed.

Interestingly, government intervention did not stop with the change of government to the centre-right New Democracy party. The new Minister of Labour, Panos Panagiotopoulos, had only taken up his post a couple of months earlier. One of the first hurdles he had to overcome was ensuring social peace in the banking sector. Therefore, he invited OTOE and the representatives of the larger banks in the Ministry so that they resume negotiations. As mentioned above, the compromise entailed increasing 'opening hours' in line with banks

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[40] 'New agreement signed for banking sector', *European Industrial Relations Observatory,* (June 2002), available at: http://www.eurofound.europa.eu/eiro/2002/06/inbrief/gr0206102n.htm [last retrieved: 25 September 2011].

demand, and squeezing the slot of time for 'back office' functions. Again, only after the mediation of the Ministry an agreement was made possible.[41]

There is something puzzling about this intervention, though. OTOE leadership has been dominated by the socialist faction for years, controlling usually half or even more of the seats in the Executive Secretariat. Why would the Minister of a newly elected centre-right government be interested in assisting a trade union that is considered as a stronghold of socialists? Part of the explanation lies with the minister's political profile. Panagiotopoulos belonged to the party segment that is dubbed as 'popular right'.[42] In other words, he had a 'social-liberal' leaning, looking favourably upon social rights, trade unions and welfare state, which gave him the nickname 'Red Panos'. But there were deeper motives likely explaining the Minister's action. The centre-right union faction in OTOE was already torn by internal divisions, including a split in the early 2000s.[43] The expectations from the newly elected centre-right government were high. If the government had chosen not to side with the unions, it would have been a fatal blow for their union faction. In sum, in the first half of the 2000s destabilising tensions over the institution appeared, however, the labour-state coalition saved the institution from collapsing. But the bankers' pressures to abandon the institution intensified in the second half of the decade.

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[41] 'New agreement signed for banking sector' *European Industrial Relations Observatory,* (October 2004), available at: http://www.eurofound.europa.eu/eiro/2004/10/inbrief/gr0410102n.htm [last retrieved: 25 September 2011]; 'Banks, two-year agreement', *Ta Nea*, (18 June 2004).

[42] Author's interview with industrial relations expert 2 (11 February 2010). 'Greek popular right' is more union-friendly and close to French 'Gaullist right' or German 'Christian-democracy'.

[43] 'DAKE divided'*, Ta Nea,* (17 October 2000).

Indeed, on the bankers' side, there were discussions over 'loosening the straightjacket' of sectoral agreements already since the early 2000s.[44] However, only after the majority of banks were privatised did they reveal their preference to abandon the institution. The initiative was taken by the CEO of the leading National Bank, Mr. Takis Arapoglou. In 2006 six identical letters were mailed from the heads of the 'Big 6' banks to OTOE.[45] In those letters it was clearly stated that 'the firms would no longer be willing to bargain an industry-wide agreement'. Instead, they would only sign separate agreements with firm level unions in each bank. The rationale behind this preference was based on the structural changes in the sector. They contended that the times that sectoral agreements were the norm were a thing of the past; state ownership in the sector has been minimised, competition has intensified, while banks have diversified their operations beyond national borders'.[46] The letters emphasised that when banks were under state control, there was one major shareholder (the state), making it easier to aggregate preferences.[47] This was no longer feasible. Indicatively, the letters which were addressed to the unions stated:

> You have failed to grasp that market conditions have changed, competition has increased, and customer needs differentiated, while individual banks have very diverse business plans.[48]

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[44] Author's interview with sectoral business representative 1 (3 June 2010).

[45] 'Bankers' bomb for collective agreements', *Kathimerini*, (1 February 2006); The six larger banks were: National Bank of Greece, Agricultural Bank, Commercial Bank, Eurobank, Alpha Bank, and Pireaus Bank.

[46] 'We are not discussing industry-agreements because… state-owned banks have been reduced' *Eleftherotypia,* (1 February 2006); Author's interview with sectoral business representative 1 (3 June 2010).

[47] 'We are not discussing industry-agreements because… state-owned banks have been reduced' *Eleftherotypia,* (1 February 2006).

[48] 'We are not discussing industry-agreements because… state-owned banks have been reduced' *Eleftherotypia,* (1 February 2006).

Clearly, the pressures arising from liberalisation and increased need for flexibility were manifesting themselves. Banks were willing to keep up bargaining, but only at the firm level. Unlike their Italian counterparts, the Greek bankers were not interested in ensuring a level-playing field in competition and standardisation of costs across the sector.[49] Instead, cut-throat competition was very much welcome, even if that led to greater concentration, with larger banks pushing smaller banks out of the market.[50] To show their resolve, the CEO of the leading National Bank of Greece, Takis Arapoglou, rushed to sign a firm level agreement with the company union, before a sectoral agreement was even discussed. This was in sharp contrast with the tradition of firm level bargaining taking place *after* the sectoral agreement was concluded.

The reaction from OTOE was swift and ferocious. The challenge to the institution of wage bargaining threatened the main function and –by implication– the existence of the sectoral association itself.[51] A sense of a crisis mobilised the union officials to take action. On the one hand, the leadership of OTOE called the convention of the Executive Secretariat with the agenda of calling a national strike and going to an 'extraordinary congress'. The strategy of the trade unions was reached by consensus between the different political factions, and unions appeared able to speak with a single voice, especially the socialist PASKE and the centre-right DAKE.[52] Moreover, the union leaders pursued meetings with opposition parties' leaders to gain their support. Forging wider 'political

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[49] Author's interview with government representative 2 (2 May 2011).
[50] Author's interview with sectoral business representative 1 (3 June 2010).
[51] Author's interview with sectoral labour representative 1 (3 March 2010).
[52] Author's interview with sectoral labour representative 1 (3 March 2010).

coalitions' was a very conscious strategy from the part of the trade unions to stem the employers' offensive.[53] The peak confederation (GSEE) issued statements of support towards OTOE, condemning the bankers' refusal to bargain. The refusal was perceived by GSEE as a 'Thatcherite union-busting strategy'[54] that sought to break up its strongest affiliate. The peak confederation was also very concerned over the domino effects from such a development. If their strongest affiliate was busted, then weaker unions in other sectors would be unable to withstand a similar threat.[55] Even more, they feared of a 'decentralisation spiral' going all the way to the challenge of the national general agreement setting minimum wages. Indeed, these concerns were not completely unfounded, since a few months earlier the peak employers association (SEV) suggested the 'opt-out' of high unemployment areas from the minimum wage.[56]

Despite the ability of unions to speak with a 'single voice' even between competing union factions, the initial reactions from the government signify the congruence between employers' plans and government agenda.[57] The very next day George Alogoskoufis, Minister of Finance, stated that:

> 'We cannot, on the one hand, tell the banks "to compete among yourselves", to the benefit of consumers, firms, employment, and economy generally, and on the other hand, tell them "get together and cooperate on labour relations issues". Banks will

[53] Author's interview with sectoral labour representative 1 (3 March 2010).
[54] 'Support of mobilisation from George Papandreou' *Kathimerini,* (18 February 2006).
[55] Author's interview with sectoral labour representative 1 (3 March 2010).
[56] 'Public Outcry for SEV', *Ta Nea,* (22 December 2005).
[57] 'PASOK allegations against Alogoskoufis' *Ta Nea,* (7 February 2006); 'With the blessing of Alogoskoufis the *coup d' etat* in banks' *Ta Nea,* (3 February 2006); 'Alogoskoufis in favour of abandoning industry-agreements' *Eleftherotypia,* (3 February 2006); Author's interview with sectoral labour representative 1 (3 March 2010); and with government representative 2 (2 May 2011).

> either compete or cooperate with each other. When the banking system was state-owned, there was some logic in cooperation under the state umbrella'.[58]

The official party line from the Prime Ministerial Office (*Megaro Maximou*) was that the government would not intervene in wage bargaining mediating the conflict and the government spokesman, Evangelos Antonaros, confirmed this stance during the regular press briefing.[59]

In the following weeks, OTOE mustered the valuable allies among opposition parties. George Papandreou, the socialist party leader, met with OTOE representatives and extended his support to the union's mobilisation. He condemned the Karamanlis government for 'attacking a basic social right, the right to bargain collectively; undermining social peace and cohesion; and making Greece a cheap-labour country'.[60] The socialist party's support to the unions is also evidenced by earlier initiatives taken up by socialist members of Parliament. Initially the MPs requested an official hearing of Mr. Arapoglou by the Parliamentary Committee for Economic Affairs to explain his refusal to negotiate a wage agreement with OTOE.[61] Subsequently, socialist MPs addressed parliamentary questions to both the Minister of Finance and Minister of Labour, regarding the refusal of the three banks in which the state was still holding

[58] 'Alogoskoufis in favour of abandoning industry-agreements' *Eleftherotypia,* (3 February 2006); 'With the blessing of Alogoskoufis the *coup d' etat* in banks' *Ta Nea,* (3 February 2006).
[59] 'They «wash their hands» of OTOE', *Ta Nea*, (2 February 2006); 'Concern and discomfort in government' *Kathimerini,* (2 February 2006).
[60] 'G.Papandreou: Dark Ages in Employment' *Kathimerini,* (2 February 2006); 'Support of mobilisation from George Papandreou' *Kathimerini,* (18 February 2006).
[61] 'PASOK calls Arapoglou in the Parliament' *Eleftherotypia,* (2 February 2006).

shares.[62] Those banks were also called 'banks of state interest' (*trapezes kratikou endiaferontos)*.[63]

The issue attracted considerable publicity amidst strikes and protests and climbed high up in the political agenda. The trade unions accused the government for not disciplining the government appointed CEOs in the three 'banks of state interest'. The government responded that banks operate under 'private sector management' criteria and the state is only a minority shareholder. Trade unions and opposition parties targeted the Prime Minister, Kostas Karamanlis, because the appointment of Mr. Arapoglou as the National Bank's CEO was the PM's personal choice.

Soon, the first cracks appear in the government's united front behind the 'non-intervention' policy. The Minister of Labour, Panos Panagiotopoulos, acting at the margins of the party line, attempted meetings with the six banks' heads, but they were fruitless. After the failure of mediation 'Red Panos' admitted that 'the government lacks the mechanisms and tools to put pressure to the bankers'.[64] Concerns were also raised from other members of the Cabinet over the repercussions from the escalating conflict in the forthcoming elections.[65] Even more outrageous were trade unionists affiliated with the centre-right party. They openly accused the Minister of Finance, George Alogoskoufis, for steering the 'Big 6' initiative to abandon sectoral wage bargaining.[66] Indicatively, a leading union official in the centre-right faction (DAKE) stated that 'I cannot imagine

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[62] 'PASOK allegations against Alogoskoufis' *Ta Nea,* (7 February 2006).
[63] The 'banks of state interest' were at the time: the National Bank of Greece, the Commercial Bank of Greece, and the Agricultural Bank of Greece.
[64] 'With the blessing of Alogoskoufis the *coup d' etat* in banks' *Ta Nea,* (3 February 2006).
[65] 'Tactical manoeuvre after the reactions', *Ta Nea,* (1 March 2006).
[66] Author's interview with sectoral labour representative 1 (3 March 2010).

that the heads of 3 'banks of state interest' would make simultaneously and autonomously the same thought, had they not consulted their political overseer'.[67] Voices were also raised against the 'non-intervention' policy from the New Democracy party's backbenchers. Two years earlier, the government managed to avoid waging a war with the unions, but was now trapped in the middle of a battle. It was not only suffering casualties from opposition parties, but was also receiving 'friendly fire' coming from within the party. A tactical manoeuvre would become an absolute necessity.

The change in government stance coincided with a change in the Minister of Labour. In the aftermath of the revelation of a phone tapping scandal[68] a cabinet reshuffling was decided. Panos Panagiotopoulos was said to have very bad relations with George Alogoskoufis, Minister of Finance, while cooperation with his deputy ministers was inexistent.[69] Thus, he was replaced with the non-confrontational and more communicative Savvas Tsitouridis. The policy change was heralded by the Minister of Finance, George Alogoskoufis, who made –for the first time since the outbreak of the banking dispute– positive statements in favour of wage agreements.[70] Soon after, the three 'banks of state interest' accepted to start negotiations and privately-owned banks followed suit. The new Minister of Labour (Savvas Tsitouridis) was charged with ending the conflict,

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[67] Interview with sectoral labour representative at 'They «wash their hands» of OTOE', *Ta Nea*, (2 February 2006).

[68] The phone-tapping scandal involved the spying of Prime Minister's and Ministers' mobile phones. For more information cf. 'Athens Olympics phone tapping revealed' *The Guardian,* (3 February 2006); 'Suicide mystery in Greek spy scandal' *The Times,* (5 February 2006). It still remains a mystery who was behind this 'Greek Watergate'.

[69] 'A pre-announced lay-off: cabinet reshuffling because of phone-tapping', *Ta Nea,* (15 February 2006).

[70] 'Tactical manoeuvre after the reactions', *Ta Nea,* (1 March 2006).

taking initiatives for tripartite meetings between the Ministry, the bankers, and OTOE representatives. The path towards the signing of a new wage agreement turned out to be rocky. In total it took more than eight months and several meetings between OTOE and banks' representatives. Negotiations broke up several times, while bitter accusations were ejected from either side. The final agreement was a flimsy compromise facilitated by an even more reluctant support by the government.

What can possibly account for the government's U-turn between initial policy of non-intervention and the final decision to intervene? Two major events seem to have influenced the reversal in government's stance. First, the strong pressures from the trade union wing of the centre-right party so that the government mediates the conflict, especially in the prospect of local council elections.[71] Second, two 'hot potatoes' were high up in the government agenda: pension reform and privatisation. Interestingly, part of these reforms would need to pass through the banking trade union, and therefore the government was motivated by this tactical policy trade-off.[72] On the 'pension reform' side, it was the belated consolidation of separate banks pension funds into a single insurance fund (IKA-ETAM). On the privatisation side, it was the complete sale of the final chunk of the state's shares in Commercial Bank to the French *Crédit Agricole*. These schemes were already under way when the conflict over the sectoral wage agreement broke out. Continuing the 'non-intervention' policy would be equivalent to waging a three-front war with the unions, while also receiving

[71] Author's interviews with sectoral business representative 1 (3 June 2010) and with industrial relations expert 2 (11 February 2010).
[72] Author's interview with industrial relations expert 2 (11 February 2010).

'friendly fire'. A truce on the sectoral wage agreement front was deemed as necessary, so that the rest of the agenda proceeds. It turned out that the *priorities* in government agenda did not quite correspond with employers' plans. A 'Thatcherite attack on all fronts' was simply not in the range of options.

4.6.2. The Complete Breakdown of Wage Bargaining in the late 2000s

The flimsiness of the 2006/7 sectoral agreement, and the fragility of the 'labour-state coalition' on which it rested, would be proven in the next bargaining round. In May 2008 OTOE invited the employers to start negotiations over a new wage agreement. This time there was a severe split on the bankers' side. The larger banks (National Bank, Alpha Bank and Eurobank) refused to authorise a joint representative to bargain with the unions, but the smaller banks (Agricultural, Piraeus, Commercial, Marfin) were willing to bargain.[73] As a result, the requisite percentage of banks authorisations covering 70 per cent of employees was not reached. The banks' rationale was unaltered from the arguments used two years earlier. Only difference perhaps was that the 2007 global financial crisis made their desire to 'loosen the straightjacket' of industry-wide agreements even stronger.[74] To back up their resolve to go all the way towards decentralisation of bargaining, the two leading banks, National Bank of Greece and Alpha Bank,

[73] Author's interview with industrial relations expert 2 (11 February 2010); 'OTOE wages war for the new contract in banks' *To Vima,* (17 April 2008).
[74] Author's Interviews with sectoral business representative 1 (3 June 2010); with industrial relations expert 2 (11 February 2010). According to interviewees, until 2008 the main criterion of international financial markets to assess banks' performance was market share; however, after 2008 international financial markets focused on profitability.

announced unilateral wage increases, bypassing sectoral and firm level bargaining.

This development only infuriated the trade unions, since the wage increases were even lower than the minimum increases set by National General Collective Agreement, and therefore, technically illegal. Trade unions announced 'rolling strikes' targeted to the large banks which did not provide authorisations.[75] This strategy meant to 'reward' –so to speak– the banks which did provide authorisations, sanctioning only those that did not. Along the familiar pattern, the unions asked from the new Minister of Labour of the centre-Right New Democracy government, Fani Petralia, to intervene in the conflict and sought to forge wider political coalitions with opposition parties. This time the government was resolved not to intervene. While the Minister of Labour accepted to meet with OTOE representatives, and made some 'window dressing' statements of support to wage bargaining, there was not a single initiative to meet with the bankers and mediate the conflict as in the past.[76] The government no longer needed 'room for manoeuvre' in the government agenda, since it had completed the selling of Commercial Bank's last shares to Crédit Agricole, whereas the banks pension funds were consolidated into the national social insurance system (IKA-ETAM).[77] Additionally, electoral concerns were of secondary importance

[75] 'Controversy over sectoral bargaining in banking' *European Industrial Relations Observatory* (July 2008), available at: http://www.eurofound.europa.eu/eiro/2008/07/articles/gr0807039i.htm [last retrieved: 25 September 2011].
[76] Author's interviews with: sectoral labour representative 1 (3 March 2010); with industrial relations expert 2 (11 February 2010); and with government representative 2 (2 May 2011).
[77] Author's interviews with industrial relations expert 2 (11 February 2010) and with government representative 2 (2 May 2011).

since the government was at the start of its second term in office and the next elections seemed far away.[78]

Given government unwillingness to intervene, the banking union (OTOE) altered its strategy, turning to the Organisation of Mediation and Arbitration (OMED). This time OTOE sent an invitation, not only to individual banks, but also to the Hellenic Banks Association and the peak employers association (SEV), since banks were also members of SEV. However, the bankers' resolve to go all the way with the break up of sectoral wage bargaining is backed up by their response to abandon membership in SEV in 2009. The reason why the banks defected from the peak employers association was, because SEV did have the legal competence to represent its members on labour relations issues and would be compelled to join the bargaining table at OMED.[79]

The handling of the banking dispute would become the 'single most difficult case of industrial dispute in the 20-year history of OMED'.[80] This statement is understood by the sheer power of the two sides. On the one hand, OTOE was and remains the stronger trade union in the country (a 'bastion' of trade unionism with about 85 per cent union density) and also the country's historical wage leader and pattern-setter in wage bargaining.[81] On the other hand, the banks not only occupied a strategic position in the Greek economy, but were also conceived as the more dynamic and profitable segment of Greek business, being the fore-runners in business expansion to the Balkans.

[78] Author's interview with government representative 2 (2 May 2011).
[79] Author's interview with sectoral business representative 2 (21 July 2010).
[80] Author's interview with industrial relations expert 1 (2 February 2010).
[81] Author's interview with industrial relations expert 2 (11 February 2010).

The independent mediator from OMED called both sides to join the bargaining table thus starting a mediation process. The bankers again refused to join the bargaining table, while the Hellenic Banks Association denied its role as an employers association. The failure of the mediation process triggered the arbitration process in which the arbitrator sought to hear both sides' views. The banks refused again to send representatives and this led to the issuing of an arbitration decision setting wages for 2008 in the absence of bankers.[82]

One of most striking developments, backing up bankers' resolve to go ahead with the break-up of sectoral wage bargaining, was challenging the validity of the arbitrators' decision to the courts. Their legal case was based on the premise that the Hellenic Bank Association (EET) has never been an employers' association (only a trade association) and therefore cannot act as one.[83] A storm of lawsuits burst out, creating a bitter climate and making the political settlement of the dispute even more unlikely.[84] The battle over institutional change was no longer fought in the political arena, but was passed over to the courts.

4.7. Conclusion

The case study suggests how the coalitional approach can explain the trajectory of change in the wage bargaining institution of the Greek banking sector. During the

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[82] 'Strikes in banks for the new contract' *Ethnos,* (17 June 2009).
[83] 'Controversy over sectoral bargaining in banking' *European Industrial Relations Observatory* (July 2008), available at: http://www.eurofound.europa.eu/eiro/2008/07/articles/gr0807039i.htm [last retrieved: 25 September 2011].
[84] Author's interview with industrial relations expert 1 (2 February 2010).

1990s liberalisation and privatisation altered the landscape of Greek banking. Markets protection was reduced and competition intensified with foreign banks entering the market and dominant banks losing rapidly market shares. At the same time the internationalisation of flexible working practices, especially in working time and pay flexibility were introduced in the previously bureaucratic organisations. The introduction of flexible working practices was facilitated by the withdrawal of the state and privatisation. But these developments did not translate automatically into a breakdown of wage bargaining. Instead, these factors were triggers of a preference change for individual firms. The institutional change would be determined more by the coalitions between and within actors, rather than the structural changes in the sector.

The chapter showed that employer associability was historically missing. Therefore, a reform of wage bargaining like the Italian banking sector (see next chapter) was simply not within the range of options. The Hellenic Banks Association was not willing to become anything more than a 'trade association'. Not only it lacked the legal competence, but the representation of interests was severely skewed towards larger banks. In the end, the major banks withdrew even from the peak employers association, in an effort to avoid the involvement of SEV in the conflict as an employers association. Thus, the lack of 'employer associability' precluded a path towards reform of the institution as in the Italian case. Yet, a 'labour-state coalition' was sufficient to put a break to decentralisation drives the previous years and facilitate compromises, even if flimsy.

Indeed, tensions over the institution of sectoral wage bargaining appeared in the early 2000s. In the face of deadlocks during negotiations, the socialist government was willing to intervene on the side of the unions and enable compromises with respect to more flexibility in working time and the restructuring of the sector. Interestingly, this pattern of government intervention does not cease with the change of government to the centre-right, but surely the decision to do so is more hesitant.

The fragility of a labour-state coalition with the centre-right party is demonstrated in the near breakdown of 2006. Initially, the government decided not to intervene, but the electoral pressures mounted from both within the party-members and affiliated trade unionists. The tactical policy trade-off was to ensure peace in the sector, so that privatisation and pension reform programmes are advanced, whereas support for wage bargaining was an institution that was not costly to government budget. The bargaining round of 2008, however, marks the break-up of the fragile labour-state coalition on which wage bargaining rested.

Was the government *able* to intervene? Nothing changed much in the range of tools available than the situation two years before. The institution was saved by using the state's coercive and persuasive power over employers. However, the government was no longer *willing* to save the institution from collapsing. This is evidenced by the fact that the Minister of Labour does not even pursue a meeting with the bankers. Yet, in the two previous rounds the Ministers of the government did meet the bankers and eventually resolved the dispute.

What can account for this change in government's willingness to intervene? The changed preferences of the government lie on the weakened electoral pressures and absence of tactical policy trade-offs in government's agenda. To put it in other words, the offensive launched from the big banks was an 'irresistible force' that did not meet an 'immovable object'. The traditional weapon of trade unions (strikes) could only act as short-term pressure and OTOE could not hold out in a prolonged conflict. Banks used legal means to challenge the decision from the Organisation for Arbitration, but none of these strategies could be as effective as the political pressure from a labour-state coalition.

Chapter 5 The Reform of Centralised Wage Bargaining in the Italian Banking Sector

5.1. Introduction

The previous chapter examined the trajectory of change in the wage bargaining institution of Greek banking. It was shown that after the liberalisation and privatisation of the sector, the destabilising pressures altered the preferences of individual banks to the direction of abandoning centralised bargaining arrangements. Notably, the business association lacked historically the legal competence to negotiate labour relations issues, and was dominated by larger banks. As a result, the smaller banks' preferences were ignored, and larger banks preferred a 'cut-throat competition' regime. As long as there was a labour-state coalition supporting sectoral bargaining, the institution survived. However, when the government agenda priorities changed and electoral incentives weakened, then employers' drive towards decentralisation was left loose.

Similarly to the Greek banking, the Italian banking sector is an instance of a heavily state-owned and protected sector, in which wage bargaining flourished. Wage bargaining agreements are negotiated in the sector since 1948. Like many other Italian industries, state-ownership dominated until the late 1980s, whereas the prospect of the integration of the Italian banking system into the European financial area prompted the restructuring of banks. In parallel with the EU liberalisation, there was a modernisation of banks' internal work organisation with adoption of flexible employment practices. These changes provided strong pressures towards the destabilisation of the wage bargaining institution, yet, there was no breakdown. Instead, wage bargaining was reformed so as to meet new needs, taking the path that has been dubbed as 'organised decentralisation'. As mentioned in earlier chapters, this more nuanced institutional change entailed a shift in the relative importance between the sectoral and firm level of bargaining. The sectoral level set minimum standards for the whole sector, while the much sought flexibility was deferred to the firm level.

What can account for this particular trajectory of institutional change? This question will be answered with the backdrop of the theoretical framework outlined in the second chapter. More specifically, this chapter seeks to throw light on the mediating factors which moderated the pressures in wage bargaining, and facilitated the reform of the institution. On the one hand, developments on the side of business associations, transformed the fragmented representation of business interests into an encompassing employers association. *Associazione Bancaria Italiana* acquired the legal competence to represent its members in labour relations, mediating the interests of both large banks and smaller banks. On the other hand, the institution rested firmly on a labour-state coalition. Individual firms' preferences towards abandonment of sectoral wage bargaining did not receive support from the state. Instead, the state supported the use of wage bargaining as medium for the restructuring of banks. The latter strategy was not only congruent with the government agenda on privatisation, but also with the preferences of the unions. Italian unions were pragmatic, accepting the inevitability of EU liberalisation, but seeking to ease the social repercussions from the restructuring process. They achieved this *via* a collectively agreed redundancy fund (*fondo esuberi)*. In other words, wage bargaining was used as an instrument to ease the (social) cost of adjustment to new market conditions. The financial cost of the redundancy fund was totally borne out by business and labour, without any compensation from the state. Still, the government mediated the process of negotiation. Overall, the case study presented here suggests the relevance of 'employer associability' and 'labour-state coalitions' in explaining the dynamics of change in wage bargaining.

The structure of the chapter is as follows. I will first provide a brief overview of the continuity and change in the Italian wage bargaining system, introducing the main actors at the national level. Then I will shift the focus to the sectoral level, examining the sweeping structural changes in the business environment and in the banks' internal work organisation. Thereby, I pin down the strong pressures for destabilisation of the wage bargaining institution, coming from the processes of liberalisation and the pervasive introduction of flexibility. Next, the chapter examines the structure of representation of labour and business and shows how employer associability strengthened during the 1990s, and simultaneously, the unions were able to speak with a 'single voice' despite organisational fragmentation. Finally, the account of wage bargaining rounds in the late 1990s pays close attention to the interactions between the three major actors: business, labour and the state, shedding light on the strategies, motivations and coalitions between them.

5.2. The Italian Wage Bargaining System: Continuity and Change

The Italian system of interest representation has fascinated scholars with its many facets and colourful contradictions. The state had assumed an important role (Regalia and Regini, 1998:480) either as an employer in the IRI complex (*Istituto per la Ricostruzione Industriale)* or as a public mediator during industrial disputes. Consensus and conflict have been interchangeable features of the system. In the 1970s there were very high levels of strike activity (Regalia and Regini, 1998:485). In the early 1980s there was a return to concertation with corporatist incomes policies; and from mid-1980s onwards there was a renewed shift to militancy and employers' drives for the breakdown of centralised bargaining (Baccaro and Pulignano, 2011:139).

Another feature of the system was that industrial relations were traditionally embedded into the Italian political system. Since the end of the second World War the ideological differentiation of the three confederal (peak-level) trade unions laid the ground for strong dependence of the interest associations on political parties, something which was dubbed as *collateralismo* (Mattina, 1997 cited in Vatta, 2007:207). Indeed, CGIL was historically linked to Communists; CISL linked to Catholic/Christian Democrats; and UIL linked to the Socialists (Regalia and Regini, 2004). Trade unions' membership was and remains skewed, however, not towards public sector as in Greece. Instead, pensioners comprise a sizeable part of Italian unions' members (see figures in Baccaro *et al.*, 2003:45; Schmitter, 1995:311).

These characteristics of the Italian industrial relations system endure to differing degrees, while elements of renewal are also observed. The most important rupture with the past was a result of the political scandals in the early 1990s known as '*Tangentopoli*' (translated into English as 'Bribesville').[85] Following the '*Mani Pulite'* ('Clean Hands') investigations, many prominent Italian political figures went on trial or were jailed. These events shook the Italian political system like an earthquake. The Christian-democratic party (*Democrazia Cristiana, DC*) and the socialist party (*Partito Socialista Italiano, PSI)* were dissolved. In addition, the second major party in Italy, PCI (*Partito Comunista Italiano*), split in 1991, as a result of the break-up of the Soviet Union. Traditional political parties went into disrepute, and this contributed considerably to the distancing of trade unions from political parties. All three confederal unions formally broke their organic links with the old parties and avoided to develop formal links with the new political parties that entered the scene.

As a result, the acute political differences among the three main union confederations were eased, and this political rapprochement favoured the resumption of centralised wage bargaining (Locke and Baccaro, 1998:31-32).

[85] *Tangentopoli* began on 17 February 1992, when Judge Antonio Di Pietro ordered the arrest of Mario Chiesa (member of the PSI) for accepting a bribe from a Milan firm. The socialist party leader, Bettino Craxi, distanced himself from Chiesa, but Chiesa was angered with this treatment by his ex-colleagues, and gave more information about politicians involved in corruption scandals. The '*Mani Pulite*' investigations were the outcome of a literally exponential expansion of accusations. Minor party members were accused and got caught; major party members were dropping their support to them; and the former felt betrayed, giving information involving even more politicians.

Since the unions upheld their autonomy, their membership became more diversified ideologically. For instance, it is not uncommon that leftist unionists are elected as trade union officials by Christian democratic members and *vice versa*.[86] In other words, the dividing lines were blurred. All three confederal unions shared a respect for their roots, history, and traditions, but there was no more a clear alignment between union organisations and political parties.

The resurgence of concertation in the early 1990s started with the signing of the July 1993 Accord. The Accord was signed consensually by all three major confederal unions (CGIL, CISL, and UIL), the major employers associations, and the 'technocratic' government of Carlo Ciampi. It introduced two institutional breakthroughs: the abolition of wage indexation *(scala mobile)* to address the long-standing problem of price instability (see Culpepper, 2008:18-26) and the reform of the bargaining framework, introducing the two-tier system: nation-wide sectoral bargaining and a second-level of bargaining (Bordogna, 2003:286). At the second-level, agreements could be either firm level or territorial level. The latter were used when the firms in a region were not large enough to conclude separate agreements. Therefore, to save on transaction costs, wages and conditions were bargained for a territory covering many different small firms. The motivation behind this provision was to address problems of representation and increase coverage of small and medium sized enterprises that dominate the Italian economy.

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[86] Author's interviews with sectoral labour representative 2 (18 May 2010); with industrial relations expert 3 (26 May 2010); and with industrial relations expert 4 (23 November 2010).

The tripartite Accord of 1993 was followed by an era of concertation, which made Italy an exemplary case of 'competitive corporatism' (Baccaro and Pulignano, 2011; Rhodes, 2001). During the 1990s and 2000s, a series of social pacts at the 'inter-confederal' level set the pace of consensual reform in the pension system, labour market, and tax-system (see Negrelli, 2000; Regalia and Regini, 2004). Despite ideological and organisational divisions, the three major confederations managed to speak with a 'single voice'. Even more, the prospect of uniting under a single banner came very close to be realised in the late 1990s (Baccaro et al., 2003:56). Although this prospect did not materialise, the three confederations kept up coming up with common platforms during negotiations. The next table summarises the main actors at the national level in the Italian industrial relations system.

Table 5.1. Main Organisations in the Italian Interest Representation System.

Organisation	***Function***	***Membership***
Consiglio Nazionale dell'Economia e del Lavoro (CNEL) Est. 1957	Advisory council to the chambers and the government; set up via Law n. 33/1957. Reformed via Law n.936/1986 and Law n.383/2000; it can initiate legislation and may contribute to drafting economic and social legislation according to the principles and within the limits prescribed by law.	12 Experts 44 Representatives of Employees 18 Representatives of self-employed 37 Representatives of Business 10 Representatives of various associations and voluntary organisations. Board members serve for five years and are appointed by Decree of the President of the Republic on proposal of the Prime Minister, after consideration by the Cabinet.
Confederazione Generale Italiana del Lavoro (CGIL) Est. 1906	Italy's oldest and largest trade union, one of the three representative confederations; signatory at the inter-confederal level; with some 6 million members. Historically affiliated with the communist party.	13 sectoral federations, 134 Territorial & Regional Labour Chambers
Confederazione Italiana Sindacati Lavoratori (CISL) Est.1950	Italy's second largest trade union, one of the three representative confederations; signatory at the inter-confederal level; with 4.427.037 members in 2007. Historically following catholic values and affiliated with the Christian democratic party.	19 nation-wide Sectoral Federations (e.g. metalworkers, chemical, textile workers, public employees, service, agricultural workers) 9 other federations (occupational) 21 Regional Labour Chambers

Unione Italiana del Lavoro (UIL) Est.1950	Italy's third largest trade union, with 2,184,911 members in 2010; one of the three representative confederations; signatory at the inter-confederal level; Historically affiliated with the Social-democratic party.	15 nation-wide Sectoral Federations (e.g. metalworkers, chemical, textile workers, public employees, service, agricultural workers) 21 Regional Labour Chambers 1 other federation (atypical workers)
Unione Generale del Lavoro (UGL) Est.1950	Italy's fourth largest trade union; Affiliated with the neo-fascist party 'National Alliance'.	26 nation-wide Sectoral Federations 20 Regional Labour Chambers 4 other federations (occupational)
Confindustria Est. 1910	Peak employers association representing a total of 146.046 industrial companies of all sizes; signatory at the inter-confederal level	18 regional Confindustrias 23 sectoral Federations 3 special purpose Federations 97 trade Associations 20 Associate members
INTERSIND Est. 1958	Peak employers association representing all state-owned enterprises in the IRI group; signatory at the inter-confederal level.	Absorbed by Confindustria 1994-1998; Dissolved in 1998.
Confapi (Confederazione italiana della piccola e media industria privata) Est. 1947	Represents the interests of industrial SMEs; With about 120,000 members; signatory at the inter-confederal level.	20 regional Federations 13 sectoral Federations
Confcommercio Est. 1945	Represents more than 700,000 enterprises in commerce, tourism, transport services and the professions; signatory at the inter-confederal level,	20 Regional Federations; 132 Sectoral/ Occupational Federations.
Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa (CNA) Est. 1946	Represents the interests of artisanal SMEs; with about 670,000 members; signatory at the inter-confederal level.	19 Regional Branches; CNA Pensioners (about 230,000); 10 National Associations (Food, Traditional Art, Health and Wellbeing, Construction, Installation & Equipment. 4 Groups: Young Entrepreneurs, Women in Business; Small Business
Source: Author's Own Elaboration.		

5.3. Italian Banking until the 1980s: Oligopoly and State ownership

The state ownership in the banking sector dates back to the early 1930s. In the context of the Great Depression, the fascist government decided to nationalise the banking system (with the exception of some private banks) and more generally introduce more protection and state intervention in the economy. The Italian

Banking Law no.38 of 1936 governed the sector for about 50 years and stipulated the separation of banks between different categories (commercial banks, savings banks, and cooperative banks). This process is described by Giani (2008:14):

> 'IRI (*Istituto per la Ricostruzione Industriale*) and IMI (*Istituto Mobiliare Italiano*) were two holding companies totally owned by the State. IMI was created in 1931, in order to avoid the failure of the main important Italian banks, and IRI (1933) became the owner of large part of the Italian industrial system, originally owned jointly by the failed banks.'

One important principle of the 1936 legislation was mandatory specialisation and the main objective of the Italian banking regulation was to foster local development (Carletti *et al.*, 2005:35). As a result, the Italian banks concentrated their operations in specific regions and only few banks developed a nation-wide presence (Knights *et al.*, 1992:202). This contributed to the proliferation in the number of credit institutions, of which, the state ended up controlling about 80 per cent (Giani, 2008:14-16). Credit institutions could be specialised in one particular sector – e.g. agriculture, building, public works, industry- or a region, for example, the *Mezzogiorno* (Southern Italy) (Carletti et al., 2005:35). Overall, the regulatory framework preserved this multi-dimensional fragmentation of the banking system until the late 1980s. The fragmentation was bound to be reduced with the advance of European economic integration and the liberalisation of financial markets.

5.4. Italian Banking in the 1990s: State Withdrawal and the Market Unbound

5.4.1. EU Liberalisation, Privatisation, and Intensification of Competition

As mentioned in the previous chapters the EU regulatory impact on member-state's banking sectors has been significant. In Italy, privatisation went hand in hand with liberalisation since the late 1980s. The Commission's Directive allowed the banking system to move towards the universal bank model, in which deposits, loans and insurance are provided by all banks (Pradhan, 1995). At the same period, the mergers and acquisitions (M&As) in the sector transformed the erstwhile regional banks into larger national players.

Table 5.2. Merger & Acquisition Activity in Italian Banking, 1996 - 2007.

Year	*Target*	*Acquired by/Merged with*
2007	Capitalia	UniCredit
	Banca Antonveneta	Banco Santander
	Banco Popolare di Verona	Banco Popolare
	Banca Popolare Italiana	Banco Popolare
2006	Sanpaolo IMI	Intesa Sanpaolo
	Banca Intesa	Intesa Sanpaolo
	Banca Nazionale del Lavoro	BNP Paribas
2005	Banca Antonveneta	ABN AMRO Bank
2002	Banca di Roma	Capitalia
	Bipop-Carire	Capitalia
	Banco di Sicilia	Capitalia
2001	Banca Commerciale italiana	Banca Intesa
1999	Banca Nazionale del'Agricoltura	Banca Antonveneta
	Banca Commerciale Italiana	Banca Intesa
1998	CRPL	Banca Intesa
	Banco Ambroveneto	Banca Intesa
	Unicredito	Unicredito Italiano

	Credito Italiano	Unicredito Italiano
	Cassa di Risparmio di Torino	Unicredito Italiano
	Rolo Banca 1473	Unicredito Italiano
	Istituto San Paolo di Torino	Sanpaolo IMI
	IMI	Sanpaolo IMI
1997	Interbanca	Banca Antonveneta
	CRPL	Banca Intesa
	Banco Ambrosiano Veneto	Banca Intesa
1996	Banca Antoniana	Banca Antonveneta
	Banca Popolare Veneta	Banca Antonveneta
Source: Based on Giani (2008) & Dermine (2006:68).		

This increased market concentration through mergers and acquisitions may cast doubt to the expectation that competition would intensify after the liberalisation of the market. However, a number of studies find that there is an increase in competitive pressures since 1992 (Angelini and Cetorelli, 2000; Magri *et al.*, 2005) and even more find *no evidence* that banks involved in mergers and acquisitions gained market power (Angelini and Cetorelli, 2000). Although the number of banks was higher before the liberalisation, most of the banks' operations used to be localised, forming regional oligopolies. The mergers and acquisitions activity reduced the total number of banks in Italy (see table below), but expanded their presence across the whole country. Therefore, more banks were competing with each other at the national level than before.

Table 5.3. Trends in the Number of Italian Banks, 1990 - 2003.

Year	***1990***	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
All Banks	1156	1108	1073	1037	994	970	937	935	921	876	841	830	814	788
Banks (except for Co-operative)	441	400	373	366	351	351	346	352	359	345	342	356	353	343
Source: Banca Intesa (2004:7).														

Furthermore, competitive pressures did not only come from domestic banks which abandoned their regional specialisation. They also stemmed from the entrance of foreign banks in the sector. The opening up of the market and the removal of barriers allowed British, French and German companies to enter the closed Italian market (Knights et al., 1992:216). Indeed, from 1992 onwards the entry flows of foreign banks in Italy increased dramatically compared to previous decades (Magri et al., 2005). This penetration is also evident by the high rate of employment growth in foreign banks during the period 1996-2005. Overall employment in the sector remains almost stable, and this suggests that the downsizing of domestic banks was partly offset by employment growth in foreign banks (Table below).

Table 5.4. Penetration of Foreign-owned Banks in Italy, 1996 - 2005.

	1996	***2002***	***2005***	***Δ% 96-05***
	Firms			
All Banks	296	313	309	4.39%
Foreign-owned	57	60	66	15.79%
	Bank Branches			
All Banks	20067	23030	24153	20.36%
Foreign-owned	89	106	108	21.35%
	Employees			
All Banks	270675	277096	271240	0.21%
Foreign-owned	3055	3943	4450	45.66%
Source: OECD (2008:238).				

The European Union's liberalisation programme clearly triggered the opening up of the financial sector and steered the intensification of competition, but the restrictions on state aid favoured privatisation policies. The Maastricht criteria provided additional stimuli for the privatisation of state-owned banks, since the

Italian governments expected to raise important revenues from their privatisation programme and thereby reduce national debt.

The main changes in the regulatory framework included the 'Amato Law' (Law 218/1990), which introduced the joint-stock company as the basic organisational entity in the banking system. The state-owned banks transferred their shares to *Fondazione Bancaria*, which were owned by local authorities. The privatisation was given further impetus in 1994, when the 'Dini Law' (Law 474/1994) repealed the obligation for the foundations to keep control of their joint-stock companies, and introduced substantial tax concessions for those foundations willing to dispose of their banking shares in the following four years (Carletti et al., 2005:35). Finally, the completion of the privatisation of the system was specified by the 'Ciampi Law' (Law 461/1998), which fixed a four-year time limit within which the foundations were expected to sell off their shares in banking companies. Indeed, the local authorities sold all their shares or decreased substantially their participation by 31 December 2005 (Giani, 2008:16-26). Thus, the 70-year period of state-dominated ownership in Italian banks ended. The table below documents the substantial reduction in state ownership of banks since the early 1990s.

Table 5.5. Government Ownership of Banks in Italy, 1992 - 2003.

1992	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
68%	25%	18%	12%	12%	10%	10%	9%
Note: the percentages refer to share of assets held by foundations with a majority interest in an Italian bank.							
Source: Carletti et al. (2005:33).							

5.4.2. Restructuring the Banks: Working Time Flexibility, Pay flexibility and Downsizing

In the 1980s Italian banks were characterised by the pattern of 'internal labour markets' with long job tenures, standardised working time patterns, and seniority-based pay and promotion rules. The state ownership and long employment tenures contributed to the development of a 'civil service culture' among bank employees (Regini *et al.*, 1999). However, the pressures arising from liberalisation and privatisation set in motion a process of change which was bound to transform the bureaucratic organisations into competitive firms.

Throughout this process the comparisons with the more advanced industrialised countries in Europe were widely used. The Second Banking Directive entailed the prospect of direct competition with foreign banking conglomerates, and Italian banks' efficiency was frequently compared to German, British and French banks. The comparisons were used instrumentally by the banks to support their agenda for restructuring.[87] The restructuring plans included, on the one hand, downsizing to reduce labour costs, and on the other hand, introducing work organisation flexibility to improve productivity. Introducing greater flexibility in work organisation appeared in the agenda of employers already in the early 1990s. The employers association for savings banks (*Acri*) and the association for commercial banks (*Assicredito*) came up in the bargaining table with three demands: (i) introduction of working time flexibility via extending opening hours

[87] 'Bianchi, bis in Assicredito: un' altra presidenza dopo l' Abi, si profila la Confindustria delle banche' *Corriere della Sera,* (26 June 1992), p.23.

and introduce Saturday opening; (ii) making management hierarchies flatter, via reducing job classifications and loosen rigid career patterns; and (iii) discussing the process of redundancies due to introduction of new technologies.[88]

Initially, unions and employers were unable to agree on the necessary changes and unions responded with a two-pronged strategy: calling a strike and inviting the government to intervene. Indeed, unions conducted several days of rolling strikes and the Minister of Labour of the technocratic government, Mr. Donat Cattin, mediated the negotiations for two months.[89] After the mediation, an agreement was finally reached and the compromise entailed an increase in weekly opening hours, while the issues of altering productivity bonuses and revising the job classification system were deferred to the next bargaining round.

The 1990/92 agreement expired at the end of 1992, and there was a vacuum with no agreement up until December 1994. During this period, the problems of the sector relating to flexibility and redundancies were difficult to reconcile, and strike action was frequent.[90] In the meantime the first Berlusconi government came to power. The new government assured the confederal unions and employers' associations that the wage bargaining framework agreed on the July 1993 Accord would be maintained.[91] The negotiations between banking trade unions and employers were lengthy and unions again resorted to their strategy of putting a double pressure to employers: strikes and inviting the government to

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[88] 'Banks restructured' *European Industrial Relations Review,* No. 192, (January 1990), p.7.
[89] 'Threat to settlement of banks dispute' *European Industrial Relations Review,* No.197, (June 1990), p.7.
[90] 'Bargaining news' *European Industrial Relations Review,* No. 250, (November 1994), p.9-10.
[91] 'New Government to maintain system' *European Industrial Relations Review,* No. 245, (June 1994), p.8.

intervene.[92] The shift of the government to centre-right did not stop the pattern of intervention. An agreement was possible, only after the mediation of the negotiations by the Minister of Labour, Clemente Mastella. Importantly, the 1994/95 agreement which was signed on 16 November 1994 constitutes a *turning point* for the sector (Regini et al., 1999:161,174), because it represents the first significant step towards the reform of the wage bargaining institution towards 'organised decentralisation'. In the wage contract it was agreed that the sectoral wage agreement would set the minimum standards in wages across the country, however, the non-wage issues (*normative)* relating to working time and pay flexibility were delegated to firm level bargaining so as to suit the needs of individual banks.

More specifically, the previous agreement provided for a 'productivity bonus' across the sector (irrespective of individual banks' profitability) and this was abolished. Instead, it was replaced by 'company bonuses' to be negotiated at the level of individual banks and would be based on the attainment of targets.[93] At the same time, the number of 'seniority increments' was significantly reduced for new recruits signifying the decreasing importance of seniority-based pay. The agreement also reformed work organisation in response to needs for flatter management hierarchies and flexibility. The previous job classification system had twelve grades, but was replaced by four 'professional areas'.[94] Additionally, working time flexibility was increased by allowing the Saturday opening of

[92] 'Agreement in banking' *European Industrial Relations Review,* No. 251, (December 1994), pp.7-8.
[93] 'Agreement in banking' *European Industrial Relations Review,* No. 251, (December 1994), p.8.
[94] 'Agreement in banking' *European Industrial Relations Review,* No. 251, (December 1994), pp.7-8.

branches which were inside busy commercial stores, and also increasing opening hours for branches residing in tourist areas. Finally, the agreement provided for a special procedure of information and consultation to deal with the prospect of redundancies.[95] This prepared the ground for the discussion of the most difficult issue in the sector: downsizing the overstaffed banks. However, the concertation method was favoured and it was agreed that both sides would examine a wide range of possible instruments to ease the repercussions from redundancies (e.g. voluntary early retirement; part-time work; setting limits to overtime and new recruitment; solidarity contracts; and internal mobility).[96]

In sum, the responses of Italian unions and employers to increased competition after the liberalisation of the sector were to introduce 'negotiated flexibility' in the previously bureaucratic organisations.[97] The Italian banks caught up with international trends towards re-structuring and streamlining of operations. The adoption of modern management techniques included a more customer-oriented approach, thus transforming the bank employees 'from tellers to sellers' (Knights et al., 1992:212; Regini et al., 1999). Additionally, working time was adjusted to meet customer demand, while pay systems were aligned to results. As the next sections show, despite the destabilising pressures from liberalisation, intense competition and flexibility, the wage bargaining system did not break down. The

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[95] Unions and employers agreed that this procedure would have a limit of 40 days during which no strike action may take place (peace obligation).

[96] 'Agreement in banking' *European Industrial Relations Review,* No. 251, (December 1994), p.8.

[97] 'Agreement signed on reducing labour costs and managing redundancies in banking' *European Industrial Relations Observatory,* (March 1998), available at: http://www.eurofound.europa.eu/eiro/1998/03/feature/it9803321f.htm [last retrieved: 25 September 2011]; 'New agreement signed in banking' *European Industrial Relations Observatory*, (July 1999), available at: http://www.eurofound.europa.eu/eiro/1999/07/inbrief/it9907121n.htm [last retrieved: 25 September 2011].

changes in the representation of banks and the ability of labour to speak with a single voice were critical.

5.5. The Representation of Labour and Business

5.5.1. Labour: Unity despite Fragmentation

The representation of labour in Italian banking is very fragmented along multiple lines. Banking employees are represented by *no less than nine* different organisations (see Table below). This is because autonomous unions were organised in regional banks or represented specific occupational categories, and developed alongside the unions which were organically linked with political parties. Thus, this line of fragmentation has not only been *organisational,* but also *ideological*. On the one side, FISAC-CGIL was affiliated with the communist party, FIBA-CISL with the Christian democrats, UILCA-UIL with the socialists. On the other side, the autonomous unions in the sector (FABI, FALCRI, SILCEA, SINFUB, and Dircredito) retained their autonomy from political parties. Another type of fragmentation followed *occupational* lines. While most of the organisations' membership includes lay employees, two of the unions in the sector (Dircredito and SILCEA) represented only executive personnel (*dirigenti)* and used to sign until the mid 1990s a separate wage agreement for this category of employees.

One would reasonably expect that the multiple lines of fragmentation would pose a severe threat to banking unions' ability to speak with a 'single voice'.

Surprisingly, this is not the case. Ideological and organisational fragmentation has not been a hindrance to the conclusion of wage agreements. Instead, the unions' managed to put aside their political or other differences and came up with common platforms during negotiations with employers. The system of '*competitive collaboration*' sets clear boundaries: unions compete among themselves for members, but collaborate for the representation of sectoral interests at the workplace.[98] This is achieved via frequent meetings between different unions' representatives. The lead in negotiations comes from FISAC, FIBA, UILCA (which are affiliated with the confederal unions) plus the autonomous FABI (which has a high membership in the banking sector). After a draft wage agreement is reached, the rest of the unions in the sector approve the agreement *ex post*. Indeed, as several labour informants mentioned:

> 'There is a fundamental difference between the three representative trade unions: CGIL likes to think itself as representing the whole 'working class' and interested in playing a role in the political arena, whereas CISL and UIL want to represent only their members and focus on workplace-issues. This is the main obstacle for organisational unity. Still, these differences play out more at the national level. When it comes to sectoral wage bargaining, the sectoral unions put their differences aside, and focus on getting the best deal for all their members on economic and normative issues.'[99]

The table below summarizes the main organisations in Italian banking.

[98] Author's interviews with sectoral labour representative 3 (25 May 2010) and with sectoral labour representative 4 (25 May 2010).

[99] Author's interviews with sectoral labour representative 2 (18 May 2010); with sectoral labour representative 3 (25 May 2010); with sectoral labour representative 4 (25 May 2010); with sectoral labour representative 5 (26 May 2010); with industrial relations expert 4 (23 November 2010); and with industrial relations expert 5 (23 November 2010).

Table 5.6. Main Trade Union Organisations in the Italian Banking Sector.

Organisation	***Function/Affiliation***	***Membership/Structure***
Federazione Italiana Sindacale dei lavoratori delle Assicurazioni e del Credito (FISAC/CGIL*)* Est. 1948 as FIDAC	Signatory to national sectoral wage agreement; Affiliated to ex-communist CGIL	21 Regional associations Members: n/a.
Federazione Italiana Bancari Assicurativi (FIBA/CISL) Est. 1951 as FIB	Signatory to national sectoral wage agreement; Affiliated to Christian democratic/catholic CISL	21 Regional associations Members: 90,000 (2009)
UIL Credito Esattorie e Assicurazioni (UILCA/UIL)	Signatory to national sectoral wage agreement; Affiliated to social democratic UIL	21 Regional associations Members: 44, 698 (2009).
UGL Credito Est.1997	Signatory to national sectoral wage agreement; Affiliated to neo-fascist UGL;	Members: n/a. 19 Regional associations; 73 Provincial offices.
Federazione Autonoma Bancari Italiani (FABI) Est. 1948	Signatory to national sectoral wage agreement; Autonomous, but inspired by Catholic social doctrines.	97 Provincial offices; Members: 92,000 (2009)
*Federazione Autonoma Lavoratori del Credito e del Risparmio Italiani (*FALCRI) Est.1952	Signatory to national sectoral wage agreement; Autonomous; initially organizing savings banks employees; in 1983 extends to whole banking sector	Members: 20,000 (2009). 96 Provincial offices;
Federazione Nazionale Sindacati Autonomi – Personale di Credito, Finanza e assicurazioni (SINFUB)		Members: 7,680 (2009).
Sindacato Italiano Lavoratori Credito Enti Assimilati (SILCEA) Est.1971	Signatory to national sectoral wage agreement; Independent. Represents the interests of managers and executive personnel.	Members: n/a.
*Associazione Sindacale Nazionale dell'Area Direttiva e delle Alte professionalità del Credito (*Dircredito Fd)	Signatory to national sectoral wage agreement; Independent; Represents the interests of managers and executive personnel.	Members: n/a. 20 Regional associations;
Source: Author's Own Elaboration.		

5.5.2. Business: From Organisational Fragmentation to Unitary Employer Associability

In the late 1980s and early 1990s, when the processes of liberalisation and privatisation were on the ascendance, the associational representation of Italian banks was fragmented. *Assicredito* represented the majority of public sector banks, *Acri* represented the savings banks, and *Assbank* was representative for private banks (see Table below). It should be noted that the first two associations possessed the legal competence to negotiate wage contracts for their members, but *Assbank* did not; so *Assicredito* was negotiating on its behalf. Finally, ABI (*Associazione Bancaria Italiana)* operated as an umbrella association. Since its restoration after the World War II its main task was to influence the regulation in the sector, representing all banks as a *trade association*. It did not have a legal competence to bargain with unions, however, its membership comprised of banks from all sizes (large-national and smaller regional), and of different types (commercial banks, investment banks, cooperative and savings banks).

As mentioned above, the liberalisation process pushed Italian banks to converge towards the 'universal bank model', in which all transactions (insurance, credit, savings, investment, commercial, etc) were allowed to be carried out by one bank. This, in turn, reduced the differences between different categories of banks, and triggered the process of mergers between banks. As individual banks converged to the 'universal bank model' the necessity of having different associations to represent them faded out. At the same time the increased competition put pressures to make redundancies in overstaffed banks. This process was hard to negotiate with a continuation of the fragmented representation of banks. Therefore, the operation *'Grande ABI'* was set in motion under the leadership of Tancredi Bianchi, who was elected as president in both *Assicredito* and *ABI* in 1992.[100] The motivation behind their decision to merge the two associations was

[100] 'Bianchi, bis in Assicredito: un' altra presidenza dopo l' Abi, si profila la Confindustria delle banche' *Corriere della Sera,* (26 June 1992), p.23.

to aid the privatisation process, increase the efficiency of banks, and ultimately prepare them to survive the more competitive environment. This motivation was also shared by the government's Minister of Finance, Guido Carli, who was condemning the bankers for allowing the increase in labour costs and warned that the excessive labour costs 'would lead to failure any company exposed to foreign competition'.[101] Thus, privatisation, labour costs containment, and banks' downsizing was a shared interest for both bankers and the government.

The operation '*Grande ABI'* started when the executive board of *Assicredito* decided to gradually transfer the legal competence of representation in labour relations to *Associazione Bancaria Italiana.*[102] This transformation was not easy or without obstacles. The smaller savings banks which were members of *Acri*, were rather reluctant to be subsumed in a 'Confindustria of banks', fearing that larger banks would dominate the decision making process.[103] To convince reluctant and resistant members towards the merger of the associations, Tancredi Bianchi, managed to pass an amendment in the statute of ABI so that smaller banks' interests are taken into account in the decision making processes. Indeed, the new representation criteria for the Executive Board and the Executive Committee increased smaller banks' representation in the Executive organs.[104]

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[101] 'Bianchi, bis in Assicredito: un' altra presidenza dopo l' Abi, si profila la Confindustria delle banche' *Corriere della Sera,* (26 June 1992), p.23.

[102] 'Nasce la Grande ABI impugnera la scure?' *La Reppublica,* (26 June 1992), p.49; 'Bianchi, bis in Assicredito: un' altra presidenza dopo l' Abi, si profila la Confindustria delle banche' *Corriere della Sera,* (26 June 1992), p.23.

[103] 'Molinari alla guida dell' Acri non confluiremo nell' ABI' *La Reppublica,* (26 May 1994), p.48.

[104] 'Il vertice ABI verso le dimissioni, probabile conferma per Bianchi' banche' *Corriere della Sera,* (18 January 1994), p.23.

By June 1997 *Assicredito* was fully absorbed by ABI.[105] ABI was the 'single voice' of the banking industry for negotiations with the unions and Assicredito was dissolved. Even more, the successor of Tancredi Bianchi in the presidency of ABI was for the first time the managing director of a small family bank, Maurizio Sella.[106] Sella's long experience in labour relations issues was also one of the trump cards in favour of his election: the forthcoming negotiations with the unions over the restructuring of the sector and inevitable redundancies would certainly be hard.[107] Subsequently, ABI also fully absorbed the labour relations department from the smaller savings banks' association *Acri* (although *Acri* was not dissolved and continued to exist as a separate association). In sum, ABI assumed the responsibility of bargaining with the unions for the whole banking sector[108] and the interests of small savings banks and larger commercial banks were well represented in the Executive Board and the Executive Committee. This ended the fragmentation in the associational representation and strengthened employer associability in Italian banking.

Table 5.7. Main Business Associations in the Italian Banking Sector.

Organisation	***Function***	***Membership***
Associazione Bancaria Italiana (ABI) Est. 1919	Represents the interests of the whole banking system; Employers Association since 1997; Signatory to national wage agreement;	1075 member companies (2010): 757 banks (of which 241 Ltd. companies; 460 cooperatives; 55 branches of foreign banks); 230 Financial institutions (leasing, factoring, and brokerage); 13 associations.
*Associazione Sindacale fra le Aziende di Credito (*Assicredito)	Represented the interests of most commercial banks; as an employers association until 1997; Signatory to	Absorbed by ABI in 1997

[105] 'L' ABI Incorpora l' Assicredito' *La Reppublica,* (31 May 1997), p.23; 'ABI assorbe Assicredito e Acri' *La Stampa,* (1 June 1997), p.19.
[106] 'Abi: vince un banchiere privato Sella designato alla presidenza' *Corriere della Sera,* (18 June 1998), p.23.
[107] 'Abi: vince un banchiere privato Sella designato alla presidenza' *Corriere della Sera,* (18 June 1998), p.23.
[108] With the exception of cooperative banks, whose representation was retained by Federcasse.

Est. 1947	national wage agreement until 1997.	
Associazione Fra Le Casse Di Risparmio Italiane (Acri) Est. 1912	Represented the interests of savings banks as an employers association until 1997; Signatory to national wage agreement until 1997.	labour relations dept. incorporated to ABI by 1999
Associazione nazionale aziende ordinarie di credito (AssBank) Est.1953	Representing the interests of private banks as a trade association.	
Federazione nazionale delle banche di credito cooperativo (Federcasse)	Representing the interests of cooperative banks; Employer association for cooperative banks.	480 Member companies
Source: Author's Own Elaboration		

5.6. Italian Banking since the mid 1990s: Tensions and the Reform of Centralised Wage Bargaining

5.6.1. The Path towards the Reform of Centralised Wage Bargaining

In the bargaining round for the 1996/97 agreement, the effects of the sector's liberalisation and increased competition surfaced again in negotiations. A draft agreement reached on May 1996 was approved by the major unions; however, a split appeared on the side of the employers. On the one hand, the employer association of savings banks (*Acri*) was willing to accept an increase in wages to the level of 9.25 per cent. On the other hand, the employer association of big commercial banks (*Assicredito)* considered that this settlement was too costly and did not accept it, arguing that labour costs represented a high proportion of total costs (some 70 per cent) and redundancies should also be part of the agenda.[109] The conflict triggered internal disagreements within *Assicredito* and led to resignations of senior officials.

[109] 'Bargaining Round-up' *European Industrial Relations Review,* No. 268, (May 1996), pp.9-10.

In the meantime, the leader of the centre left coalition *L'Ulivo*, Romano Prodi, was elected as Prime Minister. The intervention to wage bargaining did not stop with the shift of government to the centre left. The deadlock in the negotiations between unions and employers was resolved once again after the mediation by the Minister of Labour, Tiziano Treu. The compromise entailed an agreement on the 'lowest common denominator' with affordable increases for both savings and commercial banks.[110] However, the most pressing problem for employers was not the actual level of wage increases, but the means to reduce the employees in overstaffed banks. In their argumentation they frequently referred to comparisons with European standards. According to representatives from commercial banks:

> '…the ratio of labour costs to the total amount of money managed by Italian banks is 40 per cent higher than the European average. Italian bank employees have […] low productivity because they are too numerous and their labour costs are on average 15 per cent higher than elsewhere in Europe. Increasing competition and the opening up of banking to market forces are exacerbating these problems.'[111]

The need to 'converge' to European standards in labour costs was considered as a *conditio sine qua non* for Italian banks to survive the liberalisation of the market. Although there were divisions and disagreements (as the one regarding the actual level of wage increases), these faded out, when the banks resolved their representation problems. As the previous section showed, ABI absorbed Assicredito and assumed the legal competence to represent all banks in labour relations. Additionally, it amended its statute to improve the representation of

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[110] 'Agreement reached in banking' *European Industrial Relations Review,* No. 269, (June 1996), p.9.
[111] 'Agreement reached in banking' *European Industrial Relations Review,* No. 269, (June 1996), p.9.

smaller banks interests. After these changes took place, the strengthened ABI announced plans for job cuts to the level of 12 per cent of the whole banking workforce and raised complaints that previous agreements' provisions on flexibility were not implemented.[112] The president of ABI, Tancredi Bianchi, stressed the need to completely reform the national wage contract in banking 'in order to have new forms of flexibility and mobility'.[113] These announcements spurred the conflict between unions and employers and blocked negotiations.

Responding to this breakdown, high level representatives from the centre-left Prodi government sought to mediate the conflict. Not only the Minister of Labour, Tiziano Treu, but also the Minister of Finance, Carlo Ciampi, and the Secretary to the Prime Minister, Enrico Micheli, were involved in the talks. The desire to abandon centralised wage bargaining was voiced by individual firms in the talks with the government.[114] However, the reaction of the government signifies the tightness of the labour-state coalition. The government would not support the breakdown of centralised wage bargaining, as long as unions did not agree with such a path.[115]

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[112] '35,000 redundancies announced in the banking sector' *European Industrial Relations Review,* No. 278*,* (March 1997), p.10.

[113] Interview with sectoral business representative at 'Banche, Governo Pronto a Intervenier sui costi' *La Reppublica,* (17 February 1997), p.29.

[114] 'Labour cost reductions pose new challenges to industrial relations in banking', *European Industrial Relations Observatory*, (April 1997), available at: http://www.eurofound.europa.eu/eiro/1997/04/feature/it9704304f.htm [last retrieved: 25 September 2011].

[115] 'Labour cost reductions pose new challenges to industrial relations in banking', *European Industrial Relations Observatory*, (April 1997), available at: http://www.eurofound.europa.eu/eiro/1997/04/feature/it9704304f.htm [last retrieved: 25 September 2011].

The unions were of course against any discussion to abandon the two-tier bargaining system set out in the July 1993 Accord. Thus, employers were faced with a strong labour-state coalition and the path towards the breakdown of centralised bargaining and Anglo-Saxon decentralisation was blocked. The government was very willing to mediate the conflict and facilitate compromises to improve the banks' ability to face the new more competitive environment. However, it was not willing to support the breakdown of bargaining arrangements against trade unions will; unions were too important electorally to be provoked this way.[116]

Indeed, after the government's consultation with the two sides, the Minister of Labour proposed a plan to resolve the deadlock. The most impressive evidence for the existence of a labour-state coalition was that the Minister of Labour drafted the plan together with the trade unionists.[117] The plan included *inter alia*: negotiating a single contract covering executive management staff and other employees, introducing performance-related pay at the firm level, and increasing working time flexibility.[118]

The government's plan was taken up by employers and on 4 June 1997 an Accord was signed. More specifically the accord envisaged the establishment of national fund to provide income support and training for redundant bank employees; linking pay rises to performance, thus introducing performance-related pay at

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[116] Author's interviews with sectoral labour representative 3 (25 May 2010) and with sectoral labour representative 5 (26 May 2010).
[117] Author's interview with sectoral labour representative 10 (26 November 2010).
[118] Interview with government representative at '35,000 redundancies announced in the banking sector' *European Industrial Relations Review,* No. 278, (March 1997), p.10.

firm level bargaining; introduction of stock-ownership plans; move towards the negotiation of a single national contract for both lay employees and executive personnel; introduce part-time working; and finally continue privatisation as a way to improve the efficiency and size of the sector.[119] In response to this the Minister hailed the accord as a 'historic milestone in the country's economic policy'.[120] Importantly, it envisaged the reform of the institution of sectoral bargaining with a split in negotiations between national industry and individual bank level.[121] The former would deal with general terms and conditions, while flexibility issues would be determined at the firm level.

Following this Accord, negotiations over ways to tackle the reduction of labour costs continued in September of the same year, but they soon broke down. The unions accused the employers' side that it was overly focused on redundancies and labour costs reduction, ignoring the framework of the Accord agreed earlier in June.[122] In the face of deadlock of negotiations the Minister of Labour, Tiziano Treu, intervened again to mediate the conflict, and a solution was reached.[123] For one more time, the government intervention saved the institution from collapsing and the employers agreed to extend the 1996/97 agreement for 1998, because trade unions needed more time to agree on a common platform for bargaining. Negotiations among the unions were lengthy, but they managed to agree on a

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[119] 'Agreement in banking sector dispute' *European Industrial Relations Review* No.282, (July 1997), p.9.

[120] '35,000 redundancies announced in the banking sector". *European Industrial Relations Review,* No. 278*,* (March 1997), p.9.

[121] 'Agreement in banking sector dispute' *European Industrial Relations Review* No.282, (July 1997), p.9.

[122] 'Il sindacato: non parlate solo di esuberi. I banchieri: cosi' i costi vanno alle stelle Bancari, e' subito rottura Trattativa bloccata, interviene Treu' *La Stampa,* (19 September 1997).

[123] 'A picco gli utili delle banche: Riparte la trattativa sugli esuberi. Treu pronto a mediare' *La Stampa,* (4 December 1997), p.19.

common position for the next bargaining round.[124] Their platform was responsive to employers' requests for labour cost containment and increasing flexibility. The trade unions were 'becoming more pragmatic because they could see that competition in the banking sector was intensifying'.[125] But their platform entailed a very clear *quid pro quo*.

Unions were willing to accept extension of opening hours and reduction in labour costs, in exchange for reduced weekly working time and cushioning redundancies through the 'Redundancy Fund' (*Fondo Esuberi*) envisaged in the Accord of June 1997. Crucially the financing of these Funds would burden mainly employers (2/3) and to a lesser extent employees (1/3), while the state budget would not be burdened at all.[126] At the same time, unions were willing to reduce the importance of seniority-based pay for new recruits, but not for older employees. Labour costs containment was envisaged to be gradual and smooth: including a pay freeze for two years and an overhaul of the job classification system, significantly reducing the overstaffed 'management' grade to a maximum of 2.5 per cent of total workforce. Finally, the unions embraced the proposals in the Treu legislation of June 1995 on labour market flexibility.[127]

Despite the concessions made from unions, employers joined the bargaining table at the start of 1999 dismissing unions' platform as 'inappropriate and unsuitable

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[124] 'Bargaining platform in banking' *European Industrial Relations Review,* No. 298, (November 1998), p.9.

[125] Interviews with sectoral business representatives at 'Banca di Roma Group cuts labour costs' *European Industrial Relations Review,* No.291, (April 1998), p.27-28.

[126] This was in sharp contrast to the metalworking sector, in which the '*fondo esuberi*' were financed by the state budget.

[127] 'Bargaining platform in banking' *European Industrial Relations Review,* No. 298, (November 1998), p.9.

for pursuing the commonly agreed goals on reducing costs and increasing flexibility'.[128] Additionally, the employers association (ABI) decided to unilaterally suspend seniority premia and bonuses. Their rationale was that *premia* represented little in terms of overall pay, but would provide great flexibility for firms. However, negotiations over a new wage contract broke down. Trade unions were ferocious accusing the employers for 'flexing their muscles' and a preordained decision to leave the bargaining table.[129] In the face of this, they followed their two-pronged strategy: engaging in concerted strike action and calling the Minister of Labour of the centre-left D' Alema government to intervene.[130]

Indeed, by the end of the March, a tripartite meeting took place with government representatives, employers, and the major sectoral unions. The government was represented at the highest level, not only by the new Minister of Labour, Antonio Bassolino, but also by the Secretary to the Prime Minister, Franco Bassanini.[131] On the side of the employers the meeting attended the new president of ABI, Maurizio Sella, and the general director, Giuseppe Zadra, and of course, top representatives from all three confederal trade unions and the autonomous unions Fabi, Falcri and Sinfub. The meetings took place at the Prime Ministerial Office (*Palazzo Chigi*) and the government mediated the talks between the employers

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[128] Interview with sectoral business representative at 'Industrial action in banking' *European Industrial Relations Review,* No. 302*,* (March 1999), p.9.
[129] Interview with sectoral labour representative at: 'Bancari fermi il 5 marzo: Per il nuovo accordo nazionale 8 ore e blocco degli straordinari' *La Stampa,* No.34, (4 February 1999), p.15.
[130] 'Bancari fermi il 5 marzo: Per il nuovo accordo nazionale 8 ore e blocco degli straordinari' *La Stampa,* No.34, (4 February 1999), p.15.
[131] 'Schiarita per i bancari, si torna a trattare: Tra sindacati e Abi protocollo d'intesa a Palazzo Chigi' *La Stampa,* No. 81, (24 March 1999), p.15

and the unions to resolve the deadlock over labour cost reductions.[132] The agreement entailed a compromise between unions' demands for security and firms' needs for flexibility. Crucially, the labour-state coalition held out well, with the government siding with the unions on the hot topic of the 'Redundancy Fund' for the planned redundancies[133], while the issue of seniority premia reduction was deferred to the next bargaining round, only reducing the frequency of payment from biennial to triennial[134].

The 'Redundancy Fund' financed through contributions from banks (0.375 per cent of the total wage bill) and employees (0.125 per cent of the total wage bill) finally became operational on 17 November 2000. Employers accepted it not only because of the political pressure from the government, but because it was a vital tool in the process of restructuring their workforces and re-organising their operations.[135] The fund was a corporatist institution, administered by a board made up of four trade union representatives, four employer representatives, and two government representatives, one from the Ministry of Labour and another from the Ministry of Finance. Why was the government interested in supporting trade unions in their demand? The government supported wage bargaining and encouraged '*billateralismo',* the development of semi-public social support institutions (such as the *Fondo Esuberi*), because they had zero-cost for the

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[132] 'Schiarita per i bancari, si torna a trattare: Tra sindacati e Abi protocollo d'intesa a Palazzo Chigi' *La Stampa,* No. 81, (24 March 1999), p.15; 'Government intervention reopens banking talks' *European Industrial Relations Observatory,* (March 1999), available at: http://www.eurofound.europa.eu/eiro/1999/03/inbrief/it9903102n.htm [last retrieved: 25 September 2011].

[133] 'E' stato raggiunto l' accordo stop agli scioperi in banca' *La Stampa,* No.88, (31 March 1999), p.39.

[134] 'New Deal in Banking' *European Industrial Relations Review*, No. 307*,* (August 1999), pp.8-9.

[135] 'Banks agree redundancy fund' *European Industrial Relations Review,* No. 323, (December 2000), p.9.

state.[136] Thus, the state withdrew from the state responsibility for welfare, and to compensate this, it supported the reform of the institution of wage bargaining, with an extension of social partners' prerogatives.[137]

5.6.2. Italian Banking in the 2000s: At the Forefront of the 'New Model' in the Italian Wage Bargaining System

Throughout the 2000s negotiations over wage agreements have been difficult in Italian banking with frequent strikes and bitter conflict and disagreements even between the unions, but eventually, the reformed wage bargaining institution worked rather well. Sectoral wage agreements were concluded in the following bargaining rounds of 2002, 2005 and 2007. In March 2002 a new agreement was concluded in the banking sector between ABI and banking sector trade unions.[138] Maurizio Sella, president of ABI, maintained that the agreement 'safeguarded the purchasing power of employees, while remaining affordable for employers and dealing with restructuring of the banking sector'.[139] This does not mean that labour relations were absolutely peaceful; instead, conflicts and tensions appeared, but they did not threaten the survival of the institution. For instance, the negotiations for the 2004/5 wage agreement broke down and the trade unions

[136] Author's interviews with sectoral labour representative 3 (25 May 2010); with sectoral labour representative 4 (25 May 2010);and with sectoral labour representative 5 (26 May 2010).
[137] Author's interviews with sectoral labour representative 3 (25 May 2010); with sectoral labour representative 4 (25 May 2010); and with sectoral labour representative 5 (26 May 2010).
[138] Author's interviews with sectoral labour representative 7 (25 November 2010) and with sectoral labour representative 8 (25 November 2010).
[139] Interview with sectoral business representative at 'Italy:Collective Bargaining – Banking' *European Industrial Relations Review,* No. 340, (May 2002), pp.20-21.

decided strike action, but the main reasons for the tensions were disagreements over the level of pay increases and not the institution of wage bargaining *per se*.

The latest wage agreement that was concluded was in 2007 and had three year duration, being at the forefront of the 'new model' of wage bargaining pursued in Italy (*nuovo modello contrattuale*). Even if the national union CGIL is very critical of the 'new model'[140], all sectoral federations of CGIL (except for the metalworkers) signed agreements which adopt elements of the new model. In a nutshell, the 'new model' introduces three main changes in the procedural aspects of the wage bargaining system: (i) it changes the duration from 4+2 (4 years for normative issues and 2 years for economic issues) into 3+3 (3 years for both) (ii) it allows the possibility of derogation of industry-wide agreements (iii) it restricts the regulation of strikes at the firm level, requiring the use of ballots and (iv) it changes the inflation index which is followed to guide increases in wages into one which excludes energy prices (petroleum, etc). However, as several informants mentioned: 'CGIL was in delicate position and didn't want to 'lose face' in wage bargaining. Thus, almost all sectoral federations of CGIL (except for the very militant metalworkers union, which is 'the left of the left') eventually signed a renewal of agreements following the spirit of the 'new model', because the most controversial elements were not part of the agreement'.[141] FISAC was one of the first CGIL affiliates to sign an agreement in the direction of the new

[140] 'Contratti: Firmata riforma, nuovo modello senza Cgil' *CGIL Press Release* (22 January 2009); 'Nuovo modello contrattuale: per chi?' *FPCGIL Dipartimento sindacale Announcement,* (22 January 2009).
[141] Author's interviews with sectoral labour representative 3 (25 May 2010); with sectoral labour representative 4 (25 May 2010); and with sectoral labour representative 5 (26 May 2010).

model, because the most contested elements were not part of the deal[142]. The signing of agreements which shift the relative importance from industry-wide to firm level bargaining solidifies the trajectory of change towards reform and 'organised decentralisation'.

Finally, the ability of unions to speak with a 'single voice' in the banking sector was also strengthened. The autonomous unions FABI and Sinfub pursued the closer cooperation with FIBA-CISL. On 22 February 2006 FIBA/CISL, Sinfub and FABI signed a pact of 'unity of action' and the three sides formed an alliance aimed for coordinated action during the negotiations.[143] They were committed to fully respect the traditions and histories of each other, affirmed their autonomy from political parties, and assigned their principal focus on the representation the interests of banking employees while respecting the public interest.[144]

The state remained committed to supporting wage bargaining irrespective of political party in government. Not even the Berlusconi government proposed its decentralisation according to the Anglo-Saxon model (Herrmann, 2005:304). The Berlusconi government may not have followed the concertation method (social pacts) in economic policy making as much as previous centre-left governments, and made decisions unilaterally with 'decrees'. However, it did not dare allow

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[142] Author's interviews with sectoral labour representative 3 (25 May 2010) and with sectoral labour representative 5 (26 May 2010).

[143] Author's interviews with sectoral labour representative 7 (25 November 2010) and with sectoral labour representative 8 (25 November 2010).

[144] 'Bancari: Accordo di Percorso tra CISL, FIBA-CISL, e SINFUB' *SINFUB Press Release,* No. 259, (22 February 2006).

the full decentralisation of the wage bargaining system, which remained within the remit of unions' and employers' Accords.[145]

5.7. Conclusion

The chapter has examined a case study outlining the transformation processes that took place in the Italian banking sector during the 1990s. It examined the process of liberalisation of the sector that led to an intensification of competition. Additionally, it sketched the introduction of greater employment flexibility in previously state-owned and bureaucratic organisations. The changing external conditions in combination with the introduction of flexible practices inside firms manifested the strong pressures towards destabilisation of the institution of wage bargaining. However, instead of a breakdown, as in the Greek case, one observes a reform of the institution. The chapter explained this trajectory of institutional change outlining the relevance of the hypotheses developed in the second chapter.

It was argued that employer associability was crucial in reforming the institutions to meet the new needs of firms. Employer associability existed in Italian banking before the liberalisation of the sector; however, it was fragmented between associations representing smaller savings banks and larger commercial banks. The liberalisation triggered a merger process in the associations, whereby all interests were represented by one association. Thus, the trade association of Italian banks (*Associazione Bancaria Italiana*) acquired both the legal

[145] Author's interviews with industrial relations expert 3 (26 May 2010) and with sectoral labour representative 5 (26 May 2010).

competence to represent firms on labour issues and amended its statute to take into account the interests of both large banks and smaller banks. As a result, ABI managed to strike a compromise between setting wages at the lowest common denominator for the sector, and deferring much flexibility-related issues to the firm level. The motivation behind this choice rested on an appreciation of long-run interests of their members in their need to restructure the sector, increase the efficiency of banks and maintaining social peace.

Finally, the case-study suggested that apart from employer associability, a labour-state coalition was also critical for the survival of the institution. The unions were able to speak with a ‘single voice’ despite organisational fragmentation, and this allowed them to steer the interest of the state since unions’ links went both ways (either centre-left or centre-right). The unions repeatedly invited the government to intervene on their side, and thus, the labour-state coalition was forged. The government managed to put pressure on employers to overcome deadlocks and reach compromises. In sum, the labour-state coalition blocked the path towards Anglo-Saxon breakdown of wage bargaining, while employer associability and the labour-state coalition facilitated the reform of the institution.

The government’s motivation in supporting the wage bargaining system rested on electoral incentives, but also on a government agenda for labour market flexibility and corporate restructuring via the institution of wage bargaining. The government was keen on the expansion of welfare provisions on the basis of industry-wide ‘social shock absorbers’ which were not costly for the state budget.

Thus, the withdrawal of the state from the responsibility to managing unemployment and redundancies strengthened the importance of the institution.

Chapter 6 The Successful Centralisation of Wage Bargaining in the Italian Telecommunications Sector

6.1. Introduction

The previous chapter examined the process of change in the wage bargaining system of Italian banking, which resulted in the survival of the institution, despite the destabilising pressures. It was shown that employer associability and a labour–state coalition were crucial factors which mediated the effects of liberalisation and flexibility. Unlike Greek banking, the institution did not break down, but was restructured to meet new needs. Still, the earlier theories would predict that in sectors where the starting point is firm level bargaining, the pressures from intensified competition and flexibility would militate against any effort to centralise bargaining at the sector level. Firms would favour a decentralised bargaining structure in order suit their needs for flexibility, avoiding the ‘straightjacket’ of sectoral agreements. Thus, the case of the Italian telecommunications industry is a ‘hard case’ for earlier conjectures and the chapter will focus on this case, tracing back the process of successful centralisation at the sector level.

Before the liberalisation of the sector, there was only one firm providing services. Within the state-owned monopoly of SIP (later renamed into Telecom Italia), wage bargaining took place at the company level. The monopoly position in conjunction with the state ownership offered fertile ground for wage bargaining to flourish. However, the intensification of competition and increased needs for flexibility were expected to deter employers from centralising bargaining. What can possibly account for this institutional change?

This question will be answered with the backdrop of the theoretical framework outlined in the second chapter. The strong mediating factors enabling this outcome were the presence of 'employer associability' and a 'labour-state coalition' in support of wage bargaining. Initially, the peak employers association, *Confindustria*, literally filled the gap of the missing sectoral employer association and bargained the first ever industry-agreement with the three confederal unions. Subsequently, Confindustria took initiatives to organise telecom firms around a sectoral association, which took account of the interests of both small and large firms in the sector. Thus, employer associability solidified. The motivation of firms was to ensure 'fair competition' in the sector with a floor in wages and working conditions. The trade unions were able to speak with a single voice, despite multiple union federations, and were interested in avoiding a race to bottom in wages. Finally, the government intervened to support wage bargaining and extend it to resisting and reluctant firms across the sector. The government's motivation was based on electoral concerns and on its agenda on labour market reform towards flexibility, which was promoted in the sectoral agreement.

The structure of the chapter is as follows. I will first provide a brief overview of developments in the industry until the 1980s, when the sector was fully owned by the state. Then I will examine the sweeping structural changes that were observed during the 1990s, namely the European Union liberalisation, the privatisation of the incumbent Telecom Italia, and the introduction of flexible employment practices. The purpose is to pin down that pressures which are inimical to centralisation of wage bargaining were present and strong. Next, I will shift my focus on changes observed in the representation of business and labour interests. On the one hand, trade unions were able to speak with a single voice despite organisational fragmentation, and on the other hand, employers adjusted their representation in light of the privatisation in the industry. Finally, the account of events during the late 1990s and early 2000s that led to centralisation will pay close attention to the interactions between the employers, unions, and the state. Overall, the case study will trace back the process of centralisation, suggesting the relevance of the coalitional approach for explaining the dynamics of wage bargaining change.

6.2. Italian Telecoms until the 1980s: Monopoly and State Ownership

The telecommunications industry in Italy has historically been segmented, due to the different concession agreements that were granted to private telephone operators in the early 20th century. In the 1960s the concession agreements expired, and the telecoms branch (IRI-STET) of the state-owned IRI holding company (*Istituto di Reconstruzione Industriale*) purchased shares of the regional operators. Thus it created a public monopoly under the name of SIP (*Società Italiana per l' Esercizio Telefonico*)[146]. However, the nationalised company retained a divided organisational structure and the national territory was divided into the five zones in which the previous five companies operated. This structure contributed to the persistence of inefficiencies: bureaucratic relationships within and across management levels; duplicated tasks and responsibilities; and wasteful human resource practices (Negrelli, 1996:296-297). These organisational inefficiencies were amplified by the fact there were still different companies in charge of different parts of the communications infrastructure leading to an excessive institutional fragmentation (Schneider, 2001:68). While *SIP* was mainly responsible for provision of telecoms services to households and business, *Telespazio* was responsible for satellite communications, *SIRM* for maritime communications, *Iritel* for public telephone services, *Italcable* handled international calls, and *ASST* dealt with long-distance (intercity) calls. Unlike the Greek case, the nationalisation in Italy 'did not lead to unification of the system's sub-sets into a single administration' (Negrier, 1997:46).

Two initiatives stand out as responses to the challenge of persisting inefficiencies in the early 1980s. The first related to intra-firm reorganisation, and the second was oriented to the restructuring of the whole industry. Intra-firm reorganisation in SIP involved *inter alia:* abolition of old geographical divisions that corresponded to different entrepreneurial and technical cultures; changes in work organisation away from bureaucratic and repetitive jobs towards enlarged job

[146] In fact, SIP stands for *Società Idroelettrica Piemontese*, the name of the company before becoming *Società Italiana per l'Esercizio Telefonico*.

tasks; annualised working hours; and incentive pay systems for sales staff (Negrelli, 1996: 297-299). Despite conflict and disagreements, the trade unions and SIP management managed to reach compromises and signed related company-level agreements in 1982 and 1984 to modernise the company.

In addition to that, the Spadolini government tried to consider a restructuring of the whole sector in the early 1980s. It established an expert commission directed by Franco Morganti to study the situation in the telecommunications sector and develop recommendations for action (Schneider, 2001:69). The 'Morganti Committee' submitted its proposals with much delay due to political instability and successive government changes. The recommendations of the Committee included the complete liberalisation of the terminal market as well as new telematic services, but – unlike developments in Britain at the time – the experts defended the conservation of the public monopoly in the fixed telephony network. The Committee aimed at ending the fragmentation in the industry, and proposed the consolidation of the various telecoms organisations (SIP, Telespazio, Italcable, SIRM, Iritel described above) and integrating them into a single public monopoly (*monopolio intelligente*) (Schneider, 2001:69). Still, a series of upheavals in Italian politics did not allow the implementation of any of the proposals.

The reform inertia persisted until 1987, when the government established a five year plan (*Piano Europa*) in order to boost competitiveness in the sector and reduce the technological gap with other European nations (Graziosi, 1988:308; Thatcher, 2007a:193). In addition to technological developments abroad, the advent of the Single European Market in 1992 was a recurrent theme used to justify the urgent need for institutional reform (Graziosi, 1988:302; Thatcher, 2007a:193). The *Piano Europa* was consistent with earlier proposals of the Morganti Committee, suggesting the integration of the traditionally fragmented system into a 'super-SIP' (or 'super-STET'). This solution was advocated particularly by Romano Prodi, who was the head of IRI at the time. As Thatcher (2007a:194-95) argues, consolidation was thought to be important for two reasons: (i) it would allow the privatisation of the company in the near future and (ii) it would establish a powerful Italian telecoms group, able to compete with other 'national champions' such as British Telecom, Deutsche Telekom and France Telecom. The transition to a consolidated 'super-SIP' is explained by a broad coalition between relevant actors: Minister Mammi made the creation of a super-SIP a priority; senior managers at IRI-STET (notably Romano Prodi and Giuliano Graziosi) and SIP (Paolo Benzoni) pressed continuously for change; while Confindustria and large business users supported reorganisation and privatisation which would reduce the costs for business (Thatcher, 2007a:194). In 1992 a new law reorganised SIP through the creation of 'STET-Telecom Italia' and a merger between the previous disparate companies followed (Baroncelli, 1998). At last, the single 'Telecom Italia' was born in 1994.

6.3. Italian Telecoms in the 1990s: State Withdrawal and the Market Unbound

6.3.1. EU Liberalisation, Privatisation and Intensification of Competition

As hinted in the previous section, European economic integration was partly responsible for the 'Piano Europa', but the European impact would be felt more strongly during the 1990s. Following the transposition of the Directives and the 'opening up' of the mobile and later fixed-telephony markets, new players appeared in Italy alongside the incumbent Telecom Italia. Starting with mobile telephony, the Olivetti manufacturing group acquired the first licence and established the Omnitel subsidiary in 1995, which began competing with the incumbent's subsidiary in mobile telephony (Telecom Italia Mobile/TIM). The Italian electricity company (ENEL) established WIND in the late 1990s, while Blu and the Chinese '3' entered the market soon after. By the early 2000s competitive pressures in the mobile phone segment appeared strong, as illustrated by the rapidly changing market shares below (Table 2). UK is used as a reference point of a very competitive market. Telecom Italia Mobile had the lead in the market share in 2000s, but strong competition led to a sharp decline from 56 per cent in 2000 to 37 per cent in 2009. At the same time, the foreign entrants such as the British Vodafone and Chinese '3' increased their shares significantly.

Table 6.1. Market Shares (based on subscribers) in Mobile Telephony across Italy and the UK, 2000 – 2009.

		2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
IT	Leading operator	56	48	46	47	46	40	41	40	39	37
	Main competitor	36	35	34	36	35	32	32	33	32	33
	Third+Other competitors	8	17	20	17	19	27	27	27	29	30
UK	Leading operator	30	28	27	26	26	25	26	24	25	21
	Main competitor	26	25	25	25	25	24	23	23	22	20
	Third+Other competitors	44	47	48	49	49	51	51	53	53	59
Source: European Commission (2000; 2001; 2002; 2003; 2004; 2005; 2006; 2007; 2008; 2009).											

Similar changes are observed in the fixed-telephony segment of the market, albeit with a few years lag. The first company to compete with Telecom Italia in the fixed network was Albacom, which was established in 1995 and was later acquired by BT Italia. In 1997 the Olivetti Group established a subsidiary in fixed telephony called Infostrada, which was later acquired by WIND. Finally, Teletu was established in 1999 and was acquired by Vodafone in 2010. Competition in the market was steered by AGCOM (*Autorità per le garanzie nelle comunicazioni*), which was the sector's independent regulator authority established by Law 249 of July 31, 1997. AGCOM followed a rather restrictive tariff policy for Telecom Italia, allowing new entrants to compete for services using the 'last mile' of the fixed network infrastructure and preventing Telecom Italia from abusing its dominant position (Sacripanti, 1999). Table 3 presents the rapid decline in the market share of the Telecom Italia from 100 per cent (monopoly) to 65 per cent in the late 2000s.

Table 6.2. Incumbent Telecom Operator's Market Share (based on retail revenue) in Fixed Telephony across Italy and UK, 1997 - 2008.

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
IT (Telecom Italia)	100	100	99	93	75	70	68	n/a	65	64	62	65
UK (BT)	87	82	73	68	55	59	64	n/a	51	56	58	55
Source: European Commission (2000; 2001; 2002; 2003; 2004; 2005; 2006; 2007; 2008; 2009).												

The above table sketches the picture of intensified competition within the Italian fixed-telephony market. Although Telecom Italia's market share remained large until the end of 2000s, occupying more than half of the market, competitive pressures appeared strong throughout the decade. A comparison with the respective UK market is illustrative: the incumbent operator (BT) lost on average 2.66 per cent annually for the period examined. In the Italian market, the incumbent lost on average 2.91 per cent annually for the exact same period. While the difference in total market shares is explained by the fact that Italian telecommunications were opened up later than the UK market, the rate of change is even higher in Italy. As a result, the monopoly position of Telecom Italia was eroded at a high speed and market competition intensified.

Although the liberalisation was largely guided by the European Commission's agenda, privatisation of the incumbent was on the agenda of both centre-right and centre-left Italian governments. The consensus on privatisation was based on the common goal of raising funds so as to reduce the national debt and eventually join the Economic and Monetary Union (Thatcher, 2007a:195). The consolidation process described above (from SIP to Telecom Italia) was led by the centrist Amato government during the early 1990s. Then the centre-left governments took over and privatisation was completed under Romano Prodi, who -in the meantime- was elected as Prime Minister. For the privatisation of Telecom Italia, the solution that was favoured included: a 'stable core' of large shareholders having an 18 per cent stake, while another 35 per cent was sold *via* initial public offering (IPO) to the stock exchange (Florio, 2007:3). In sum, 35 years after the nationalisation of the 1960s, the state ownership of Telecom Italia ended on 20 October 1997.

Interestingly, Telecom Italia became the object of three successive hostile takeovers *after* privatisation. The first hostile takeover was an initiative led by the Olivetti Group. While the Telecom Italia CEO at the time, Fransesco Bernabé, tried to erect defences against the hostile takeover, these did not work, partly because they were not whole-heartedly embraced by the government. The most important one was the search for a 'white knight' (i.e. finding a friendly-bidder who would offer a higher bid than the hostile bidder). The main candidate for that position was Deutsche Telekom, which was allegedly a 'problematic' white knight. Since the German state owned a 72 per cent of Deutsche Telekom, this meant that it would end up control 40 per cent of the merged company. That would have led to a foreign renationalization of Italy's biggest listed company, and 'it was too much for the Italian government to stomach'.[147] Massimo D'Alema, who had become Prime Minister in the meantime, entered into negotiations with the German Chancellor Gerhard Schröder. However, the negotiations failed, since Germany was not willing to privatise Deutsche Telekom in the near future, and Massimo D'Alema eventually favoured the Olivetti solution (Kruse, 2005). It was thought that it would be better if Telecom Italia fell onto Italian hands, rather than the German state, and thus, the hostile takeover was completed by the end of May 1999.

[147] Marcus Walker, 'The Sack of Telecom Italia', *Euromoney,* July 1999, Issue 363.

Still, the Olivetti control of Telecom Italia was not bound to last. The second hostile takeover was largely a consequence of the first one, because Olivetti effectively bought a company that was five times larger than itself, financing the acquisition via debt. But servicing the debt was not easy and the performance of Telecom Italia's stocks was unimpressive in the next two years. An alliance between Pirelli and Benetton seized the opportunity and offered a very lucrative bid for the holding company that controlled Telecom Italia. On 28 July 2001 Pirelli and Benetton acquired the holding company and gained the control of Telecom Italia (Florio, 2007). But this was no the end of it, either. In 2007, a consortium led by Italian banks and the Spanish Telefonica, acquired the holding company through which Pirelli and Benetton retained control of Telecom Italia. The Prime Minister Romano Prodi accepted the deal under the condition that Spanish Telefonica will only be a minority shareholder, and the majority of control will remain in Italian hands.[148]

6.3.2. Restructuring the Telecoms: Technological Change, Downsizing, and 'Negotiated' Flexibility

The processes of liberalisation and privatisation that were described in the previous section undoubtedly hold a prominent place in the recent history of Italian telecoms. They coincided with fast moving technological advances which brought about dramatic changes in firms' internal work organisation. Inevitably, Italian telecoms were bound to follow the international trends. Functional

[148] 'Italian banks win control of Telecom Italia' *New York Times,* (29 April 2007).

flexibility and the need for new and versatile skills among employees were necessitated more directly in responses to changes in technology (Frey and Vivarelli, 1991). Already in the SIP era, the trade unions frequently revised job descriptions so that they correspond to new technologies, and the job classification system was made flatter leading to job enrichment and multi-tasking employees (Negrelli, 1996).

After the merger between the five telecommunications companies (SIP, Italcable, Telespazio, Iritel, and SIRM) into a single Telecom Italia the negotiations began for the conclusion of the new company agreement in 1994. The main aim of the wage agreement was to harmonise pay and working conditions in the previously disparate companies; a necessary pre-condition to facilitate its restructuring and eventual privatisation. The merger process allowed large cost savings via 'improvements in the organisation of work and services' and was expected to generate even greater savings in the future.[149] However, the business restructuring and reorganisation involved inevitable redundancies. For employers, moving into a single company agreement for Telecom Italia was important in order to safeguard industrial peace during the forthcoming negotiations for the privatisation of the company.

Already in the mid-1990s, the firm level unions in Telecom Italia anticipated the sweeping structural changes in the sector. As a result, the 1995/6 company agreement was foreseen to lay 'the foundations for a new national contract for the

[149] Interview with sectoral business representative at 'Telecom Italy pay and conditions harmonized' *European Industrial Relations Review,* No. 250, (November 1994), p.9-10.

telecommunications industry, which might be extended to other operators once the market opened up'.[150] Unlike their Greek counterparts, Italian trade unionists accepted pragmatically the inevitability of privatisation (Negrier, 1997:51; Thatcher, 2007a:195). Instead, they were more interested in managing the social repercussions, and negotiating the terms of restructuring across the whole industry. The major hurdles following the consolidation of Telecom Italia, was to downsize the company and therefore, make its privatisation smoother. Negotiations were lengthy between *Intersind* (the state-employer association for IRI companies including Telecom Italia) and the three Telecom Italia unions: FILPT-CGIL (*Federazione Italiana Lavoratori Poste e Telecomunicazioni*), SILT-CISL (*Sindacato Italiano Lavoratori Telefonici Stato*), and UILTE-UIL (*Unione Italiana Lavoratori Telefonici*), but were finally successful.

In their 1995 agreement, downsizing would be achieved through voluntary redundancies, while flexibility was introduced *via* four avenues: teleworking, geographical mobility, part-time working, and franchising.[151] Teleworking (*remotizzazione)* was especially facilitated by technological advances and would help alleviate the problem of having some overstaffed divisions, while other divisions were understaffed. This measure was complemented by geographical mobility, providing bonuses for workers assigned to other workplaces according to company needs. Part-time working was an option given to employees who were neither eligible for voluntary exit, nor eligible for geographical mobility. Still, there were limits to part-time working set to 12 per cent of the workforce by

[150] Interview with sectoral labour representative at 'Accordo per i telefonici Bonus e orario flessibile' *La Stampa,* No. 249, (10 September 1996), p.17.
[151] 'Flexibility and job losses at Telecom Italia' *European Industrial Relations Review,* No. 261 (October 1995), pp.20-22

business unit. Finally, one very innovative measure was literally transforming ex-employees into entrepreneurs: former employees would be offered the opportunity to open a franchised shop selling Telecom Italia products and services. The company would offer financial incentives in a lump-sum as well as training and advice on how to get a commercial license.

The structural changes that the sector was undergoing surfaced again during negotiations in 1996 in the form of increased needs for flexibility. On the employers' side the rationale was that 'competition in the telecom market means that existing "privileges" are no longer affordable'.[152] Therefore, the company wanted to squeeze labour costs by reducing the wages for new recruits, and increasing working time from 38 to 40 hours per week (annualised). Eventually, a deal was reached between the state employers' federation *Intersind* and the telecoms unions providing for: (i) revision of the grading system; (ii) introduction of working time flexibilities; and (iii) the introduction of three forms of teleworking for different staff grades.[153] The grading system was revised so that the number of grades is reduced from ten to eight, signifying a move towards 'flatter' management hierarchies. There was an introduction of flexible working time depending on company needs and customer demand. Part time working was also encouraged, while overtime compensation was also regulated and extended to part-time workers. Finally, the agreement established three forms of teleworking: (i) home teleworking (aimed at low-skilled employees, such as telephone operators); (ii) working-out tele-workers (more skilled employees such

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[152] Interview with sectoral business representative at 'Bargaining Round-up' *European Industrial Relations Review,* No.268 (May 1996), p.9-10
[153] 'Telecom deal increases pay and introduces flexible working time' *European Industrial Relations Review,* No. 268, (May 1996), p.9-10.

as accountants and computer managers, providing services which might eventually mature into a full outsourcing) and (iii) remote teleworking, (individuals working from specially equipped tele-work centres, involving operators in more remote areas).[154]

Naturally, the 'search for flexibility' did not end with the privatisation of Telecom Italia in 1997. After the hostile takeover of Telecom Italia by Olivetti, the company incurred a huge debt and the new management tried to cut down on labour costs (Florio, 2007:4). This cost-cutting strategy is mostly telling in the firm level agreement that was concluded on 28 March 2000 and involved massive cuts including: redundancy *via* compulsory retirement; phased retirement *via* increased unemployment benefit for those close to retirement; retraining and redeployment; reduced working time and pay cuts for other employees to avoid redundancies (called 'solidarity contracts', see below); and switch from full time to part-time employment.[155] Additionally, the company planned to squeeze labour costs even further via recruiting some 6,200 workers on apprenticeship/work-entry contracts and contracts designed to provide young people with work experience, especially from high unemployment areas in Southern Italy. The pay in such contracts was of course lower than the regular ones and the adoption of those working practices was fully in line with the government agenda on labour market reform towards greater flexibility.

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[154] 'Telecom deal increases pay and introduces flexible working time' *European Industrial Relations Review,* No. 268, (May 1996), p.10.
[155] 'Redundancy Deal at Telecom Italia' *European Industrial Relations Review,* No. 316 (May 2000), p.9.

However, introduction of work and pay flexibilities were not only taking place inside the privatised Telecom Italia, but were also pursued within the new market entrants. The main competitor of Telecom Italia in the fixed telephony network, Infostrada, was also introducing several types of flexibilities. On 21 September 1998, an agreement was signed between the management of Infostrada and the metalworking trade unions (Fiom-Cgil, Fim-Cisl and Uilm-Uil)[156] on a plan to recruit about 1,300 workers for the company's call centres. Crucially, the two sides agreed on a high degree of 'negotiated flexibility', including: (i) about half of the workers would be hired on fixed-term part-time contracts, while the rest would be hired on apprenticeship/work-entry contracts (ii) the company would subsequently convert up to two thirds of fixed-term part-time contracts into permanent part-time contracts (depending on actual business volumes) (iii) pilot introduction of incentives and performance related-pay systems, before generalised implementation (iv) a minimum service would be guaranteed during strikes, while Sunday work would be allowed and finally (v) a joint committee would be set up to study the operation of the 24/7 shift system, with is findings put down for joint assessment. [157]

The agreement was received with satisfaction from the unions' side, despite the increased levels of flexibility it entailed. The representative from the CGIL union in the negotiations, Gian Piero Castano, justified the choice to accept increased

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[156] FIOM: *Federazione Impiegati Operai Metallurgici*; FIM: *Federazione Italiana Metalmeccanici*; UILM: *Unione Italiana Lavoratori Metalmeccanici*. As will be mentioned below, since Infostrada was a subsidiary of manufacturing company Olivetti, the trade unions which represented Infostrada employees were initially coming from the metalworking sector.

[157] 'Flexible job-creation agreement reached at Infostrada' *European Industrial Relations Observatory,* (October 1998), available at: http://www.eurofound.europa.eu/eiro/1998/10/feature/it9810237f.htm [last retrieved: 25 September 2011],

flexibility on the grounds of the potential for future employment creation stating that:

> 'This choice - which has already been introduced at Omnitel, is made necessary by the two factors of lnfostrada being a relatively new company and the telecommunications sector being still a developing one. The unions are confident that the consolidation of Infostrada's business will be matched by a corresponding consolidation of employment, as has happened in the Omnitel case.'[158]

This assessment was also shared by the other main union in the sector, CISL, whose representative, Giorgio Paolo, applauded the employment creation potential in the sector, admitting that increased flexibility is very important especially in customer care segment.[159]

In sum, the new market entrants in Italian telecommunications introduced a great degree of flexibility in working practices so as to survive the competitive environment and meet customer demand responding to fast moving technological change. However, the increased levels of employment flexibility were equally observed in the privatised Telecom Italia. Unlike their Greek counterparts who resisted the introduction of flexibility, the Italian unions in the sector accepted pragmatically the need for greater flexibility in working practices. In both the Italian incumbent and the new entrants, the types and extent of flexibility were the outcome of negotiations, specified within the context of firm level agreements; hence, flexibility was *negotiated*. Their motivation for negotiated

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[158] Interview with sectoral labour representative at: 'Flexible job-creation agreement reached at Infostrada' *European Industrial Relations Observatory,* (October 1998), available at: http://www.eurofound.europa.eu/eiro/1998/10/feature/it9810237f.htm [last retrieved: 25 September 2011].

[159] Interview with sectoral labour representative at 'Flexible job-creation agreement reached at Infostrada', *European Industrial Relations Observatory,* (October 1998), available at: http://www.eurofound.europa.eu/eiro/1998/10/feature/it9810237f.htm [last retrieved: 25 September 2011].

flexibility was in line with the wider government agenda on labour market reform to boost employment creation in a rapidly developing sector. The next section examines the issues of labour and business representation in more detail.

6.4. The Representation of Labour and Business

6.4.1. Labour: 'Single Voice' despite Organisational Fragmentation

The previous section hinted that representatives from the confederal trade unions were active not only within Telecom Italia (where they had a long history of representation), but also within the new companies that entered the sector. This point is worth emphasising, because *prima facie* there are several characteristics that may jeopardise Italian unions' capacity to speak with a 'single voice' and represent the interests of labour in the newly liberalised sector. The representation of labour interests could be problematic in three ways. First, there was a danger of a split and divisions between employees in the incumbent operator and new firms' employees, as in the Greek case. Second, there was a context-specific danger that the three confederations would be competitive with each other. Finally, there was a danger of militant grass-roots unionisation against the three confederal unions, something that also happened in the Greek telecoms case (see next chapter).

More specifically, the first danger for united labour representation was between the privatised incumbent (which had the greatest share of employment) and the new firms in the sector (which involved far fewer employees). Employees in the privatised Telecom Italia already enjoyed a higher level of pay and conditions via their wage agreements, which were far better than the rates prevalent in the new firms. Thus, the Italian unions could focus their efforts on representing only the interests of Telecom Italia employees. This would mean that workers in newly established firms could be left without representation, leading to a cleavage between employees in the incumbent (insiders) and employees in new firms (outsiders).

A second source of danger for labour representation stems from the Italian industrial relations system, and the nature of competitive relations between union confederations. The three confederal unions (CGIL, CISL, and UIL) have different membership power, and the new telecoms companies would offer a new pool of potential members. As a result, the danger would be that confederal unions could be dragged into a spiral of internal conflicts, competing for new members with each other. Finally, there was always the chance that employees in the new firms could organise bottom-up via militant grass-roots unionisation. This was not unlikely, because such organisations (the so-called COBAS) were a frequent phenomenon in Italian manufacturing and parts of the public sector. In this instance, employees would be unwilling to be affiliated with any of the three confederal unions. This is also observed in the Greek telecommunications sector.

In spite of the dangers that liberalisation posed to labour representation in the sector, Italian unions managed to skilfully avoid all those hurdles. The danger of ending up with a cleavage between incumbent and new firms was avoided, because unions followed an inclusive strategy. Telecom Italia unions (FILPT, SILT, and UILTE) were transformed into sectoral-level associations embracing the workers in the new firms. The first union that was transformed was CGIL's affiliate union FILPT. In 1997 it was renamed into SLC merging the previous separate post/telecom union and the information/broadcasting union. CISL's affiliate union SILT was also transformed into FISTEL covering also employees in all firms in telecoms, IT and broadcasting, Finally UIL's affiliate UILTE was transformed into UILCOM. Thus, the process of filling the gap in new workers' representation took place 'top-down'.

This process was not problem-free. The main problem was that the first companies such as Omnitel [now Vodafone] workers were represented by metalworkers unions and in Wind by electricity (ENEL) unions. But in the new firms in which there was no representative previously, trade unionists visited the workplaces and asked the employees to become members of their union.[160] Hence, the problem of representation in those firms was resolved at the confederal level, with telecoms unionists taking over representation from their colleagues in manufacturing, and organised workers in the newly established firms.

In addition to that, the dangers of having internal fights and compete for members was also avoided because the unions shared a common strategic objective for the sector: centralising bargaining *via* a single sectoral contract. This vision was shared long before the liberalisation was completed. As mentioned in the previous section, unionists from all three confederations in Telecom Italia were resolved to

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[160] Author's interview with sectoral labour representative 6 (25 November 2010).

use the incumbent's wage agreement as the foundation for a national contract in the sector and extend it to new operators.[161] To that end, the three sectoral federations (Filpt, Silt and Uilta) followed the familiar two pronged strategy already since 1996: on the one hand, putting pressures to telecoms firms via national strikes, and on the other, urging the government to ensure 'fair competition' in the sector via a national wage agreement in telecoms.[162]

The final danger for labour unity was the prospect of militant grass-roots organisation such as the COBAS (*Comitati di Base*). Already in the 1980s, the three confederations had experience of militant COBAS in several sectors. This led them to devise a new institutional solution: the RSUs (*Rappresentanza Sindacale Unitaria).* This provision was foreseen in the monumental July 1993 Accord between the government, the unions and Confindustria[163], but was also further specified in the bi-partite inter-confederal Accord of 20 December 1993. Confindustria, together with the three main union confederations agreed that representation at workplaces over 15 employees would take place through RSUs, of which two thirds of their members would come from direct elections and one third would be appointed by the confederations. Still, the RSU would be considered independent and not affiliated with any of the three main unions. Thereby, independent grass roots unionists would be represented without formal affiliation, appeasing their militant tendencies. Indeed, RSUs were established in all main companies such as WIND and Vodafone and as the later section shows,

[161] 'Accordo per i telefonici Bonus e orario flessibile' *La Stampa,* No. 249, (10 September 1996), p.17.
[162] 'Telecom ma ci ami? Allora dacci il contratto' *La Stampa,* No. 155, (7 June 1996), p.38.
[163] 'Central agreement on incomes policy and bargaining reform' *European Industrial Relations Review,* No.236 (September 1993), p.15-19.

they were influential in negotiating the extension and inclusion of call-centres' workers under the umbrella of the sectoral agreement. In sum, despite organisational fragmentation, Italian unions were able to 'speak with a single voice' and pursue their strategy of centralisation.

Table 6.3. Main Trade Union Organisations in the Italian Telecoms Sector.

Organisation	***Function/Affiliation***	***Membership/Structure***
Sindacato Lavoratori Comunicazione SLC/ CGIL Est. as FILPT-CGIL	Signatory to national sectoral wage agreement; Affiliated to ex-communist CGIL	Members: 15,000 (2006).
Federazione sindacale della informazione dello spettacolo e delle telecomunicazioni FISTEL/CISL Est. as SILT-CISL	Signatory to national sectoral wage agreement; Affiliated to Christian democratic/Catholic CISL	Members: n/a.
Unione Italiana Lavoratori Comunicazione UILCOM Est. as UILTE-UIL	Signatory to national sectoral wage agreement; Affiliated to social democratic UIL	Members: 17,302 (2006).
Unione Generale del Lavoro Comunicazioni UGL Comunicazioni	Approves the agreement ex-post; Affiliated with neo-fascist UGL	Members: 2,000 (2006)
Source: Author's Own Elaboration.		

6.4.2. Business: The 'Privatisation' of the Employer Associability

The extensive state ownership in the Italian economy meant that there was a large pool of publicly owned enterprises alongside the privately-owned firms. While *Confindustria* was traditionally the employer representative of private sector, *Intersind* was the employer representative of the public sector enterprises. *Intersind* was set up in 1958 so that it represents state-owned (IRI) firms in labour relations. The members of *Intersind* came from a diverse range of economic sectors such as: metalworking, construction, food processing, communications, broadcasting, and transport. Following a political agreement in May 1994 between Romano Prodi (president of the IRI Group), Luigi Abete (president of Confindustria), and Agostino Paci (president of Intersind), it was decided that Intersind would be incorporated into Confindustria.[164]

The agreement stipulated that: (i) Intersind would remain in existence with its current membership for two years; however, giving up its role at the 'inter-confederal level' (ii) over those two years, many of Intersind's companies will prepare to join the relevant sectoral federations of Confindustria (e.g. *Federmecanica* for metalworking, *Federalimentare* for food processing, etc.) (iii) at the end of that process, Intersind would change its name and become the federation representing 'network services' (i.e. telecommunications, transport, road communication, and broadcasting).[165]

This incorporation was seen as a necessary step in the large scale privatisation process which was taking place in Italy, which was 'the largest privatisation programme in the world during the 1990s, raising about €90 billion between 1992 and 1999' (Deeg, 2005:531). On the one hand, this action reaffirmed government's resolve to proceed with privatisation, while on the other hand it would expand Confindustria's membership and representativeness into services sectors which were until then dominated by state ownership. Indeed, after the announcement of the merger, Confindustria president Luigi Abete stated that:

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[164] Interview with business representative at 'Dissolution of Intersind ends Italy's experience of public sector employers' associations' *European Industrial Relations Observatory,* (February 1998), available at: http://www.eurofound.europa.eu/eiro/1998/02/feature/it9802221f.htm [last retrieved: 25 September 2011].

[165] 'Intersind joins forces with Confindustria' *European Industrial Relations Review,* No. 246, (July 1994), p.9-10.

> 'it is an important step in the associations' representativeness widening process and the overcoming of a historical division between public and private employers, and the proof that privatisation process is taking place effectively.'[166]

Notwithstanding its high importance, the mere fact of incorporation of *Intersind* into *Confindustria* could not lead deterministically into centralisation of bargaining in all the network-services sectors. At the first stage, Federcomin (*Federazione delle Imprese delle Comunicazioni e dell' Informatica)* was established in 1998 after the dissolution of Intersind, and absorbed some of the personnel and functions in Intersind. While new telecoms firms in the sector became members of *Federcomin*, the association *lacked the legal competence* to negotiate wage agreements with trade unions.

As will be described in the next section *Confindustria* sought to protect the collective interests of both small and large firms in the telecommunications sector ensuring 'fair competition' and it negotiated the first sectoral agreement. Subsequently, it created the first employer association *Assotelecommunicazioni or ASSTEL* on 29 November 2002 with legal competence to represent members in labour relations issues. The association was not dominated by the ex monopoly Telecom Italia, and the president was usually coming from one of the new entrants (e.g. Vodafone) balancing views of smaller operators and the incumbent in frequent meetings.[167] Eventually, Federcomin was merged with FITA (*Federazione Italiana del Terziario Avanzato per I Servizi Innovativi e*

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[166] 'Intersind joins forces with Confindustria' *European Industrial Relations Review,* No. 246, (July 1994), p.9-10.
[167] Author's interview with sectoral business representative 3 (22 November 2010).

Professionalli) on 7 November 2006 and formed an association of 'network services' as *Confindustria Servizi Innovativi e Tecnologici*.[168] The telecoms employer association, ASSTEL, became one of the affiliates of this federation.

Table 6.4. Main Business Associations in the Italian Telecoms Sector.

Organisation	***Function***	***Membership/Affiliation***
Associazione delle Imprese Esercenti Servizi di Telecomunicazioni ASSTEL	Represents the interests of all telecommunications companies; Employers Association since 2002; Signatory to national wage agreement;	Members: 28 companies (2006); affiliated member of *Confindustria Servizi Innovativi e Tecnologici*
Confindustria Servizi Innovativi e Tecnologici Est. 2006	Represents the interests of main telecommunications, radio-television, and Information / Communication Technology companies	Outcome of a merger between *FITA* and *Federcomin*; affiliate member of *Confindustria*
Intersind Est. 1958	Represented all state-owned (IRI) public enterprises with sectoral divisions	Dissolved in 1994-6 and absorbed by *Confindustria* and evolved into *Federcomin*
Source: Author's Own Elaboration.		

6.5. Italian Telecoms in the early 2000s: The Centralisation of Wage Bargaining

6.5.1. The Path Towards the Successful Centralisation of Wage Bargaining

The institutional change from firm level bargaining to sectoral-level bargaining in Italian telecoms was neither easy nor straightforward. In the context of increased penetration of flexible working practices at the company level, the sector was characterised by extreme diversity in working conditions across firms. As mentioned above, the entry of Omnitel in the mobile telephone sector back in

[168] 'Nasce Confidustria Servizi Innovativi: Fusione tra Federcomin e Fita sotto la presidenza di Alberto Tripi' *Confindustria Press Relase,* (7 November 2006), available at: http://www.assinform.it/aree_sx/informazioni/comunicati/comunicato_071106_fusione.htm [last retrieved: 25 September 2011].

1995 was very disturbing for unions' plans to have a single national contract. Not only did Omnitel apply the metalworking sector wage agreement, but it also recruited highly qualified professionals from Telecom Italia and paid them individually higher salaries.[169] In other words, the new entrant was seriously disturbing a level-playing in competition following a strategy of 'poaching' highly skilled personnel, and thus 'free-riding' on acquired experience and training. This situation led the unions to call national strikes several times during the mid 1990s in order to voice their demand for a single wage agreement across the sector.[170]

By the end of the 1990s the situation was as follows. Telecom Italia had a rather generous wage agreement covering employees across the group such as TIM (mobile telephony) and Tin.it (internet service provider). On the other hand, Omnitel (mobile telephony) and Infostrada (fixed telephony) applied the less generous metalworking sector agreement, but it could afford to pay a premium for poached personnel. Wind (fixed telephony) applied a special agreement negotiated with the union confederations similar to the electricity sector agreement of ENEL (of which it was a subsidiary). Finally, other smaller companies were not bound by any agreement. As a corollary, the three peak confederations' (CGIL, CISL, and UIL) shared the fear that the combination of

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[169] Single Telecom agreement problems *European Industrial Relations Review,* No. 255, (April 1995), p.9.
[170] Single Telecom agreement problems *European Industrial Relations Review,* No. 255, (April 1995), p.9.

multiple bargaining arrangements and high competitive pressures would lead to a 'race-to-bottom' for working conditions.[171]

Initially, the strategy of the unions was to put pressure for the extension of the Telecom Italia agreement across the sector. However, its terms and conditions were considered as very onerous by the new companies, and refused to apply it to their workers. Instead, smaller firms voiced their preference for decentralised firm level bargaining.[172] In that period the firms did not want a single contract, and there were divisions between them: Telecom Italia wanted a contract because it was a necessary tool for safeguarding peace during the restructuring process; the larger players such as Vodafone, Wind and Omnitel wanted a contract, but not the high level of Telecom Italia; and finally, the smaller telecom operators did not want any contract at all. [173]

Faced with those divisions between firms, the unions' strategy was to put pressure to Telecom Italia and Confindustria to negotiate an agreement for the sector since there was no employer association with a legal competence to represent firms in this sector. To this end, they pursued meetings with the CEO of Telecom Italia, to pull the strings in Confindustria and other firms. Indeed, after meeting with the trade unions in July 1999 the new CEO of Telecom Italia,

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[171] Author's interviews with sectoral labour representative 3 (25 May 2010); and with sectoral labour representative 4 (25 May 2010); 'Dispute and talks over sectoral agreement for telecommunications', *European Industrial Relations Observatory,* (March 2000), available at: http://www.eurofound.europa.eu/eiro/2000/03/inbrief/it0003147n.htm [last retrieved: 25 September 2011].

[172] 'Sectoral agreement signed in telecommunications' *European Industrial Relations Observatory,* (July 2000), available at: http://www.eurofound.europa.eu/eiro/2000/07/feature/it0007158f.htm [last retrieved: 25 September 2011].

[173] Author's interview with sectoral labour representative 6 (25 November 2010) and with sectoral business representative 3 (22 November 2010).

Roberto Colaninno, agreed to provide the sector with a single contract. Colaninno characterised this choice as 'essential and decisive' adding that:

> 'I am ready to personally sit at the bargaining table. I fully agree with the unions; it remains to overcome plenty of resistance from various interested companies'[174].

Unlike their Greek counterparts, the Italian unions were resolved to push for the centralisation and put the broader interests of employees from the whole sector above the narrow interests of employees in the incumbent operator. Notably, they refused to negotiate a new contract for Telecom Italia employees, unless wage bargaining is first centralised covering all employees in the sector.[175] Their strategy was to pursue the argument of ensuring 'fair competition' (*concorrenza leale*) in the sector for which Confindustria was committed in an Accord of 1998 with the government and the peak confederal unions. As a labour informant noted:

> 'The June 2000 national contract was an effect of an earlier Accord between government and the peak business and labour associations. It was the era of privatisation of public services; the idea was thrown in an Accord in 1998[176] towards fair competition in telecommunications, water, gas and electricity, transportation. The telecoms market was liberalised and the competition was intense because of the new entrants. The new firms increasingly took market shares 'crashing' Telecom Italia. Therefore, the aim of the accord between Confindustria, government, and us was to ensure fair competition and focus competition on services quality and prices, rather than on wages.'[177]

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[174] 'Colaninno: sì si contratto unico delle Tic' *La Stampa*, No.203, (27 July 1999), p.16.
[175] 'Sindacati: a rischio il rinnovo del contratto per Telecom' *La Reppublica,* (27 August 1999), p.38.
[176] This is the 'National social pact for development and employment' signed in 1998.
[177] Author's interviews with sectoral labour representative 3 (25 May 2010) and with sectoral labour representative 4 (25 May 2010).

Responding to this situation, Confindustria recognised that the simultaneous application of different wage agreements in the sector was creating conditions of unfair competition among firms.[178] Therefore, it joined the bargaining table in order to create a level-playing field for its members by agreeing with the unions on the first national contract.[179] The final agreement, which was signed on 28 June 2000, provided for minimum conditions across the sector, which coincided with the lowest rates applied in telecoms companies and a component of 'negotiated flexibility'.[180] As showed in the previous sections, unions were pragmatic in accepting flexibility in employment practices, since their priority was to increase employment levels and bargaining coverage for the whole sector. The agreed minimum wages accommodated the new and smaller companies in the sector, which could benefit from social peace.[181] Additionally, the introduction of performance related pay was delegated to the firm level bargaining to suit individual needs of firms. In exchange, the agreement confirmed the two-level bargaining system, whereas its coverage was wide including not only companies providing telephone services, but also internet service providers and small specialised firms. The other side of the compromise involved an increase in numerical and working time flexibility, in exchange for training and reduction of total working time.

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[178] Author's interview with sectoral business representative 3 (22 November 2010).

[179] Author's interviews with sectoral business representative 3 (22 November 2010); with sectoral labour representative 3 (25 May 2010); and with sectoral labour representative 4 (25 May 2010).

[180] 'Contratto unico per la new economy' *La Stampa,* No. 174, (29 September 2000), p.19; 'Un contratto unico per la new economy' *La Reppublica,* (29 June 2000), p. 35.

[181] Author's interview with sectoral business representative 3 (22 November 2010); 'Sectoral agreement signed in telecommunications' *European Industrial Relations Observatory,* (July 2000), available at: http://www.eurofound.europa.eu/eiro/2000/07/feature/it0007158f.htm [last retrieved: 25 September 2011].

In terms of working time flexibility, the agreement specified the establishment of 'individual time bank accounts' and employees would be able to accumulate overtime and subsequently take those hours as leave.[182] Weekly working time was set at 38.5 hours on average over a six-month reference period. The increase in flexibility was dubbed as 'just-in-time working' (*flessibilita tempestiva).* Management could request from labour representatives - at a very short notice (48 hours) – to alter working time schedules (up to 48 hours per week and 12 hour per day) so as to meet increased customer demand in busy periods.[183] In terms of numerical flexibility (fixed term contracts and temporary agency work) this was permitted at levels exceeding those provided in previous firm level agreements. However, the increase came with strings attached. Fixed-term contracts and agency workers could constitute no more than 30 per cent of the overall workforce (15+15), in the South of Italy (*Mezzogiorno*) and no more than 26 per cent of the workforce (13+13) in companies located in the Central and Northern parts of Italy. A further increase might be permissible, but it was delegated to the firm level bargaining to suit individual companies needs. The atypical contracts were allowed to deal with skills shortages and labour shortages during periods of holidays, training leaves, busy periods of production or peaks of activity due to new orders or to the launch of a new product. In other words, working time flexibility was instrumentally used to meet fluctuations in customer demand. Finally, the agreement provided for the operation of job-sharing and teleworking and included the establishment of two joint national committees entrusted with

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[182] 'First telecommunications accord' *European Industrial Relations Review,* No. 319, (August 2000), p.8.
[183] 'First telecommunications accord' *European Industrial Relations Review,* No. 319, (August 2000), p.8-9.

the introduction of functional flexibility. The first committee would analyse training needs in the sector, develop training programmes, and generally manage vocational training, while the second would examine the job classification system update occupational profiles in response to rapidly changing technologies.

The national sectoral agreement in 2000 created a momentum and triggered changes in labour and business representations. Peak associations took initiatives to solidify the institution of sectoral wage bargaining. The unions were already in the process of taking over representation from their metalworking colleagues, becoming the sole representatives in the sector. After SLC and FISTEL, UILCOM was the third union to be transformed into a sectoral 'network services' union representing all firms in telecoms, information technology and broadcasting. On the business side, Confindustria took the initiative to organise telecoms companies around a new association ASSTEL. The smaller firms in the sector which were resistant to centralisation of wage bargaining were faced with a united front from the three labour confederations. Thus, the worse-case scenario for the resisting firms was the prospect of continuous industrial unrest, whereby their employees would ask for comparable wages with those in Telecom Italia'[184] At the same time, the multiplicity of bargaining arrangements was creating conditions of unfair competition, since some firms were not bound by any agreement, thus obtaining a cost advantage.

Confindustria was able to offer to individual firms a very lucrative compromise getting for them the 'best of both worlds': ensure peace and minimum common

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[184] Author's interview with sectoral business representative 3 (22 November 2010).

standards at the sector level and increasing employment flexibility at the company level. Notably, ASSTEL was an association that was not dominated by Telecom Italia, but took the interests of smaller operators and other firms into account. Hence, employer associability was established in the sector and the negotiation of wage agreement was taken over by their sectoral associations (ASSTEL for employers, and SLC, FISTEL, and UILCOM for trade unions) which signed a new sectoral agreement in 2002.

The unions kept up their strategy of avoiding a 'race to bottom' in working conditions, however, accepting the introduction of 'negotiated flexibility'. By 2005 the remaining conflict concerned the employment conditions of call-centre employees and the unions wanted to include measures to increase their job security.[185] The unions' primary demand was the extension of the wage agreement coverage to include call-centre companies and regulate subcontracting and outsourcing in a growing and very competitive sector. Indeed, on 3 December 2005 trade unions and ASSTEL signed a new sectoral agreement, thus, solidifying the centralisation of wage bargaining. Generally its provisions included an increase in negotiated flexibility in exchange for extension of coverage: (i) the agreement's coverage was extended to include all relevant firms to which major telecoms players were outsourcing: call-centre firms, web-services and digital/multimedia services companies; (ii) job classification system would be updated to define new job profiles in information technology and networks; (iii) fixed term and agency contracts would be permitted according to

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[185] 'New collective agreement reached for telecommunications sector' *European Industrial Relations Observatory,* (January 2006), available at: http://www.eurofound.europa.eu/eiro/2005/12/feature/it0512305f.htm [last retrieved: 25 September 2011].

previously agreed levels; (iv) work-entry contracts and professional apprenticeships would be allowed within limits; (v) the reference period for working time could be extended to one year after negotiation at the company level, while overtime was made more flexible by removing quarterly restrictions and replacing them with an annual limit; (vi) compliance with laws on social security and health and safety was a prerequisite to combat undeclared and irregular work in subcontracting firms; (vii) RSUs in telecoms firms were granted increased information and consultation rights, especially with regard to equal opportunities and workplace health and safety.[186]

6.5.2. Protecting the Outsiders: Outsourcing and the Almaviva Call Centre Group

Despite the sectoral agreement of 2005, free riding tendencies persisted from firms operating in the periphery of telecoms, mainly outsourced call centres. The paramount importance of the sectoral wage bargaining agreement was to homogenize working conditions and ensure fair competition across the sector. At the same time it allowed sufficient increase in flexibility in response to changes in technology or fluctuation in demand. The level of pay and conditions stood at the lowest common denominator for telecoms companies. This was very important to accommodate the interests of both the incumbent operator and smaller operators.

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[186] 'New collective agreement reached for telecommunications sector' *European Industrial Relations Observatory,* (January 2006), available at: http://www.eurofound.europa.eu/eiro/2005/12/feature/it0512305f.htm [last retrieved: 25 September 2011].

The signing of the 2005 agreement moved the game into a different segment of the newly developing market: call centres. As far as call centres were an 'in-house' part of the telecoms companies divisions, the wage agreement would ensure a 'level-playing' field across the sector. However, call-centre services became increasingly important for customer care and sales, and new specialised companies emerged in the sector. The main telecoms operators were 'outsourcing' the relevant business functions to those firms, which in turn operated outside the limits set by the sectoral wage agreement.

The most notorious case of such a specialised firm was the Almaviva Group. Almaviva was a holding company, leader in information technology and customer relations management (CRM) services, which was running the largest group of call centres in Italy (including Atesia, Cos, Alicos and InAction).[187] In an effort to cut labour costs, the Almaviva Group was using extensively 'freelance work contracts'. This type of work contract was used for both 'inbound operators' receiving calls to provide information or technical assistance, but also 'outbound operators' who were working on sales promotion and telemarketing activities. The freelance contracts were a case of 'spurious' or 'bogus' self-employment. Although employees were employed in freelance contracts, those were successively renewed, as if they were permanent. Additionally, the employees performed a pre-specified set of tasks with a regular employer and in standard locations, which are the characteristics of a standard 'dependent employment relationship'. Almaviva had an incentive to resort to an extensive

[187] 'Under new agreement call centre workers to get standard employment contracts', *European Industrial Relations Observatory,* (May 2007), available at: http://www.eurofound.europa.eu/eiro/2007/01/articles/it0701039i.htm [last retrieved: 25 September 2011].

use of this type of contracts, because it avoided several costs that would have to pay for a normal open-ended employment contract (e.g. sickness and accident benefits; maternity leave; paid holidays; yearly bonus, etc.). Crucially, about 70 per cent of the call-centre workers were women, so maternity leave would potentially represent a serious cost for the company.

The trade unions were very attentive on that matter, because it created the potential for firms to avert the regulations imposed by the national agreement across the sector and circumvent them via outsourcing business functions to Almaviva Group. Indeed, by 2005 not only Telecom Italia, but also TIM and WIND had outsourced their call-centres to Almaviva. This was a clear instance of 'free-riding' tendency: while the telecoms firms took advantage of the benefits of social peace from the national contract, they avoided the regulations stemming from the contract.

The strategy of the unions was to put pressure to call-centre firms by forging a coalition with the state. Indeed, the sectoral unions used their political influence and eventually drafted together with the Minister of Labour a Government Circular (No. 17/2006) that restricted the use of freelance workers in call centres.[188] More specifically, the Circular made illegal the successive renewal of freelance contracts for workers supplying online customer care and assistance ('inbound operators'), because in this type of job there was 'ample scope to

[188] 'Labour Inspectorate rules to secure job contracts for call centre workers' *European Industrial Relations Observatory,* (December 2006), available at: http://www.eurofound.europa.eu/eiro/2006/09/articles/it0609019i.htm [last retrieved: 25 September 2011].

determine beforehand the content, intensity and form of the work undertaken'.[189] Importantly, the unions had begun drafting the Circular with the Minister's predecessor Roberto Maroni, of the outgoing centre-Right Berlusconi government.[190] However, the change in government to the centre-Left under Romano Prodi did not disrupt the process of regularisation. In June 2006 the Circular was finalised under the supervision of the newly appointed Minister of Labour, Cesare Damiano.[191] According to the Circular the call-centre companies were allowed to use freelance contracts only for call centre operators hired for very short-term promotional and marketing campaigns. Apart from the Circular, the unions were armed with the state's coercive power and used Labour Inspectorate's investigations strategically to put pressure on Almaviva.[192] Almaviva initially resisted the implementation of the Circular noting that 'the rulings of the Labour Inspectorate and the Circular are contradictory' and threatened that the cost of regularising all of its contracts may require it to resort to dismissals.[193]

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[189] Government Circular quote from Labour Inspectorate rules to secure job contracts for call centre workers' *European Industrial Relations Observatory,* (December 2006), available at: http://www.eurofound.europa.eu/eiro/2006/09/articles/it0609019i.htm [last retrieved: 25 September 2011].

[190] 'Sei «inbound»? Assunzione garantita al call center' *Corriere della Sera,* (12 October 2006), p.39; 'Labour Inspectorate rules to secure job contracts for call centre workers' *European Industrial Relations Observatory,* (December 2006), available at: http://www.eurofound.europa.eu/eiro/2006/09/articles/it0609019i.htm [last retrieved: 25 September 2011].

[191] 'Labour Inspectorate rules to secure job contracts for call centre workers' *European Industrial Relations Observatory,* (December 2006), available at: http://www.eurofound.europa.eu/eiro/2006/09/articles/it0609019i.htm [last retrieved: 25 September 2011].

[192] 'La mossa di Damiano sui call center, nuove ispezioni La Cgil: assumere tutti. Le aziende: andremo all' estero' *Corriere della Sera,* (24 August 2006), p.27.

[193] Interview with sectoral business representative at: 'Labour Inspectorate rules to secure job contracts for call centre workers' *European Industrial Relations Observatory,* (December 2006), available at: http://www.eurofound.europa.eu/eiro/2006/09/articles/it0609019i.htm [last retrieved: 25 September 2011].

However, the resisting firm was not able to withstand the pressure from the labour-state coalition. Eventually, the unions reached a deal with the Almaviva Group in December 2006, agreeing to convert existing 'freelance contracts' into open-ended employment contracts for 6,500 employees. [194] The result was that 97 per cent of employees in the company would be recruited on a basis of an open-ended employment contract. Even more importantly, the company agreement provided that Almaviva would join ASSTEL and thereby, all workers would be covered by the telecommunications' wage agreement provisions.

Why had the Minister taken the side of the unions on this issue? The explanation of the government's motivation rests on both electoral concerns and priorities in the government agenda. The unions were strategic in using their political clout with both centre-left Prodi governments and the centre-right Berlusconi governments to achieve their objectives. However, there was no permanent relationship with any party; they could invite either party to support them, because their links went both ways. As a labour informant noted:

> 'The new culture among unions is to be strictly non-partisan and independent from ideologies. Of course we have some leaders who support one party, but there is no organic relationship. Government support for specific issues can be created on a case-by-case basis. Nobody tells the other what to do. But the political parties in general (right, left, centre) are not in a position to avoid totally what the trade unions ask them, because we are in any case representing a lot of people.'[195]

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[194] 'Under new agreement call centre workers to get standard employment contracts', *European Industrial Relations Observatory,* (May 2007), available at: http://www.eurofound.europa.eu/eiro/2007/01/articles/it0701039i.htm [last retrieved: 25 September 2011].

[195] Author's interviews with sectoral labour representative 3 (25 May 2010) and with sectoral labour representative 4 (25 May 2010).

In parallel, the government agenda's priorities were congruent with unions' demands. The increase in atypical contracts was an instance of an abuse of the provisions of the labour Law No. 30/2003 (known as *Legge Biagi*) which allowed greater flexibility in the labour market. While the unions had agreed with those labour market reforms, the extensive use of 'freelance work' contracts increased precariousness in the labour market and was against unions' strategy for 'negotiated flexibility'. The Almaviva group was a notorious case that abused the system even when performing outsourced tasks for government services (such as ISTAT). The government, therefore, had an interest in showing a 'firm hand' for the proper implementation of the law, especially since the Minister of Labour, Cesare Damiano, was in the past a leading trade unionist at CGIL and was in favour of 'good flexibility'.[196] After the conclusion of the agreement the Minister stated that it was 'a success for both the trade unions and the company' and encouraged both sides to 'look forward and to ensure homogeneous employment conditions and labour cost stability in all call centre companies, guaranteeing thus equal rights for the workers and fair competition among the companies'.[197]

In sum, the unions accepted increased use of flexible working practices for existing employees -even in the privatised incumbent Telecom Italia- but also sought to regulate and restrict the abuse of flexibility for more precarious workers. In other words, the unions were willing to relax protection for 'insiders' but also increase job security for typical 'outsiders'. They took a much more

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[196] 'La mossa di Damiano sui call center, nuove ispezioni La Cgil: assumere tutti. Le aziende: andremo all' estero', *Corriere della Sera,* (24 August 2006), p.27.
[197] Interview with government representative at: 'Under new agreement call centre workers to get standard employment contracts', *European Industrial Relations Observatory,* (May 2007), available at: http://www.eurofound.europa.eu/eiro/2007/01/articles/it0701039i.htm [last retrieved: 25 September 2011].

balanced approach that their Greek counterparts, who ignored the situation of ‘outsiders’, and only defended job security for ‘insiders’ (see next chapter). Thus, the unions’ inclusive strategy, using their political clout to ease the cleavages between insiders and outsiders paid off and the newly established institution of sectoral wage bargaining solidified.

6.5.3. Negotiating the Restructuring of the Sector: Vodafone and Telecom Italia

Italian unions did not only forge a labour-state coalition with respect to increasing the coverage of the wage bargaining agreement to call-centre employees. The unions’ inclusive strategy is also evidenced in the cases of business restructuring. Unlike their Greek counterparts, the Italian unions were not focused on negotiating the restructuring only in the large incumbent operator. Instead, unions used their political links with the government so as to put pressure to private sector firms, so that the institution of sectoral wage bargaining is not jeopardised and restructuring is part of negotiated solutions. The cases below document how the unions pursued this inclusive strategy catering the interests of employees across the sector.

By the end of the 2000s Telecom Italia remained the largest telecommunications group in Italy; however, it had already gone through three successive hostile takeovers. Despite earlier efforts to restructure, Telecom Italia was still burdened with more than €35 billion debt, and the management announced that redundancies would be necessary. Trade unions sought to influence the pattern of restructuring, averting outright redundancies. Instead, they signed an agreement in 2008, stipulating that 5,000 workers would be registered onto 'mobility lists'. 'Mobility procedures' (*mobilità*) was one of the innovative 'social shock absorbers' introduced since 1991 mainly for blue-collar manufacturing workers, and their aim was to facilitate re-entry into work of redundant employees.[198] Workers 'in mobility' received supplementary benefit and were enrolled on a regional 'mobility list' (*lista di mobilità*), while firms that hired personnel from the mobility list were entitled to tax concessions.

The restructuring process did not end there, as cost-savings have not been achieved and in January 2009, the Telecom Italia Group presented its Strategic Plan for the period 2009–2011 to the trade unions, whereby the plan specified the need for further 4,000 redundancies.[199] The trade unions opposed this action and requested the intervention by the Minister of Labour of the centre-right Berlusconi government, Maurizio Sacconi. The Minister responded, agreeing to act as a mediator, and on 21 July 2009, a meeting took place at the Ministry, between Telecom Italia management, the Telecom Italia RSU, and sectoral associations SLC, FISTEL and UILCOM. After intensive and long negotiations, the parties reached an agreement whereby the anticipated redundancies were to be replaced by 1,054 employment 'solidarity contracts'. This meant that weekly

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[198] 'Italy's system of social shock absorbers examined' *European Industrial Relations Observatory,* (February 1998), available at: http://www.eurofound.europa.eu/eiro/1998/02/feature/it9802319f.htm [last retrieved: 25 September 2011].

[199] 'Solidarity contracts agreed at Telecom in place of collective redundancies' *European Industrial Relations Observatory,* (August 1999), available at: http://www.eurofound.europa.eu/eiro/2009/08/articles/it0908019i.htm [last retrieved: 25 September 2011].

working hours would be reduced for full-time personnel turning their contracts into part-time jobs, so that their jobs are saved via job-sharing.

However, the market pressures for further downsizing of Telecom Italia were not averted. In April 2010, Telecom Italia's revised Strategic Plan for 2011-12 announced a total of 6,822 redundancies to be implemented by December 2012. In response to this announcement the strategy that trade unions followed was two-pronged: first they engaged into industrial action organizing a national strike in July; and second they invited the Minister of Labour, Maurizio Sacconi and the Deputy Minister of Telecommunications to intervene into negotiations mediating the resolution of the conflict. Indeed, the Ministers met with representatives from Telecom Italia management and the sectoral unions at the Ministry of Economic Development on 14 July 2010.[200] Following this meeting, Telecom Italia suspended the dismissal notices that it had sent to 3,700 employees, and after a series of meetings, the parties reached an agreement on 4 August 2010.

The main aspects of the agreement included: mobility procedures for 3,900 employees, 'solidarity contracts' for 1,100 employees, and suspension of all plans to outsource business functions such as IT activities, human resources, and customer operations, keeping them 'in-house'. On the one hand, those entitled to be registered in 'mobility lists' would be employees who are up to 36 months before retirement. On the other hand, employees entitled to solidarity contracts would be younger employees, and while their working time and pay was reduced,

[200] 'Agreement signed on redundancies at Telecom Italia' *European Industrial Relations Observatory,* (October 2010), available at: http://www.eurofound.europa.eu/eiro/2010/09/articles/it1009019i.htm [last retrieved: 25 September 2011].

they were expected to attend vocational training programmes so that they are retrained. Following this arrangement, the CEO of Telecom Italia, Franco Bernabè, declared that 'the agreement is perfectly in line with efficiency objectives foreseen in the Strategic Plan and that, at the same time, it guarantees workers' protection from job losses'[201].

But as mentioned above, the unions did not only cater the interests of the employees in the incumbent operator. A few years earlier, the trade unions pursued a similar strategy in Vodafone Italia Group. In September 2007 the Group announced that about 900 employees dispersed across various company locations would be affected by a business branch transfer to the specialised transaction processing services company Comdata.[202] The trade unions recognised immediately the risks for circumventing the rules set out in the national wage agreement. The 'transfer of employees' was another form of outsourcing and Comdata was not a member of ASSTEL, therefore, would not be obliged to abide by its rules and regulations. The strategy of the unions was consistent: hinging on the state's coercive power. They invited the Minister of Economic Development to informally mediate the negotiations with the two firms. Indeed, the Minister responded to this call and the agreement between Vodafone, Comdata, and the sectoral trade unions was concluded at the premises

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[201] Interview with sectoral business representative at: 'Agreement signed on redundancies at Telecom Italia' *European Industrial Relations Observatory,* (October 2010), available at: http://www.eurofound.europa.eu/eiro/2010/09/articles/it1009019i.htm [last retrieved: 25 September 2011].

[202] 'Vodafone Italia reaches agreement on transfer of employees' *European Industrial Relations Observatory,* (January 2008), available at: http://www.eurofound.europa.eu/eiro/2007/12/articles/it0712019i.htm [last retrieved: 25 September 2011].

of the Ministry.[203] According to the agreement's provisions, Comdata was required to apply to the transferred workers the nationwide wage agreement for the telecommunications sector, which was binding for Vodafone, while the firm level agreement would stipulate performance-related pay and other matters. Even more, the same provisions would also apply to any future recruits in the transferred branch, so that a double contractual regime is avoided. In the case of bankruptcy of the Comdata group, Vodafone was obliged to either find a third party to which all of the workers would be transferred or re-hire them in Vodafone Group.[204]

To sum up, restructuring in the sector was the outcome of negotiations, although the state stepped in to support the process. The centralisation of wage bargaining in the sector solidified, and unions forged a coalition with the state to increase coverage covering equally employees in the privatised incumbent and in the new firms. In all wage agreements, flexibility was introduced in an orderly fashion, relaxing the protection of core employees (insiders) and increasing the protection of peripheral employees (outsiders). The most recent wage agreement in telecommunications was signed in 2009. The agreement followed from the earlier ones allowing for 'negotiated flexibility' and setting common standards across the sector. It is important to note that the agreement was in line with the 'new model'

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[203] 'Vodafone Italia reaches agreement on transfer of employees' *European Industrial Relations Observatory,* (January 2008), available at: http://www.eurofound.europa.eu/eiro/2007/12/articles/it0712019i.htm [last retrieved: 25 September 2011].

[204] 'Vodafone Italia reaches agreement on transfer of employees' *European Industrial Relations Observatory,* (January 2008), available at: http://www.eurofound.europa.eu/eiro/2007/12/articles/it0712019i.htm [last retrieved: 25 September 2011].

(*nuovo modello contrattuale*) as outlined in the previous chapter on Italian banking.

6.6. Conclusion

Liberalisation and privatisation transformed the Italian telecommunications sector. The public monopoly that was created in the early 1960s was dissolved under the requirements of European regulation. New players entered the telecoms market, both foreign and domestic. Competitive pressures intensified, and the dominant position of the incumbent was eroded. Telecom Italia was privatised in 1997 and -in conjunction with technological advances- this led to unprecedented changes in work organisation towards extensive use of flexible working practices. The pervasive introduction of flexibility is observed across the sector and smaller firms voiced their preferences towards solely firm level bargaining to better suit their business plans and needs. But these developments did not bring about convergence to Anglo-Saxon decentralised bargaining structure. Wage bargaining was centralised at the sectoral level and was extended to cover call-centre firms. The main aim of the chapter was to explain this trajectory of institutional change.

The argument that the chapter put forward was that the institutional change is explained by employer associability and labour-state coalitions. Confindustria stood out as a strong employers association both willing and able to negotiate sectoral agreements and strike effective compromises for its members. The motivation lay in ensuring a level playing field across the sector avoiding unfair competition between its members. The compromises catered the long run interests of both large and small telecoms firms, providing a generous introduction of flexibility and allowing for cost standardisation at the lowest common denominator. However, an explanation based solely on the role of employer associability would be terribly incomplete.

The case study suggested that the state intervened in critical junctures after invitation by the unions and a 'labour-state coalition' was forged. Notably, the unions were able to 'speak with a single voice' and steer the interest of the state, irrespective of the political party in government. The Minister of Labour mediated conflicts and facilitated compromises so that wage bargaining coverage is extended. The motivation behind state intervention was partly due to electoral concerns; the unions' vote was too important to ignore. But there were also state-functional considerations such as ensuring the implementation of the government agenda on labour market flexibility. Liberalisation, intensification of competition and increased flexibility were necessary but not sufficient conditions to lead to a decentralised bargaining structure. In a nutshell, 'employer associability' and a 'labour-state coalition' mediated the EU liberalisation and introduced 'negotiated flexibility' ensuring a level playing field across the sector. If any of those two conditions was missing, the process of centralisation would be most likely unsuccessful.

Chapter 7 The Failure to Centralise Wage Bargaining in the Greek Telecommunications Sector

7.1. Introduction

The previous chapter examined the process of centralisation in Italian telecommunications sector. The monopoly of Telecom Italia was dissolved and new entrants appeared in the market, the competition intensified and flexibility was introduced in the internal work organisation of firms. However, despite the strong appearance of factors which are held to destabilise centralised bargaining arrangements, the sector experienced – against all odds – a centralisation of bargaining at the sector level. It was shown that the two factors that enabled this path of institutional change were 'employer associability' and a 'labour-state coalition'. On the one hand, Confindustria filled the gap of the missing sectoral association, first by negotiating on behalf of firms in the sector, and then by creating a distinct employer association. Additionally, the unions were able to speak with a single voice, and steered the interest of the government in support for the extension of wage bargaining coverage to resisting or reluctant call-centre firms. The unions also accepted a great deal of 'negotiated flexibility' in the internal work organisation of firms. This particular path of institutional change contrasts sharply with the path of Greek telecommunications.

The Greek telecommunications sector is an instance of an industry in which decentralised bargaining became the norm after liberalisation. In contrast to the Italian case outlined in the previous chapter, the case exhibited the trajectory of convergence to the Anglo-Saxon model of decentralised bargaining. Before the liberalisation of the sector, there was only one firm providing services. Within the state-owned monopoly of OTE, wage bargaining took place at the company level. The opening up of the telecoms market started with the entrance of mobile telephony operators in 1993, while fixed telephony was fully liberalised in 2001. After the full liberalisation there was an effort to centralise bargaining, just like the Italian case, however, it was marked by a failure. The aim of this chapter is to account for this failure of centralisation.

The first factor explaining the differential trajectory of change in wage bargaining is the absence of employer associability. As will be shown in the chapter, representation of business interests was segmented along multiples lines: the incumbent operator and the larger operators were represented in one association (SEPE), while the smaller alternative operators were organised in another association (SATPE). Even more, those associations were merely trade associations, lacking the legal competence to represent their members on the labour relations realm.

Additionally, the previous chapters suggested that apart from employer associability, a labour-state coalition may tilt the balance in wage bargaining institutional arrangements. If unions are able to speak with a ‘single voice’, they may strike a coalition with the state and use state's coercive power to put pressure to individual firms so that they curb their resistance. As this chapter shows the conditions that could facilitate such a labour-state coalition in support of a sectoral agreement were also missing. On the one hand, unions were unable to speak with a single voice and steer the interest of the government. The representation of labour was fragmented between the union representing employees in the incumbent operator (OME-OTE), and new trade unions which were created bottom-up in some of the new firms, while employees in other firms were not represented at all. The divisions were not only organisational, but also ideological: the strong union of OME-OTE was dominated by the socialist faction affiliated with the PASOK party, while smaller unions were either autonomous or were associated with smaller leftist parties. The OME-OTE union was essentially not interested in centralising bargaining across the sector. Instead, it was focused on preserving the narrow interests of its core members delaying liberalisation and getting compensation for the restructuring. Therefore, when the demand for a centralised agreement came from a smaller trade union in the sector, the latter was unable to steer the government's interest. Still, the government did forge a narrower 'labour-state coalition' with only OME-OTE to advance its government agenda for the full privatisation of OTE.

The structure of the chapter is as follows. I will first provide a brief overview of the developments in the industry until the 1980s. Then I will examine the sweeping structural changes that are observed during the 1990s, namely the EU liberalisation of the market, the process of privatisation of OTE, and the intensification of competition. Next I pin down the pervasive introduction of flexible employment practices and the development of a dualism in the sectoral labour market between core OTE employees and the rest of employees in the sector. Following from this, the chapter will shift the focus on changes observed in the representation of labour and business, detailing the sprung of ‘narrow interest’ associations on both the labour and the business side. This provides a glimpse of the factors that were missing. The account of events during the mid 2000s will pay close attention to the failed attempt at centralisation. The unions appeared divided, while the chapter shows how the OTE union followed a protectionist, introvert, and exclusivist strategy with regard to the restructuring of the sector. Unions were unable to speak with a ‘single voice’ and OME-OTE excluded precarious employees from representation. Instead, it used its particularistic ties with political parties to gain generous compensation from the state.

7.2. Greek Telecoms until the 1980s: Monopoly and State Ownership

Until 1949, telephony services in Greece were provided by AETE (*Greek Telephone Company)*, which was a Siemens subsidiary. The international telegraphy was shared between a subsidiary of the British Cable & Wireless (*Eastern Telegraph*) and the post-office (*Tachidromia Tilegrafia Telefona-TTT)*.[205] After the end of World War II, the national communications infrastructure was largely destroyed, and the cost of repairs was borne out by US Marshall Plan funds. As a result, the Greek government decided to nationalise the

[205] ‘Siemens: a century of experience in transactions’ *Ethnos* (14 June 2008).

above companies, merging them into a single one: the Hellenic Telecommunications Organisation (OTE), keeping separate the post office. With Law 1049/1949 the state granted OTE with the monopoly in telecommunications services that involved 'the exclusive right to administer and exploit all telecommunication media on wire and radio transmission, local trunk, national and international communications' (Constantelou, 1993:435).

In the following decades, the performance of the incumbent telecommunications operator was ambivalent. On the one side, it started from a very low telephone density, but managed to attain very high rates by the end of the 1950s: 2.88 telephone connections per 100 inhabitants, which was the 10th highest rate in Europe.[206] Additionally, OTE was among the first European operators to automate the intercity telephone calls in the 1960s, and was the 6th in Europe to launch an antenna of satellite communications in 1970. The above achievements were due to a rapid expansion of its network and substantial infrastructure investments.

On the other side, customer demand was never fully met and customer service quality deteriorated as demand for new telephone connections increased over time.[207] Indicatively, by the end of the 1980s the waiting time for a new telephone line installation was about 5.5 years (Michalis, 1994:447). The inefficient performance of OTE was exacerbated by the prevalence of clientelistic practices. It was not an unusual phenomenon to recruit personnel on the basis of political

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[206] 'Overview of OTE Group' *Kathimerini* (26 September 2007).
[207] 'OTE jumps out of the ashes of the civil war' *Kathimerini* (12 July 2008).

affiliation criteria, catering for electoral interests of successive centre-right and socialist governments (Constantelou, 1993:437; Michalis, 1994:443). This led to overstaffing in OTE reaching a peak of employment at about 30,000 employees in 1986 (Doukas, 2009). Even more, the management of the organisation suffered from excessive government interference. For instance, equipment procurement had to be approved by special government committees in the Ministry of Telecommunications, while the tariff policy was co-determined with the Ministry of Economy, which sought to keep costs for consumers low (Constantelou, 1993:437).

It is important to mention that during the 1980s the telecommunications sector (along with others such as electricity and transport) was a target of the socialist government's 'socialisation policy'. Socialisation was one of the main programmatic aims of the PASOK party under Andreas Papandreou, when he came into power in 1981. The scheme's rationale entailed 'introducing elements of social control, decentralisation, and democratic planning' (Lyberaki and Tsakalotos, 2002:103) in public sector enterprises which produced some sort of public good. Thus, 'social control' of those enterprises was expected to be achieved *via* employee participation in management, and eventually promote economic development. The scheme was introduced with Law 1365/1983, but -as with many other laws- its actual implementation was delayed. The plan was to change the organisational structure of public sectors enterprises, introducing a new body called *Representative Assembly of Social Control.* The latter consisted of representatives from a variety of stakeholders such as the state, local government, consumer organisations, and the trade unions, and was charged with charting the medium-term and long-term planning in companies of public interest. As Lyberaki and Tsakalotos (2002) note the ASKE sought to promote greater transparency and efficiency, but fell victim of clientelistic practices and was never fully implemented. By the end of the 2000s ASKE and the right of unions to be represented in the board of directors were abolished (Zambarloukou, 2010:244).[208]

Similarly to Italian telecommunications, the changes in the sector were influenced from developments at the European Union level in the late 1980s. The Commission's plans to gradually open up European telecommunications prompted the specification of a five-year development plan (1989-1993) for OTE. The overall aim of the plan was to modernise the existing infrastructure and radically improve provision of services along specific targets: (i) higher telephone density per 100 inhabitants; (ii) reduction in waiting list for outstanding applications and zeroing the waiting list for business applications (iii) reduction of waiting time for residential applications to a few months and 1 month for businesses (iv) increase the digitisation of existing infrastructure (Constantelou, 1993:436). To assist the aim of modernisation, the European Commission, with the agreement of the Greek government, requested from the UK based management consultancy, Coopers, Lybrand & Deloitte, to conduct a study on the reform of the telecommunications market (Michalis, 1994). This EU impetus for liberalisation was destined to radically transform the Greek telecommunications industry.

[208] 'The employees out of the Executive Board of OTE' *Kathimerini* (17 August 2001).

7.3. Greek Telecoms in the 1990s: State Withdrawal and the Market Unbound

7.3.1. EU Liberalisation, Privatisation, and Intensification of Competition

The liberalisation of telecommunications in Greece started with the separation of telecoms operation and regulation. In 1992, the centre-right government under Prime Minister Konstantinos Mitsotakis passed Law 2075/1992 to establish the first independent regulator, the National Telecommunications Commission (EET). Its actual operation was delayed until the summer of 1995, and even then it was still focused only on the mobile telephony segment of the market. Law 2668/1998 of the socialist government under Prime Minister Kostas Simitis reorganised the postal services sector, and as a result, the authority was renamed into National Telecommunications and Post Commission (*henceforth:* EETT) and entrusted with the supervision and regulation of both sectors. The regulatory framework was subsequently revised and streamlined with European Union Directives, first with Law 2867/2000, which enhanced the supervisory, auditing and regulatory powers of EETT; and later with Law 3431/2006 which further specified the institutional framework of electronic communications and networks (Internet).

The early 1990s also mark the fist attempt to privatise the national telecoms company (OTE). The procedure that was favoured by the right-wing Mitsotakis government was a mix of asset sale and share issue privatisation. It was planned that the 35 per cent of ownership of OTE would be sold to a strategic investor via auction; 10 per cent would be sold to the public via issuing shares; and another 4 per cent was earmarked for OTE employees. The Minister of Economy at the time, Stefanos Manos, sent out an information sheet with a call for tenders. Several global players expressed interest, such as: Nippon Telegraph and Telephone (NTT), Telefonica, and France Telecom.[209] Despite the interest, the plan to privatise OTE backfired on the government. It met fierce resistance not only from the socialist opposition under Andreas Papandreou and the socialist dominated trade union of OTE (Dimas, 2010:19-24), but also from prominent members of the New Democracy party, such as the late Miltiadis Evert, who later succeeded Mitsotakis as a leader of the party. The slim parliamentary majority of the Mitsotakis government was lost and the government collapsed in 1993.[210]

Following the October 1993 elections, the new socialist government under Prime Minister Andreas Papandreou, abandoned the plans for finding a strategic investor for OTE. However, the PASOK government did not fully forsake the plans for privatisation. The reason was identical to the Italian case. Fiscal consolidation for the entry to the Economic and Monetary Union was considered as completely unattainable without -at least partial- privatisations (Dimas, 2010:26; Pagoulatos, 2005:360; Pagoulatos and Zahariadis, 2011:3). OTE was

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[209] 'The curse that haunts New Democracy: How did the Mitsotakis government fall' *To Vima* (27 April 2008); 'The chronology of privatisation of OTE', *OME-OTE Unpublished Manuscript*.

[210] Due to a very strict electoral system that was very close to a proportional one, the centre-right New Democracy government 1990-93 under PM Konstantinos Mitsotakis controlled only 151 parliamentary seats (out of 300), and therefore, had an extremely slim parliamentary majority. The fall of the Mitsotakis government is attributed to Antonis Samaras, who established his own political party 'Political Spring' in 1993. Ironically, Antonis Samaras returned to New Democracy in 2004, and eventually succeeded in winning the New Democracy party leadership in 2009 winning over Mitsotakis' daughter Mrs. Dora Bakoyianni.

one of the gems in the crown of public sector companies, and certainly, on the top of the privatisation list.

Yet, the socialists followed a much different approach for the privatisation of OTE than the earlier centre-right government. Instead of asset-sale privatisation (transferring a block of shares to a strategic investor) the government pursued a more 'gradualist' approach of shares issuing. Indeed, the initial public offering of OTE stocks (8 per cent value) took place in 1996 under the socialist Prime Minister Kostas Simitis, who succeeded the late Andreas Papandreou. It is important to note that the privatisation was already underway under PM Papandreou, however, vacillations over the legal framework which specified the procedure, delayed the first offering. This gradualist approach was followed by the socialist government until 2004, when the state owned 33 per cent of the organisation. The 'gradualist' approach in privatisation ended with the acquisition of majority ownership by Deutsche Telekom in 2008 under New Democracy. The next table documents this gradual reduction in the government's ownership of OTE.

Table 7.1. Government Ownership (%) of OTE, 1993 - 2009.

Year	*Governtment's Stake*	*Note*
1993	100%	
1994	100%	The government enacts Law 2257/1994 setting the minimum government stake at 75 per cent.
1995	100%	
1996	94%	Public Offering of OTE shares.
1997	81%	Public Offering of OTE shares.
1998	65%	The government enacts Law 2642/1998 setting minimum government stake at 55 per cent. Public Offering of OTE shares.
1999	51%	The government enacts Law 2731/1998 setting minimum government stake at 51 per cent. Public Offering of OTE shares.
2000	51%	The government enacts Law 2843/2000 setting minimum government stake at 33.3 per cent.

2001	51%	
2002	33.4%	Public Offering of OTE shares.
2003	33.4%	
2004	33.4%	
2005	39%	The Government's stake increases temporarily to 48.6 per cent, because it exercises an option to convert a bond into shares. This is followed by public Offering of OTE shares.
2006	39%	The government enacts Law 3522/2006 which abolished the requirement for a minimum government stake.
2007	28.3%	The government sells another 10 per cent to institutional investors.
2008	25%	Deutsche Telekom acquires 20 per cent of OTE from Marfin Investment Group, 3 per cent from the government, and 2 per cent from the Athens Stock Exchange.
2009	20%	Deutsche Telekom acquires another 5 per cent of OTE from the government and becomes the larger shareholder.
Source: OME-OTE (nd) 'The chronology of OTE privatisation' *Unpublished Manuscript*.		

Despite the failure of the Mitsotakis government to privatise OTE, it still managed to achieve one part of its government agenda for telecommunications industry: open up the mobile telephony segment. On 5 August 1992 there was an auctioning of 2 GSM licences. OTE was excluded from the procurement process with the rationale that the market was not 'large enough' to allow for a third player, while it was claimed that two private companies would ensure competition and efficiency.[211]

As a result, competition in the Greek mobile telephony started with a duopoly between a consortium led by Vodafone (Panafon) and a consortium led by Telecom Italia (Telestet), later acquired by WIND. After the change of government to the socialist party in 1993, the incumbent operator OTE was allowed to enter the mobile telephony, and in April 1998 it launched its own

[211] 'Telecoms Liberalisation: Bear with me, please…' *Eleftherotypia* (6 August 2001).

subsidiary, Cosmote using the much more expensive DCS 1800 system. Although Vodafone started as the leader in the mobile market, Cosmote soon surpassed both competitors, and by June 2001, it had the highest share of subscribers. This was accomplished with a very aggressive product market strategy that entailed 'price wars' and product diversification via launching new services. The radically changing market shares between the leader and the followers in the market are presented in the following table with UK as a comparison. UK is chosen as a yardstick of a very competitive market, since it was liberalised earlier than any other in Europe.

Table 7.2. Market Shares (based on subscribers) in Mobile Telephony across Greece and the UK, 2000 – 2009.

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EL	Leading operator	38	37	43	38	41	n/a	40	37	43	48
	Main competitor	28	26	32	35	31	n/a	31	35	27	26
	Third+Other competitors	34	37	25	27	27	n/a	29	28	30	26
UK	Leading operator	30	28	27	26	26	25	26	24	25	21
	Main competitor	26	25	25	25	25	24	23	23	22	20
	Third+Other competitors	44	47	48	49	49	51	51	53	53	59

Source: European Commission (2000; 2001; 2002; 2003; 2004; 2005; 2006; 2007; 2008; 2009).

Intensification of competition took also place in the fixed-telephony segment of the market, albeit with a notable delay. While most of the European Union member states were obliged to open up their markets by 1st January 1998, the Greek government managed to negotiate with the European Commission a three-year extension, so that full liberalisation would take place in 2001.[212] In those three years, OTE was expected to modernise and prepare for an environment with high competitive pressures, while the necessary institutional framework would be

[212] The same extension until January 2001 was also granted to Ireland and Portugal, see 'Down to the Wire' *Business Europe (The Economist Intelligence Unit),* (24 September 1997), p.4.

set. In the years that followed 2001, the independent regulator authority assumed a more active role, making sure that OTE does not take advantage of its dominant position. Thus, new entrants were allowed to compete with OTE (and with each other) offering services using the 'last mile' of the network of OTE. As we shall see in a later section, these policies stirred a continuous conflict between OTE and the independent regulator, in which the OME-OTE union was involved (see below).[213]

One of the major players which entered the fixed telephony market in the early 2000s was the Greek public electricity company (DEH) via a consortium with Italian WIND and formed the 'Tellas' company. Additionally, two major internet service providers ('Forthnet' and 'Hellas On Line') took advantage of their network infrastructure to offer fixed telephony services. The new entrants included also several new start-up companies (e.g. Lannet, Telepassport, Teledome, Altec Telecoms, and Vivodi). However, few of them manage to survive the intensity of competition, and by the late 2000s many were either acquired by larger players or were closed down.[214]

The regulatory impact of EETT afforded the new players to erode OTE's monopoly position. As part of its policy to inject competition in the market, EETT took a number of measures, for example, introducing number portability to allow easy switching between providers. Additionally, the regulatory frame became stricter, when EETT made a significant reduction in OTE's wholesale

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[213] 'Telecoms Liberalisation: Bear with me, please…' *Eleftherotypia* (6 August 2001).
[214] '2000-2009 The decade of telecoms liberalisation' *Weekly Telecom,* Issue 48/2009, available at: http://www.weeklytelecom.gr/?action=newsletter&disp_issue=295 [last retrieved: 25 September 2011].

charges and prohibited OTE from charging consumers (retail price) below a certain threshold. From EETT's standpoint, the policy sought to prevent OTE from applying price squeeze upon its competitors (Pagoulatos and Zahariadis, 2011:18) and OTE suffered a steady decline in market share. The following table documents this fall in market shares and compares Greece with UK, again, as a benchmark of a very competitive market.

Table 7.3. Incumbent Telecom Operator's Market Share (by retail revenue) in Fixed Telephony across Greece and the UK, 1997 - 2008.

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
EL (OTE)	100	100	100	100	99	98	86	n/a	74	72	75	71
UK (BT)	87	82	73	68	55	59	64	n/a	51	56	58	55
Source: European Commission (2000; 2001; 2002; 2003; 2004; 2005; 2006; 2007; 2008; 2009).												

The general strategy that was followed by OTE during the socialist governments' rule (1993-2004) was akin to that of building a '*national champion*'. OTE's role in the Balkan telecommunications market was similar to that of National Bank of Greece in the Balkan banking sector and both firms led the corporate expansion to the emerging markets of Southeastern Europe. Indeed, OTE (either directly, or indirectly via Cosmote) expanded in the neighbouring markets via setting up subsidiaries or acquiring stakes in existing firms. This expansion was either in mobile or fixed telephony segments.[215] While this expansive strategy enhanced the position of OTE as a major player in the region, however, it did run out of steam. As Pagoulatos and Zahariadis (2011:5) argue:

> '...underinvestment threatened OTE's ability to catch up with the next big technological waves, such as broadband telephony. Thus, the "national champion"

[215] The stakes included the following countries: Albania (Cosmo-holding), Bulgaria (Globul), Former Yugoslavic Republic of Macedonia (Cosmofon), Romania (Cosmorom, Romtelecom), Serbia (Telekom Srbija), and Armenia (Armentel).

> regionalisation strategy gave way to internationalisation through entry of and transfer of management to a major foreign strategic partner.'

When the government changed to the centre-right in 2004 under Prime Minister Kostas Karamanlis, the state had a minority ownership, which was standing at 33 per cent. The new government tried to find a major telecoms player to acquire OTE, however, it was unsuccessful. Therefore, it followed the 'gradualist' approach of share-issue privatisation, selling another 10.7 per cent of issues to institutional investors. The next year, it hired an international consultant consortium to look for a strategic investor again; however, this search did not yield any results.[216] While OTE's presence in the Balkans was impressive, there were three elements that made the acquisition of OTE unattractive: (i) OTE was overstaffed; (ii) the employees enjoyed a job-for-life tenure by law; and (iii) the rights of minority shareholders were not strong enough. The government sought to act on all three terrains to proceed with its privatisation agenda. During August 2007, just one month before the elections, the government amended Law 2190 on corporate governance, strengthening the minority shareholder rights and abolition of the limit of 33 per cent for the government stake in OTE.

This change had unintended consequences, obviously not foreseen by the government. The combination of this institutional reform with a high exposure of OTE shares in the stock market, made OTE vulnerable to a hostile takeover. This opportunity was seized by Marfin Investment Group (MIG), a holdings company with investments in several sectors. MIG started silently buying out OTE shares

[216] 'The political adventure of OTE' *To Vima* (20 April 2008).

from the stock market, reaching gradually a 19.9 per cent of OTE. The revelation of this slow acquisition led to a public outcry for the government, which was blamed for 'being caught while sleeping'.

Marfin Investment Group requested a seat in the board of directors and expressed the interest in taking over management of the firm from the government. Moreover, it publicly assured employees and the government that its intention was to make a long-term investment and develop OTE as a national champion, rather than liquidate it or sell off parts.[217] However, the government did not favour such an acquisition. To avoid this hostile takeover, the Minister of Economy, George Alogoskoufis, passed quickly a bill through which set a 20 per cent limit for the participation of individual investors in companies of 'strategic importance' such as OTE[218]. It was clear that this bill was against European competition rules, and would be challenged by the European Commission. In practice, this bought some time for the government to find a 'white knight' and achieve a friendly takeover.

Interestingly, the government preferences diverged diametrically from the Italian's government. The Italian government sought to avoid a Deutsche Telekom (DT) acquisition, on the grounds that Telecom Italia should not be renationalised and owned by the German state. Instead, the Greek government wanted the very same German firm to be the buyer of OTE, considering Marfin

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[217] 'We are seeking transparency and proper corporate governance for OTE' *Marfin Investment Group Press Release,* (10 December 2007).
[218] '«No» to hostile takeover of OTE' *To Vima* (28 Septmber 2007).

Investment Group's interest as highly opportunistic.[219] After consultations between government, Deutsche Telekom, and MIG, a deal was arranged so that DT buys MIG's shares at a mutually convenient price and another 5 per cent from the government. DT agreed under the condition that it would eventually purchase an additional 5 per cent from the government, which would give a total of 30 per cent ownership. This made DT 'the largest shareholder with rights to appoint the Chief Executive and to have a majority of seats on the company's board'.[220] In 2009 the takeover of OTE by Deutsche Telekom was finalised.

7.3.2. Restructuring the Telecoms: Technological Change, Employment Flexibility and Downsizing

In parallel with the processes of liberalisation and privatisation that were described in the previous sections, the telecommunications sector underwent a period of fast moving technological change. OTE kept up modernising its infrastructure with the aid from European Community Support Frameworks. In the early 1990s the project of digitisation of its network took off, while it began developing its infrastructure for Internet provision and mobile telephony. This prepared –rather slowly- the ground for the upcoming privatisation and liberalisation just like in Italy. In 1995 OTE was transformed into an SA company and developed subsidiaries in separate market segments (e.g. internet, mobiles, leasing, real estate, and currency exchange). The digitisation of the telephone

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[219] Author's interview with sectoral labour representative 11 (27 April 2011); '«No» to hostile takeover of OTE' *To Vima,* (28 September 2007).
[220] 'Deutsche Telekom in €2.5bn Greek buy' *Financial Times,* (17 March 2008).

network offered to customers more diversified product services, while the waiting time for new phone connections was minimised to less than a month. Finally, OTE introduced ISDN Internet technology in 1996 and ADSL broadband in 2003.[221]

On the mobile segment of the market, product innovation was led by the private companies. For instance, WIND was first to offer 3G mobile network in 2003 and the others followed suit the year after.[222] Mobile telephony in Greece proved to be much more popular than anticipated, and demand was very high. By 2008 the mobile phone penetration rate stood at 146 per cent of the population, only second in Europe after 151 per cent in Italy (ICAP, 2008:1). Companies from both mobile and fixed telephony segments followed international trends towards the 'combined business model'. As a result, fixed telephony company Tellas was acquired by mobile telephony company WIND in 2008, and fixed telephony company 'Hellas On Line' made a strategic alliance with mobile telephony Vodafone in 2009. This wave of mergers boosted the development of new products combining fixed telephony and broadband ('double-play') or even more recently cable TV ('triple-play').

The constant and rapid technological change in products was bound to affect work organisation inside firms. Indeed, the extent of use of flexible working practices by new operators is staggering: fixed-term, three-hour or four-hour

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221 'History of OTE' available at: http://www.ote.gr/portal/page/portal/OTEGR/TheCompany/OTEToday/HistoryAtAGlance [last retrieved: 25 September 2011].

222 'The Greek Market' available at: http://www.eekt.gr/Market/GreekMarket/tabid/99/Default.aspx [last retrieved: 25 September 2011].

contracts; temporary agency staff; project based self-employment (*blokaki);* outsourcing; flexi-time; and long-hours with (sometimes illegally unpaid) overtime.[223] In addition to that, on-call working, tele-working and performance-based pay were also in the ascendancy.

In contrast to this mosaic of flexible working practices utilised by its competitors, OTE had an important built-in 'rigidity' in the employment relationship. Owing to its erstwhile status as a public sector enterprise, employees in the company were guaranteed a 'job-for-life tenure', akin to civil servants. While privatisation advanced incrementally in the 1990s, this job protection remained for core employees. As a result, the company's recruitment on open-ended employment relationships was almost frozen. Instead, all new hires in OTE and other OTE group companies took place via an increase in fixed-term and part-time contracts. Other sources of flexibility entailed an increased use of subcontracting and agency staff, especially for employees in subsidiaries (for example, in the printing and call-centre subsidiaries Infote and OTEplus).

Until the mid-2000s OME-OTE unionists were successful in defending job-for-life tenure for core employees in OTE, but at the same time, a peripheral workforce was developing in the subsidiary enterprises. The picture in the sectoral labour market reflected multiple labour market segmentation Within the OTE Group, which was the larger employer; one could distinguish between core

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[223] Author's Interview with sectoral labour representative 11 (27 April 2011); Interviews of sectoral labour representatives at: 'Trade Unionists of Wind and Vodafone speak to newspaper Aristera! [Left]*',* available at: http://www.koel.gr/index.php?option=com_content&view=article&id=3627:--wind---vodafone---&catid=181:276-23102009&Itemid=163 [last retrieved: 25 September 2011].

employees with job-for-life tenure and peripheral employees in OTE subsidiaries with private law employment contracts. Second, in the telecoms industry generally, the segmentation was between employees who were covered by wage bargaining agreements, and employees in firms whose wage was set individually and were outside bargaining coverage. Those firms were operating 'at the margin' between OTE's wholesale and retail prices, and therefore were trying to keep their costs as low as possible via extensive use of flexibly working employees. The picture of strong labour market dualism foreshadowed the problems in the representation of labour interests.

7.4. The Representation of Labour and Business

7.4.1. Labour: Divided Unions and Organisational Fragmentation

OME-OTE was a trade union federation, which was established in 1982 and had as affiliate members 'occupational' unions operating in OTE divisions.[224] Although OME-OTE appears as a unitary trade union representing OTE employees, there are several internal divisions that play out inside the organisation: (i) between employees with different skills and qualifications (secondary vs. higher education)[225]; (ii) between white collar sales staff and blue

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[224] Its affiliate members include: PET-OTE (*Pan-Hellenic Union of OTE Technicians),* PASE-OTE (*Pan-Hellenic Association of OTE Employees),* EETE-OTE (*Union of OTE Tertiary Education Employees*), SE-Cosmote (*Association of Cosmote Employees),* PSR-OTE (*Pan-Hellenic Association of OTE Radiotelegraph Operators),* and PSEP-OTE (*Pan-Hellenic Association of OTE Informatics Employees).*

[225] For instance, several employees in OTE were recruited for job descriptions requiring a minimum of secondary education, whereas in fact they were overqualified and possessed graduate and/or post-graduate degrees. The primary union for employees with higher education requested repeatedly the recognition of those employees' acquired skills, and by implication, their upgrading into a higher job classification and pay scale. On the other hand, the primary union for employees

collar technicians and engineers; and (iii) between union federations affiliated with different political parties. Except for the Cosmote union, none of the other affiliate unions had the right to negotiate or sign wage agreements. Instead, the preparation of each bargaining round was as follows: OME-OTE federation called the representatives of the primary occupational unions to submit the demands for the employees they represent. This usually involved wage-related and non-wage (institutional) issues, and from this process the federation derived its overall bargaining platform to be used during negotiations.[226]

Union factionalism along ideological lines was present in OME-OTE in line with the general structure of trade unionism in Greece. However, it is important to note that OME-OTE has been a stronghold of the PASKE faction associated with the socialist party. The faction associated with the centre-right New Democracy party comes second in power. The two factions combined have a strong grasp over the OME-OTE union, since they possess 10 out of 13 seats in the Executive Committee and 17 out of 22 seats in the Administrative Board. Reflecting this balance of power, the president of OME-OTE is customarily from the socialist PASKE, while the general secretary from centre-right DAKE.

While OME-OTE is a federation and could –in principle- accept other unions as members, in practice it remained very much introvert, focused on representing OTE Group employees. As we shall see below, this 'exclusivist' strategy was an

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with secondary education was against such a change, requiring those employees to be paid according to the job description for which they were recruited.

[226] 'Representativeness of the social partners: Telecommunications sector – Greece' *European Industrial Relations Observatory* (May 2007), available at: http://www.eurofound.europa.eu/eiro/studies/tn0606017s/gr0606019q.htm [last retrieved: 25 September 2011].

important factor accounting for the failure of unions to speak with a single voice. Although the OME-OTE federation amended its statute so that it is able to accept other organisations as members, however, its eligibility requirements remained so strict, which in practice excluded the new smaller unions in the sector.[227] The only new affiliate member that it accepted after the liberalisation of the sector was the union established in its Cosmote subsidiary. The Cosmote union was established in 2000, after an initiative from employees to exercise their rights to associate. In 2002 the union managed to agree General Staff Regulations with Cosmote management. As with other firms in the sector, flexibility was pervasive, since it relied heavily on outsourcing and subcontractors. Employees were working for Cosmote, but their employment relationship lied with some other company. The Cosmote union managed to minimize the extent of outsourcing for its own employees.[228] Additionally, it signed its first firm-level agreement in 2004 and then another two agreements in 2006 and 2008. In the process, the union benefited from its affiliation with OME-OTE, the federal union of the parent company.

Employees in new telecoms firms lacked the opportunity to benefit from OME-OTE representation, because OME-OTE required from a union to have at least 500 members in order to become an affiliate. In fact no other union in the sector satisfies this requirement, and the gap of workers' representation in the new firms was filled 'bottom-up' with grass-roots radical unionisation. In 2005 a group of employees managed to set up a firm level union in WIND (PASE-TIM/WIND -

[227] Author's interviews with industrial relations expert 2 (11 February 2010) and with sectoral labour representative 11 (27 April 2011).
[228] 'History of Trade Union of Cosmote' available at: http://www.unicosmo.gr/content.asp?catid=87 [last retrieved: 25 September 2011].

Pan-Hellenic Union of TIM/WIND Employees), and subsequently unions were established in mobile telephony Vodafone (*PASE-Vodafone - Pan-Hellenic Union of Vodafone Employees*) as well as in fixed telephony company Forthnet. Firm level agreements were eventually agreed in Wind and Vodafone, usually under the reluctant acceptance from the firms' management, which generally followed an anti-union stance.[229] In their effort to establish firm level unions, grass-roots organisers conducted field visits to workplaces across Greece.[230] The organisers in WIND were aided more from the Athens Labour centre (*Ergatiko Kentro Athinas)* the Federation of Private Employees (*OIYE*) and SMT rather than OME-OTE.[231] However, these unions did not develop internal political factions, because they thought that this would deter potential members, and preferred to be autonomous and focus on workplace issues.[232]

Finally, there are two other smaller unions that are more sectoral in perspective, rather company-based: the SMT *(Union of Waged Technicians)* and the Athens-based SETIP (*Union of Workers in Telecommunications and Informatics).* SMT was an occupational union whose members were employed on spurious self-employment contracts (*blokaki*) in the informatics and telecoms sector or were unemployed technicians and engineers.[233] SETIP was disconnected from other unions, since it was controlled by the communist party (KKE).

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[229] Author's interview with sectoral labour representative 13 (2 May 2011).
[230] Author's interview with sectoral labour representative 13 (2 May 2011).
[231] Author's interview with sectoral labour representative 13 (2 May 2011).
[232] Author's interview with sectoral labour representative 13 (2 May 2011).
[233] Author's interview with sectoral labour representative 13 (2 May 2011) and with sectoral labour representative 12 (2 May 2011).

This organisational fragmentation might lead one to the conclusion that any effort for coordinated action on the part of unions was *a priori* destined to fail. However, as the Italian case suggests, organisational fragmentation *per se* is not a hindrance for coordinated action. Instead, if traditional unions had followed an inclusive strategy, they might have been able to temper the radicalisation of employees in new firms, and unite them under a single banner. The table below summarises the representation of employees in the sector and the next section turns to the side of business representation.

Table 7.4. Main Trade Union Organisations in the Greek Telecoms Sector.

Organisation	***Function/Affiliation***	***Membership/Structure***
Federation of Employees of OTE (OME-OTE) Est. 1982	Represents all employees in OTE with permanent employment relationship; Negotiates firm level agreements; Affiliated with peak-level tertiary union GSEE	*Members:* 6 primary (occupational) Unions; *Union factions*: PASKE; DAKE; AS; ESK; ASE; AKOM.
Trade Union of Waged Technicians (SMT) Est. 1999	Represents spurious self-employed and unemployed in technical companies, telecommunications and informatics; Signs occupational agreement for employees in technical firms.	*Union factions:* PAME, Left Schema, Aftonomi Paremvasi, Enosi Ergazomenon
Pan-Hellenic Trade Union of TIM (WIND) Employees (PASE-TIM) Est.2005	Represents employees in TIM(WIND) company; Signs firm level agreement; Affiliated with Federation of Private Sector Employees (OIYE)	No political factionalism.
Pan-Hellenic Trade Union of Vodafone Employees (PASE-Vodafone) Est.2008	Represents employees in Vodafone company; Signs firm level agreement. Not affiliated with secondary-level union.	-
Trade Union of Forthnet Employees (SEF) Est. 2009	Represents employees in Forthnet company; Does not sign firm level agreement.	-
Trade Union of Employees in OTE Call Centres (SETK-OTE) Est. 2009	Represents fixed-term contract and part-time employees in OTE Call Centres, Not affiliated with OME-OTE.	-
Trade Union of Workers in Telecoms and Informatics (SETIP)	Represents employees in telecommunications and informatics companies in Attica. Affiliate-member of PAME.	-
Source: Author's Own Elaboration.		

7.4.2. Business: 'Narrow interests' Trade Associations and the Lack of Employer Associability

The first business association in the broader telecoms sector was SEPE (*Federation of Hellenic Information Technology & Communications Enterprises*). SEPE was established in 1995, but the main aims of the association were not concentrated in representing business interests in the labour relations realm. Instead, the aim was to focus on the technological and regulatory aspects of the market. In addition to that, the firms that constituted the founding members were almost exclusively coming from the information technology sector, which was thriving in the mid-1990s. Mobile telecommunications companies (Vodafone, WIND) were making their first steps at the time. By the early 2000s, OTE and the large fixed and mobile telephony companies became members of this association. Despite the enlargement of membership to include telecommunications companies, the logic of interest representation that was enshrined in the association's statute remained narrow, focused on lobbying for regulatory and technological issues. The next section will document in more detail the only case when the association faced a rather weak challenge to engage with labour relations issues.

The full opening up of fixed-telephony market and the entry of new players triggered the creation of new interest groups. The second instance in the sector is SATPE (*Greek Licensed Telecommunication Providers Association*), which was established in 2003. This association was the initiative of the smaller telecoms operators, which were given licences to offer fixed-telephony services over

OTE's last mile of the network. The association's main function was to represent the interests of its members in the implementation of European Union regulation with regard to liberalisation and acted mainly as a lobbying group vis-à-vis the national regulator.[234]

Although SATPE started with very dynamic and promising companies, the Greek market proved to be very competitive for some of those firms. Several of this association's founding members were forced to go out of business (e.g. Lannet and Teledome) by the end of the 2000s.[235] The business strategy of the new firms was very much focused on low cost products and services, rather than product diversification. Although new subscribers' base was expanding rapidly, the 'cash-flow' problems pushed many firms out of the market.[236] In the late 2000s other smaller providers merged (e.g. Vivodi with OnTelecoms) or made strategic alliances with larger firms (e.g. 'Hellas On Line' with Vodafone) so that they survive competition.[237] These developments cumulatively contributed to the weakening of the clout of the aforementioned association.

Finally, EEKT (*Association of Mobile Telephony Companies*) was established in 2008. This association had only three members (Cosmote, Vodafone, and WIND), all of which operated in the mobile telephony market. The rationale behind its creation was to influence regulatory issues, and not surprisingly, the life of the association was foreseen to last until September 2011. This short-

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[234] Author's interview with sectoral business representative 4 (2 May 2011).
[235] 'On 'feet of clay' the telecommunications market' *Kathimerini* (6 June 2009).
[236] Author's interview with sectoral business representative 4 (2 May 2011).
[237] 'Merger between Vivodi and On Telecoms' *Kathimerini* (21 July 2009).

timeframe was not random; 2011-12 was the period when the earlier mobile frequencies licenses were expected to expire; and the independent regulator (EETT) intended to conduct an open tender procedure for the award of spectrum usage rights. This explains the very narrow range of interest, on which the association was based: lobbying the independent regulator procurement process.

Table 7.5. Main Business Associations in the Greek Telecoms Sector.

Organisation	***Function/Affiliation***	***Membership/Structure***
Federation of Hellenic Information Technology & Communications Enterprises (SEPE) Est.1995	Represents information and communications technology enterprises; Affiliate member of European Industry Association for Information Systems, Communication Technologies & Consumer Electronics (DIGITALEUROPE).	18 alternative telecoms providers
Greek Licensed Telecommunication Providers Association (SATPE) Est. 2003	Represents Greek electronic communications providers; Main function is to promote the regulatory framework in telecommunications in fair competition. Affiliate member of European Telecoms Association (ECTA)	350 informatics and telecoms firms
Association of Mobile Phone Companies (EEKT) Est. 2008	Represents Greek mobile phone companies	3 firms (Cosmote, Vodafone and Wind)
Source: Author's Own Elaboration.		

The above discussion suggests that an employer association with legal competence to negotiate agreements was entirely missing in the Greek telecoms case. Even more it shows that business representation was segmented along many lines: SEPE represented info-tech companies and big telecoms providers; SATPE represented smaller telecoms providers; and EEKT represented only mobile telephony companies. Thus, the prospect of having an association able to mediate effectively the interests of both small and large firms was unlikely. All associations were oriented towards representing 'narrow interests' regarding regulation, acting as mere trade associations. Overall, the lack of employer associability foreshadowed the slim chances of success for the attempt to centralise bargaining in the sector.

7.5. Greek Telecoms in the late 2000s: Inertia and Decentralised Bargaining

7.5.1. The Path Towards the Failure to Centralise Wage Bargaining

So far the chapter reviewed the processes of liberalisation and privatisation in the market that brought about the intensification of competition. Additionally, it gauged the extent of flexibility introduced in employment relationships resulting into a labour marked dualism. While the Greek telecommunications sector experienced the very same challenges with the Italian telecoms sector, developments in wage bargaining diverged. In contrast to the Italian case, the effort to centralise bargaining was marked by a total failure, and firm level decentralised bargaining continued to be the norm. In the previous section it was highlighted how unions were unable to speak with a single voice and the larger OTE union erected barriers to a unitary representation of labour interests. Additionally, it was shown that employer associability was missing, and business associations were oriented towards representing narrow interests, divided between larger and smaller firms. This section will show how and why these divisions played out in the attempt to centralise bargaining across the sector.

OME-OTE was clearly the stronger trade union capable of leading any attempt at bargaining centralisation. However, bargaining centralisation was very low in the agenda of OME-OTE, which was very much focused on the negotiation of its internal restructuring. On 2 February 2006, the Executive Council of OME-OTE met and decided the bargaining platform for the start of negotiations for a new company agreement, including no less than 56 items.[238] The items were of various types*:* generic demands (e.g. reform of the Greek tax system, fewer indirect taxes), demands pertaining to the operation of the independent regulator EETT (e.g. relaxation of tariff restrictions to OTE); company-union issues (union representatives to get back the right to be represented at the board of directors of OTE); resistance to further privatisation; request for funding from OTE for training programmes for trade unionists; and other non-wage issues such as benefits and holidays. Crucially, it was *the first time* that their platform included the demand to centralise bargaining with an industry-wide agreement covering all firms in the sector. However, the item was very low in the priorities of the unions. OME-OTE was not resolved to push for the centralisation of bargaining and this is evidenced in two ways.

First and most importantly, this bargaining platform was sent to the customary recipients for the conclusion of the firm level agreement (OTE, several Ministries, Labour Inspectorate, etc). No other telecom firm in the sector or any business association (e.g. SEV) was notified of such a demand. This means that there was nobody on the other side to bargain for the firms in the sector and the unions did not have any strategy to pursue this demand. This contrasts sharply

[238] ‘Bargaining Framework 2006’ *OME-OTE Announcement* (9 February 2006).

with the strategy followed by Italian telecoms unions, which put pressure to Telecom Italia and invited Confindustria for the centralisation of bargaining (chapter 6).

The second reason that justifies the lack of resolve from the part of OME-OTE was that the specific demand was made without any prior consultation with employees in the rest of the sector. The firm level union in WIND was already established at the time, but was not consulted. More generally, OME-OTE did not consult any other union in the sector and the communication channels were broken. This demand was included in the bargaining platform to appease the smaller leftist political factions within OME-OTE and only a minority within OME-OTE supported the centralisation of bargaining.[239] Indeed, the dominant socialist and centre-right factions in the Executive Council did not take any further action towards its realisation. It was an instance of 'window dressing' and just another item in the 56-item long agenda.

In contrast, the only attempt to centralise bargaining in the sector came from the small occupational union of engineers' (SMT) in 2008.[240] In contrast to OME-OTE, SMT was resolved to push for bargaining centralisation. This time there were prior consultations with representatives from firm level unions in the sector (Wind, Forthnet, and Vodafone) and individual employees (Altec Telecoms, etc). Additionally, SMT carried out a brief study to support the demand for a sectoral agreement, and then sent the invitation to SEPE, which was one of the two

[239] Author's interview with sectoral labour representative 12 (2 May 2011).
[240] 'Memorandum accompanying Proposed Collective Agreement for 2008 in the sector of telecommunications' *Unpublished Manuscript of SMT Trade Union.*

business associations in the sector.[241] SEPE responded with a rejection of this demand. When the request for a sectoral contract went to the Organisation for Mediation and Arbitration and SEPE was invited to the negotiations, SEPE argued that it lacked of legal competence to negotiate labour relations issues on behalf of its members and the mediation process ended there.[242]

But apart from the lack of legal competence, a number of other factors hindered this effort. First of all, the union made one tactical error and several strategic ones. The tactical error lied on the fact that on its request for sectoral agreement, it asked for wage levels that surpassed by far those in firm level agreements provided in WIND. The trade unionists in SMT were not interested in setting lowest common standards in the sector.[243] This contrasts sharply with the Italian unionists' strategy that prioritised 'avoiding a race to bottom'. In other words, SMT unionists were maximalist in their demands, and this meant that the chances for success were even slimmer. But perhaps more important were the strategic miscalculations that the union made.

The unions' side appeared unable to speak with a single voice. SMT lacked the requisite size to put pressure to employers via a national strike as the Italians. Instead, they only organised a small demonstration outside the SEPE association's offices.[244] Finally, SMT lacked the support of OME-OTE. The latter was the largest union in the sector and had established links with both political

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[241] *Technikoi Dromoi* (November 2008); Author's interview with sectoral labour representative 12 (2 May 2011) and with sectoral labour representative 13 (2 May 2011).
[242] Author's interview with sectoral business representative 5 (31 August 2011).
[243] Author's interview with sectoral labour representative 13 (2 May 2011).
[244] Author's interview with sectoral labour representative 13 (2 May 2011).

parties. In contrast, SMT was a negligible player which had no links to with either centre-right or centre-left political parties. SMT's members followed a leftist-leaning political orientation and were representing mainly employees with spurious self-employment (*blokaki)*.[245] SMT's relations with the peak confederation GSEE were not good either, since they considered GSEE as 'sold out' *(poulimenoi)* and part of 'employer-controlled unionism' *(ergodotikos syndikalismos)*.[246] This deprived SMT from the political links that would have facilitated the use of state's coercive powers. Indeed, the request for centralisation of wage bargaining in telecoms was announced to the Ministry of Labour, but the Minister showed no interest.

Why didn't OME-OTE assist SMT in its effort for centralisation, despite the fact that it had expressed a request for a sectoral agreement two years earlier? In short, the answer is that the interests of OME-OTE were not aligned with those of SMT. OME-OTE followed a protectionist, introvert, and exclusivist strategy as a response to the EU liberalisation and government agenda for privatisation. This repertoire of action is evidenced in three areas. First, OME-OTE strategy was protectionist, since it repeatedly lobbied the independent regulator authority, so that liberalisation is delayed (see also Pagoulatos and Zahariadis, 2011). The interests of OME-OTE were more aligned with the interests of the OTE Group, rather than with other employees in the sector. Second, and partly as a consequence of the previous choice, OME-OTE unionists were also very introvert, focussing on the negotiation of favourable conditions in the company's

[245] Author's interview with sectoral labour representative 12 (2 May 2011) and with sectoral labour representative 13 (2 May 2011).
[246] Author's interview with sectoral labour representative 13 (2 May 2011).

restructuring, even if that led to clashes with other unions or even the peak confederation GSEE. Given the huge discrepancy between working conditions in the ex-public sector enterprises and working conditions in the new market entrants, OME-OTE had closer ties and common interests with other public sector unions (in postal sector, electricity, railways, etc), rather than with the new unions in the sector. Finally, OME-OTE's strategy was exclusivist, since it left employees in the rest of the sector outside representation, erecting bureaucratic barriers to outsiders. In sum, there was only a small minority within OME-OTE which supported whole-heartedly the demand for centralisation, whilst the vast majority wanted to retain the status-quo. These points are further developed in the following sections.

7.5.2. Protecting Insiders and Excluding Outsiders: OME-OTE vs. the Independent Regulator and Call-centre Employees

Since the early 2000s the independent regulator EETT assumed a stricter policy to ensure competition in the sector. OME-OTE unionists had clearly aligned their interests with OTE group's fate. The implicit rationale was that if the group was growing, the employees would also be able to prosper. Instead, if the group was losing market shares from new entrants, then the employees would lose as well. As a result, trade unionists were more worried about the falling market shares and fully supported a strategy of OTE as a 'national champion'.

Indeed, this protectionist strategy is evident in several position papers and actions from OME-OTE since the early 2000s. In 2003 OME-OTE characterised the independent regulator (EETT) as 'Enemy No1' for OTE; and called for a wide alliance *between management and employees* to make use of the 'dominant position' in the market so that the market shares are defended and lost market shares are recouped.[247] While it did mention concerns over 'fair competition' its interpretation was radically different from the Italian case. For Italian telecoms unionists 'fair competition' would be ensured if they centralised bargaining creating a level-playing field in wage costs. For OTE unionists fair competition meant that new firms should invest in developing their own network infrastructure, and cease 'exploiting' OTE's infrastructure, profiting on the difference between wholesale and retail price. Admittedly, the smaller telecom operators in Greece were following a low-cost and short-termist business strategy without investing in broader communications infrastructure (e.g. optical fibre networks), and none of the business associations attempted to provide collective goods in infrastructure achieving economies of scale for its members.[248]

OME-OTE's 29th congress' resolution in 2004 was following similar lines. It condemned the policy of EETT against OTE and resisted further privatisation and liberalisation, while there was no mention for a need to centralise bargaining. As a matter of fact, in 2004 OME-OTE made two condemning announcements against EETT policies and invited the government to intervene in the independent regulator's operation, so that it stems the decline in OTE's market share.[249] This repertoire continued also in OTE's 30th congress resolution in 2005, which

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[247] 'The stance of EETT at the expense of OTE and the new organisational structure of the Group' *OME-OTE Announcement* (21 March 2003).
[248] Author's interview with sectoral business representative 4 (2 May 2011).
[249] 'Decision of OME-OTE Executive for EETT' *OME-OTE Announcement* (26 November 2004); 'Condemnation of EETT' *OME-OTE Announcement* (23 December 2004).

ratified the very controversial wage agreement on voluntary exit programme (detailed in the next sub-section). Even more, there was still no interest in wage bargaining centralisation in the sector. OME-OTE was even involved in the conflict between OTE Group and the trade association of alternative providers (SATPE)[250], but this did not involve any mention for centralised bargaining. The conflict pertained to one of the small providers (Telepassport), which was member of SATPE and -like other small providers- owed large amounts to OTE, due to cash-flow problems. Finally, unlike its Italian counterparts, OME-OTE never organised a strike to support its 2006 demand for centralisation. Instead, it kept its attention on the policies of the independent regulator policies and even organised a protest demonstration outside EETT's offices.[251]

Overall, this 'protectionist' stance from the part of OME-OTE is not completely surprising. Employees and unionists had developed over time a sense of 'ownership' of OTE. This was nurtured by the socialisation policies of the 1980s (mentioned at the beginning of the chapter) which promoted a perverse culture of 'shared ownership' and 'participation in management' in public sector enterprises. Thus, competitors of OTE were also perceived as 'enemies' of the trade union. This culture of 'ownership' prompted the OTE union to devote resources to resist liberalisation, rather than centralise bargaining. Additionally, the strategy of resistance to liberalisation and privatisation was encouraged by either party while in opposition. For instance, in 2008 when the PASOK party was still in opposition, the leader George Papandreou promised to OME-OTE

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[250] 'Reply to Announcement by SATPE' *OME-OTE Announcement* (27 April 2005).
[251] 'Demonstration against EETT' *OME-OTE Annoucement* (10 December 2007).

unionists the reversal of the acquisition of OTE by Deutsche Telekom, as soon as PASOK was elected in government.[252] In a nutshell, the union had no real interest in pushing for centralisation and this request assumed an almost decorative role in its platform.

Notably, this 'exclusivist strategy' followed by OME-OTE did not only touch employees in new competitor firms. It also entailed employees within the OTE Group, more specifically in OTE's call-centres. The call-centre employees established a union on their own the *Trade union of employees in OTE-Call centres*. Subsequently, they sought to become affiliated with OME-OTE federation. But OME-OTE statute prescribed that a trade union can be affiliated with OME-OTE if it had at least 500 members.[253] Additionally, the OME-OTE union wanted to include only members with a permanent employment relationship among its ranks. In contrast, the call-centre employees had 3-hour and 4-hour part-time contracts, with very precarious and unstable employment relationships.[254] In the face of this, the call-centre unionists went to the OME-OTE congress in 2009 and requested the floor to express their wish to become members of OME-OTE. The organisers were holding them up, denying them the floor repeatedly. The call-centre representatives interrupted a speaker to take the floor, bickering followed with the centre-right (DAKE) unionists, and at the end

[252] Author's interviews with government representative 2 (2 May 2011) and with sectoral labour representative 11 (27 April 2011). The reversal of privatisation of OTE was not a secret promise to the unions, but was announced as formal programmatic aim of the socialist party in a press conference led by George Papakonstantinou on 19 May 2008. See: http://www.gpapak.gr/uncategorised/multimedia-sinentefxi-tipou-gia-ton-ote [last retrieved: 25 September 2011]. After the 2009 fiscal crisis, any plan to reverse privatisation was dropped, and in 2011 Deutsche Telekom acquired a final chunk of 10% of OTE shares.
[253] Author's interview with sectoral labour representative 11 (27 April 2011).
[254] Author's interview with sectoral labour representative 11 (27 April 2011).

the call centre unionists were literally ousted from the congress.[255] How can one explain this exclusion, despite the acceptance of Cosmote union as an affiliate?

The answer lies in ideological divisions creating 'us-and-them' attitudes. In Cosmote the socialist (PASKE) and centre-right (DAKE) factions were dominant, just like the OME-OTE union. Since those unionists had a compatible political persuasion, they were considered as 'one of us' and were eventually accepted as affiliates. Moreover, Cosmote trade union was able to overcome the barriers which were erected by OME-OTE, namely the request for employees with permanent employment and unions with at least 500 members. In sharp contrast, the unionists in the call-centre were more radical and leaning towards smaller leftist parties such as 'SYN'. The acceptance of a new union as an affiliate of OME-OTE might upset the balance of power in political factions within OME-OTE. The effect would be aggravated if OME-OTE was compelled to accept members from new firms (Wind, Vodafone, and Forthnet). Such a move would jeopardise the balance of power, but may even result in socialist and centre-right unionists losing control of OME-OTE. In a nutshell, none of the firm level unions was considered to be 'one-of-us' and this calculation led OME-OTE to adopt an exclusivist strategy. Many trade unionists within OME-OTE ranks were attached on 'holding an office' and had secured a range of perks and privileges stemming from their *officio*. If the sector was centralised, then the number of positions would be radically reduced and many old trade unionists would be left without 'office'.[256]

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[255] 'First step: the abolition of job tenure in DEKO' *Eleftherotypia* (26 May 2005).
[256] Author's interview with sectoral labour representative 11 (27 April 2011).

7.5.3. Negotiating the Internal Restructuring: The State Pays for OTE Downsizing[257]

Throughout the privatisation process in the 1990s generous severance packages bought labour's acquiescence (Pagoulatos and Zahariadis, 2011). This culminated to the 2005 agreement, in which OME-OTE got an extremely generous voluntary exit scheme, in exchange for the abolition of the job-for-life tenure for future recruits. The deal between the unionists, OTE management, and the Minister of Economy was heavily criticised by the opposition parties and by the peak confederation GSEE. This episode created a rift between OME-OTE and other unions and made the prospect for coordinated action in support for centralisation even more unlikely.

The use of 'voluntary exit' schemes for those close to retirement age was not a new practice. Indeed, this was the primary means that was negotiated already in a firm level agreement in 1996, so that it lightens up the overstaffed OTE. The Chief Executive of OTE at the time, Petros Lambrou, and the president of OME-OTE union, had signed a company-level agreement according to which an annual voluntary exit scheme was set up. This agreement also specified that for every ten exits, only one hiring would take place. Since then about 600-800 employees who were close to retirement left annually, receiving a minor compensation. This

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[257] This section draws at several parts on the following sources: 'It's a lot of money, son' *To Vima* (5 June 2005); 'Turbulence in PASKE which appears divided' *Kathimerini* (31 May 2005); 'First step: the abolition of job tenure in DEKO' *Eleftherotypia* (26 May 2005).

process accomplished the reduction of the total number of employees from 29,000 in 1996 to 16,000 in 2005. However, the cost of that scheme was miniscule compared to the 2005 described below.

Following the change in government in April 2004, Panagis Vourloumis was appointed as the new CEO of OTE. Panagis Vourloumis was an experienced manager with a reputation for rationalising 'ailing' public enterprises. During autumn and winter 2004 the negotiations between OTE management and the unions were centred on the terms and conditions of the voluntary exit. Soon it became apparent, that the agenda of the management entailed other items beyond the regular exit scheme. When the management requested the abolition of the job-for-life tenure system in OTE, the trade unionists were taken by surprise. Following from this development, OME-OTE negotiating tactics were changed. The unionists asked for a solid plan for the business restructuring, and requested legal assurances for the voluntary exit terms. However, both the socialist party in opposition (PASOK) and the peak trade union confederation (GSEE) were adamant: 'do not dare accept the deal'.[258] OME-OTE reacted with strike action on 14 of February 2005 demanding better terms for the voluntary exit scheme, and, rejected the plan to abolish job tenure. A few days later the CEO Vourloumis improved the terms of voluntary exit and put the deal on the bargaining table. The deal was comprised of three parts; the first was on annual voluntary exit and was signed immediately; the second was on the extraordinary voluntary exit scheme

[258]Interview with national labour representative at: 'It's a lot of money, son' *To Vima* (5 June 2005).

with very generous compensation, while the third was concerned with the abolition of job-for-life tenure for future hires.

Events quickly followed one another. In early March there was a tripartite meeting between Minister of Economy, George Alogoskoufis, the CEO of OTE, Panagis Vourloumis, and OME-OTE president and general secretary. In this meeting, the unionists were given a very explicit dilemma by both the Minister and the CEO of OTE: 'either you agree with a radical reversal of industrial relations in OTE or the programme of voluntary exit is neither enacted by law nor financed'.[259] The meeting failed to produce any concrete results and OME-OTE decided another strike for 17 March 2005. The concerted action of government and management was increasing pressure. A few days later the Minister appeared resolved to proceed with the plan, announcing his intention to impose the voluntary exit by law, if the OTE union did not agree. Additionally, the pressures from about 5,000 employees who would benefit from the scheme 'were very strong, almost unbearable'.[260]

The time of the OME-OTE congress was approaching. On Tuesday 24 of May, OME-OTE participated in an extended meeting with GSEE representatives in the peak confederation's headquarters. The official line from GSEE was crystal-clear 'do not accept an overturn in the status quo' and their recommendation to OME-OTE was to 'bring the agreement before the OME-OTE congress', which would

[259] Interview with government representative at: 'It's a lot of money, son' *To Vima* (5 June 2005).
[260] 'It's a lot of money, son' *To Vima* (5 June 2005); Author's interview with sectoral labour representative 11 (27 April 2011).

take place on 28 May.[261] The very next day the trade unionists were talking with the socialist party's head of labour issues section (i.e. shadow Minister of Labour), Evangelos Venizelos, who would represent the socialist party in the OME-OTE congress. In their meeting the unionists did not mention anything on their intention to sign an agreement. Two hours later, the president and general secretary of OME-OTE were called urgently to Mr Vourloumis' office. The wage agreement was literally signed at night, exchanging the abolition of job tenure in future hires for an extremely generous voluntary exit programme covering some 5,000 employees. The 'voluntary exit' plan was a result of secret negotiations; and the Executive Council was not informed of the content of negotiations.[262]

On the one side, the government was celebrating the consensual abolition of job-for-life tenure, and the trade unionists were speaking of a victory 'avoiding the worse'. On the other side, the socialist opposition was taken by surprise, while GSEE president Christos Polizogopoulos was outrageous with this outcome. The voluntary exit deal was estimated to cost the breath-taking sum of €1.6 billion and would be financed by the state budget and company funds.[263] Apart from dropping job tenure, its main effect would be to reduce the number of employees from 16,000 to 11,000. The beneficiaries were *up to eight years before retirement* with the majority of them being *between 48 and 57 years' old*.[264]

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[261] Interview with national labour representative at 'It's a lot of money, son' *To Vima* (5 June 2005).

[262] Author's Interview with sectoral labour representative 11 (27 April 2011).

[263] To make sense of the size of this figure, Greece's first bail-out in 2010 from IMF was standing at €110bn, while the unprecedented spending cuts in civil servants' wages (20-30%) were worth €3.6bn.

[264] Author's interview with sectoral labour representative 11 (27 April 2011).

In the congress there were about 300 delegates who represented the employees in the company. The majority of the delegates was either part of the group of beneficiaries, or just didn't care as long as their own job-tenure was safeguarded.[265] As a result only a minority objected the plan, and the agreement was approved by a 77 per cent majority in the OME-OTE Congress. Still, the agreement did provoke severe frictions within the socialist faction of PASKE, within the socialist party PASOK, and of course between GSEE peak confederation and OME-OTE federation.[266] The president of OME-OTE (and member of PASKE faction) who negotiated and signed the agreement, was sacked.[267]

This deal increased the mistrust between OME-OTE and unions and employees in the sector. The use of tax-payers money for an extremely generous compensation for early retirement of only 5,000 employees aggravated the suspicion towards OME-OTE unionists. The (ex) public/private divide between employees was continuing, even after the full privatisation of OTE. On the whole, the unionists in OTE (and other public enterprises) were considered –at best- as faint-hearted, managing to get unionism 'the easy way' with the aid of political parties' clientelistic practices and exchanging privileges in return for votes.[268] At worse, the OTE unionists were considered as 'sold out' *(poulimenoi),* using unionism as a medium for political career (*ergatopateres)* and uninterested in representing the

[265] Author's interview with sectoral labour representative 11 (27 April 2011).
[266] 'Turbulence in PASKE which appears divided' *Kathimerini* (31 May 2005); Author's interview with sectoral labour representative 11 (27 April 2011).
[267] Author's interview with sectoral labour representative 11 (27 April 2011); 'Turbulence in PASKE which appears divided' *Kathimerini* (31 May 2005).
[268] Author's interview with sectoral labour representative 11 (27 April 2011); with sectoral labour representative 12 (2 May 2011); and with sectoral labour representative 13 (2 May 2011).

real workers interests.[269] In sharp contrast, the firm level unions in the new private telecommunications companies developed in a much more hostile environment, than the easy unionism of the public sector. Their affiliations were either with more leftist parties or preserved their political autonomy. They sought to represent workers' interests, rather than play the game of clientelism with governing political parties. The labour market dualism with the deep cleavages in working conditions was mirrored in the fragmentation of labour representation.

7.6. Conclusion

Liberalisation and privatisation altered the landscape of Greek telecommunications. The public monopoly that was created in the post-war period was dissolved under the requirements of European Union regulation. New players entered the telecommunications market, competitive pressures intensified, and the dominant position of the incumbent operator was eroded. OTE was gradually privatised via share-issuing. Simultaneously, the new firms made extensive use of flexible working practices, as did the subsidiaries of OTE. In the aftermath of liberalisation the attempt to centralise bargaining was marked by a failure. The aim of this chapter was to explain this path.

The argument that the chapter put forward was that the outcome is explained by the lack of employer associability and unions' inability to speak with a single voice. The latter made the prospect for a labour-state coalition in support for

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[269] Author's interview with sectoral labour representative 12 (2 May 2011).

wage bargaining very unlikely. On the business side, there was a proliferation of narrow interests associations. They lacked the crucial legal competence to represent their members in labour relations and were solely focused on representing them on regulatory issues. The divisions among them were stark: one association for large telecom providers, a second association for small alternative telecom operators, and a third association just for mobile telephony companies.

On the labour side, the unions in the sector appeared divided along several lines. Unions in the incumbent operator (OTE) were very much focused on negotiating their internal restructuring. Although they had links with governing political parties, they used those links to gain compensation from the state for the restructuring in OTE. In contrast, the unions in the new firms were organised without any support from the OTE union. Moreover, the centralisation demand was led by a small occupational union, which was leftist in political orientation, and lacked the precious links with centre-right or socialist parties. The government was uninterested in taking into account the demand for centralisation that came from that union, with no clear electoral gain. Instead, it sought to make exchange with the union in the incumbent OTE, so that its agenda for privatisation proceeds.

Overall, the possibility of exchanging centralisation of bargaining for 'negotiated flexibility' as in the Italian case was and remains unlikely. OME-OTE response to the market liberalisation was first to contain it via lobbying the independent regulator, and second to negotiate an extremely generous compensation from the state. The protectionist, introvert and exclusivist strategy exacerbated the divisions between unions in the sector, and hindered the unions' ability to speak with a 'single voice'. Unless unions are able to overcome internal divisions, the decentralised bargaining structure will likely persist in the future.

Chapter 8 Employer Associability and Labour-State Coalitions: Mediating EU Liberalisation and Negotiating Flexibility

8.1. Introduction

The main purpose of this thesis has been to examine the impact of the pressures from markets liberalisation and employment flexibility on wage bargaining institutions. The central research question has been: how do we explain divergent trajectories of change in wage bargaining, despite common pressures? More specifically, the thesis set out to shed light on the mediating role of collective actors, which may moderate destabilising pressures to wage bargaining institutions. Which collective actors mediate the impact of liberalisation and flexibility on wage bargaining? How does the process of their interaction unfold, leading to coalitions that shape divergent paths of institutional change? Why do actors choose one path over another, what are their ultimate motives? These questions were answered in the context of theoretical frameworks in comparative political economy and comparative employment systems.

The earlier literature had envisaged a generalised pull towards a breakdown of wage bargaining institutions, due to the destabilising pressures from liberalisation and flexibility. On the one hand, the liberalisation of markets in Europe stemmed from the European Union's regulatory impact on member states' product markets. The European Commission's liberalisation agenda was extended to 'network services' and resulted in an intensification of competition with foreign firms entering the previously closed and protected sectors. On the other hand, the introduction of flexible working practices was part of the greater internationalisation and diffusion of 'best practices' in management, but also accelerated with the privatisation of state-owned bureaucratic firms. In particular, three forms of flexibility were identified as more prevalent in network services: working time flexibility (e.g. annualised hours, flexitime), pay flexibility (e.g. performance-based pay systems) and numerical flexibility (e.g. outsourcing, fixed term contracts).

The thesis examined wage bargaining institutions in two key sectors which provide a backbone to the wider economy: banking and telecommunications. In European banking the process of liberalisation started in the early 1980s and was completed by the late 1990s. In European telecommunications, the liberalisation started in the late 1980s and was completed by the early 2000s. The effects of liberalisation and flexibility on wage bargaining have been compared in banking and telecoms across two European Union member-states, Italy and Greece, which belong to the Mediterranean model of capitalism. Yet, the common pressures that appeared in all four cases, did not translate into similar outcomes and the paths of institutional change diverged. The case studies traced back the process of change and this allowed the study of collective actors' strategies, coalitions and interests.

This concluding chapter seeks to bring the findings of the empirical analysis together relating them to broader themes. The second section briefly reviews the main argument of the thesis based on a coalitional approach to wage bargaining. The third section summarises the central empirical findings applying the argument to explain the divergent paths in each case. The fourth section gauges the broader relevance of the argument and how it could be tested in other cases, but also acknowledges some of the limitations of the argument. The fifth section considers the implications of the argument and the empirical findings for wider debates in the comparative political economy and the comparative employment systems literatures. Finally, the sixth section contemplates on the role of wage bargaining institutions and the future trajectories of change in the Mediterranean model of capitalism light of the current Eurozone crisis.

8.2. Review of the Argument

The conceptual framework of the thesis is placed at the intersection of two literatures that deal with institutional change and wage bargaining, namely comparative political economy and comparative employment systems. The varieties of capitalism strand provided the background theory on which institutional change was studied. More specifically, the thesis sought to examine the dynamics of change within the under-researched category of the Mediterranean model of capitalism, with a motivation to flesh out empirically the role of the state in the industrial relations sphere.

However, the purpose was not to contribute to the inflation of static typologies of capitalism. Instead, the aim was to develop middle-range theoretical propositions which are able to explain divergent trajectories of change in wage bargaining institutions. In other words, the focus was not on the national level, i.e. the capitalist model as a whole, but on the sub-national level, examining wage bargaining institutions in the wider category of liberalised and privatised sectors. The interest in these sectors came from their immense transformation during the last two decades. In those sectors 'the boundaries between public-private sphere have been redrawn' (Pagoulatos, 2005), since the state has withdrawn from direct ownership and regulation.

The main research question of this thesis was: how do we explain divergent trajectories of change in wage bargaining, despite common pressures from liberalisation and flexibility? As mentioned earlier, sectoral wage agreements are a form of employment regulation, which set rules that govern pay and working conditions in a sector. It is of particular interest in those sectors, because they were characterised by state-ownership and limited competition, which offered fertile ground for wage bargaining to flourish. Given their privatisation and liberalisation, it was interesting to see how this altered the evolution of wage bargaining and explain the observed differences in the trajectories of change.

Thus, the core conceptual framework was informed by scholarly works focussing specifically on wage bargaining institutions from both comparative political economy and comparative employment systems literatures. Earlier contributions to those literatures predicted that the forces of markets liberalisation, on the one hand, and the internationalisation of flexible working practices, on the other, would destabilise centralised bargaining arrangements, converging to the LME model of decentralised bargaining.

The liberalisation hypothesis emphasised the external pressures towards wage bargaining institutions. According to this hypothesis, wage bargaining could flourish in relatively protected and oligopolistic product markets, in which competitive pressures were weak. In such a business environment, the wage agreements were meaningful because they took wages 'out of competition', thus stabilising costs across the sector. However, the opening up of markets and the entry of new players were expected to intensify competition and 'weaken the logic for taking wages out of competition' (Marginson et al., 2003). The flexibility hypothesis entailed a more diverse list of factors. Either because of changes in production technologies or changes in product demand, firms intensified their 'search for flexibility'. The internationalisation of flexible working practices involved introduction of working time flexibility, variable pay systems, and numerical flexibility. Wage bargaining agreements were perceived as too rigid to accommodate the firms' new and diversified needs. Therefore, it was expected that business would 'dismantle' sectoral wage bargaining, so that individual firms suit work organisation to their own needs.

Despite the merits of the above hypotheses, they were criticised on both theoretical and empirical grounds. Theoretically, they suffer from excessive functionalism, assuming that institutions will collapse when the needs of firms change. As a corollary, they downplayed the role of collective actors, and their coalitions, in moderating the pressures or transforming the nature and direction of institutional change. In a nutshell, these theoretical conjectures expected a generalised breakdown of wage bargaining in an almost deterministic manner.

Apart from a theoretical critique on earlier conjectures, the third chapter showed that empirical reality proved to be inconsistent with their predictions. Despite the completion of the single market programme in Europe, the intensification of competition, and the widespread introduction of flexible working practices, there was no generalised pull towards breakdown of centralised wage bargaining. Instead, divergent trajectories of change were observed. Thereby, it was shown that the empirical puzzle of the thesis has strong empirical underpinnings and a wider relevance – beyond the countries and sectors examined.

The thesis developed a coalitional approach to wage bargaining change in order to address the empirical puzzle and refine earlier theoretical propositions. Indeed, earlier theories downplayed the role of employers associations or the state, and were overly focused on individual firms' needs. In other words, they over-emphasised the effects of structural changes on long-standing institutions, ignoring the mediating role of collective agents. In line with current coalitional approaches in political economy, the argument relied on the three main collective actors' interactions (business, labour, state) to throw light on the dynamics of change. It was argued that wage bargaining institutions may be reformed to meet new needs if there is 'employer associability' with larger and smaller firms pursuing their shared interests. Additionally, it was argued that wage bargaining may survive, because it is an institution that does not only rest on a 'cross-class coalition', but also on a 'labour-state coalition', especially in the more statist industrial relations systems of Mediterranean capitalism.

On the one hand, employer associability was defined as the delegated legal competence of a collective interest association to represent both large and small firms in a sector on labour relations. Therefore, employer associability is missing in two occasions: (i) when an association does not have the legal competence to represent firms on labour relations (i.e. is just a trade association representing a narrower set of interests) or (ii) when representation is skewed towards one group of firms in the sector (e.g. large firms vs. small firms). Following from this, the first hypothesis was that if employer associability exists, then tensions in wage bargaining are likely to be moderated. An employer association may protect the long-run interests of firms, enforcing decisions on reluctant or resisting firms. The most likely trajectory of institutional change is the reform of the institution of wage bargaining. 'Organised decentralisation' is such an example, in which there is a shift in relative importance between sectoral and firm level of bargaining. The motivation of an association lies in getting the 'best of both worlds' for its members: to achieve cost standardisation at the lowest common denominator, and thereby, ensuring fair competition at the sectoral level; and to suit its members' needs for work organisation and pay flexibility at the firm level. Inversely, if an association lacks the legal competence or the representation of interests is skewed towards one group of firms, then the destabilising pressures are let loose.

On the other hand, the labour-state coalition was defined as an implicit congruence of preferences between organised labour and the government with respect to wage bargaining. Therefore, a labour-state coalition will likely not occur in two occasions: (i) when organised labour is unable to 'speak with a single-voice' and therefore unable to steer government's interest to support a wage agreement for the whole sector, or (ii) when government's electoral motives are weak and the government agenda clashes with the unions' demands. Following from this, the second hypothesis stated that if a labour-state coalition exists, then the pressures towards the breakdown of centralised wage bargaining are likely to be moderated. If organised labour is able to speak with a 'single voice' then it may hinge on the state's coercive (and persuasive) power to put pressure on employers. The most likely trajectory of change is the survival of centralised wage bargaining. The motivation of labour unions is to protect their members from 'a race to bottom' in wages and working conditions, while the motivation behind the government's actions is to benefit from the unions' votes and to get 'room for manoeuvre' for the rest of the government agenda. Wage bargaining is an institution that is not costly for the state budget, and therefore, easier for the government to side with the unions' demands. Inversely, if labour is not able to speak with a single voice, it may focus on advancing narrow interests rather than pursuing centralised bargaining coverage of the sector.

8.3. Central Empirical Findings

The argument was applied to explain two matched pairs: on the one hand, Greek and Italian banking, and on the other, Italian and Greek telecoms. All four cases experienced the common pressures from liberalisation and flexibility, while the pairs were matched on the basis of similar starting points and divergent paths. In the Greek and Italian banking sectors the starting point was sectoral wage bargaining. However, the institution was reformed in Italy ('organised decentralisation'), whereas in Greece the institution broke down. In the Italian and Greek telecommunications sectors the starting point was firm level bargaining owing to the sectors' earlier monopoly market structure (i.e. one firm was the equivalent of the whole sector). After the liberalisation of telecommunications, the institutional paths across Italy and Greece diverged; there was successful centralisation of bargaining in Italian telecoms, whereas the attempt at centralisation was marked by a failure in Greece.

The **Greek banking** sector in the 1980s had the characteristics of an oligopoly in which the majority of banks were owned by the state. The internal organisational structure of banks was bureaucratic and flexibility was missing. Since the late 1980s the European Union regulatory framework prompted the opening up of the market and the intensification of competition. Simultaneously, the privatisation process brought about modernisation of banks' internal work organisation and introduction of various forms of flexibility. By the mid 2000s, the preferences of individual banks changed towards abandoning sectoral wage agreements. Historically, there was no employer associability and the larger banks were representing the whole sector during negotiations. However, as market shares changed over the last decade, and the larger banks were privatised, the desire to loosen the straightjacket of wage agreements intensified. Until the mid 2000s, government intervention appeased the tensions, mediating negotiations and reconciling the disagreements between banks. Thus, state intervention 'filled the gap' in employer associability and wage bargaining rested on a labour-state coalition.

However, in 2006 the large banks appeared resolved to abandon sectoral wage bargaining and expressed this desire by the simultaneous mailing of identical letters to OTOE by the six leading banks. The abandonment of wage bargaining was initially avoided, because trade unions were able to speak with a single voice, despite internal ideological divisions. The sectoral union responded with a two-pronged strategy: industrial action and putting pressure on the government to intervene. The state's intervention saved the institution from collapsing, since the government sided with the unions because of electoral concerns and priorities in advancing the government agenda. When the labour-state coalition was broken, the institution collapsed. The bankers refused to negotiate a new sectoral agreement in the late 2000s, and the government did not intervene on the side of unions. The electoral motives were weaker than in the previous negotiation rounds and the government agenda had shifted priorities. This resulted in the breakdown of sectoral wage bargaining in Greek banking.

The **Italian banking** sector in the 1980s had the characteristics of a sector in which the majority of banks were state-owned and organised into regional oligopolies. Bank employees enjoyed job security and developed a civil service culture. Since the late 1980s the European Union regulatory impact on the sector facilitated the opening up of the market and competitive pressures increased. At the same time, the privatisation process brought about the restructuring of banks and the introduction of various forms of work flexibility. Although the banks were organised into employers associations, their representation was fragmented; one association represented the interests of the large commercial banks, and a second one represented the interests of smaller savings banks. The liberalisation of the market prompted the restructuring of the sector and the move to a universal banking model. It became increasingly difficult to reconcile the interests of both smaller and larger banks between the two different associations.

Until the mid-1990s government intervention appeased the tensions during negotiations and saved the institution from collapsing. Again, the wage bargaining institution rested on a labour-state coalition. When the firms voiced their desire to abandon sectoral wage bargaining, they were faced with a strong labour-state coalition. The government responded that it would not support decentralisation, if the trade unions did not agree. The unions categorically rejected such a development, and the path towards 'LME-like' decentralisation was practically blocked. Individual firms resolved their representation problems and delegated the legal competence to negotiate labour relations to a single association (ABI). Their motivation was to push their agenda for restructuring and downsizing. Indeed, the strengthening of employer associability facilitated the reform of the institution of wage bargaining. From 1999 onwards, sectoral wage agreements set the sectors' minimum standards, while companies used firm level bargaining as the locus of flexibility. Trade unions were able to speak with a single voice, despite fragmentation across different organisations. The 'market pressure' *via* strike activity and the 'political pressure' *via* government intervention were used consistently as a strategy to save the institution from collapsing.

Employers finally accepted the creation of redundancy funds (*fondo esuberi*), which were primarily funded by the banks, and secondarily by the employees. This eased the repercussions from downsizing and was part of the exchange for greater flexibility in the sector. Crucially, the unions drafted the plan for restructuring together with the Minister of Labour. The government was willing to support the trade unions' demands for electoral reasons, since wage bargaining was not a costly institution for state budget. Instead, wage agreements were used as a means to implement the government agenda on labour market reforms towards greater flexibility. Overall, the reform of wage bargaining in the Italian banking sector was at the forefront of the overhaul of the wage bargaining system in Italy by the late 2000s. Despite occasional tensions, the reformed institution of wage bargaining solidified during the 2000s and succeeded in increasing the efficiency and competitiveness of Italian banks, adjusting to the more competitive environment.

The **Italian telecommunications** sector is certainly a hard case for earlier theoretical conjectures. Centralisation of bargaining was least expected under the scope conditions of intensified competition and pervasive introduction of flexibility. Following the opening up and liberalisation of the market, new firms entered into the sector, mainly foreign subsidiaries or joint ventures. The competitive pressures appeared high and the new firms made an extensive use of flexible employment practices (numerical flexibility and outsourcing, working time, and pay flexibility). In spite of these pressures - which were expected to keep bargaining decentralised – the trade unions managed to successfully centralise wage bargaining in the sector. Hence, the Italian telecommunications case enhances the wider applicability of the argument.

The three union confederations transformed the firm level unions of Telecom Italia into sectoral federations, so as to accept members from the new telecoms operators. Even before the opening up of the market in 1998, they shared a strategic goal to centralise bargaining in the sector and devoted their resources to this aim, by organising strikes and inviting the government to intervene and aid their effort. In the absence of representative business associations in the sector, the peak trade union organisations and peak employer association (*Confindustria)* signed the first agreement for the sector in 2000. *Confindustria* literally filled the gap of the missing sectoral employer association and the trade unions were able to speak with a single voice, despite organisational divisions. The employers' motivation for accepting the centralised agreement lay in ensuring 'fair competition' in the sector by setting a level-playing field in wages and working conditions. It is important to note, however, that the trade unions were willing to accept a wide-ranging introduction of flexibility in their sectoral wage agreements ('*negotiated flexibility')*, thus, implementing the labour market reforms of the government.

Subsequently, both sides resolved their representation problems and included members from new firms. *Confindustria* absorbed the public employer association *Intersind,* which had the legal competence to negotiate labour relations for Telecom Italia. Afterwards, it created a new association, ASSTEL, in which both large and small telecoms operators became members. Similarly, the unions appeased militant tensions in the new firms via unitary workplace representation (*RSU)*, and organised employees across the sector.

The first telecoms agreement between the new sectoral associations was signed in 2002. Still, an increased dualism persisted in the labour market, with outsourced call-centre employees remaining outside the coverage. The unions forged a labour-state coalition to extend the coverage to include 'outsiders' in the labour market. The government put pressure on resisting and reluctant firms in the sector, so that the precarious outsiders fell into the remit of the sectoral wage agreement and call-centre firms became members of ASSTEL.

The **Greek telecommunications** sector contrasts sharply with the Italian case, since it exemplifies a failed attempt at centralisation. Like the Italian telecoms, the sector was opened up due to the regulatory impact of the European Union. The competitive pressures increased with the entry of new firms offering mobile and fixed telephony services. Flexibility was introduced bottom-up with many smaller firms resorting extensively to outsourcing and precarious employment contracts. Even in the ex-monopoly of OTE, subcontractors were extensively used in the satellite subsidiaries of the OTE Group. Although the firms in the sector were organised in interest associations, their representation was severely fragmented and narrow. The larger telecoms firms and OTE were organised in SEPE, while the smaller alternative operators were members of SATPE. In both associations their members did not delegate any legal competence to negotiate labour relations issues, and the associations acted as narrow interest groups, lobbying for regulatory and technological issues.

At the same time the firm level union of OTE (OME-OTE) was uninterested in pushing for centralisation of bargaining across the sector. Instead, it devoted its resources in the organisation of strikes and protests for the delay of liberalisation and in getting compensation from the state for the restructuring process. A deep dualism emerged with substantially different working conditions between core OTE employees enjoying job-for-life tenure, and employees in private telephone operators who worked in more flexible and precarious contracts. In the new telephone operators, firm level unions were organised bottom-up, without help or support from the OME-OTE federation.

The attempt to centralise wage bargaining came from a rather small occupational union (SMT) organising engineers with spurious self-employment *(blokaki)* in the telecommunications and informatics sector. The union was very suspicious of OME-OTE and labour was unable to speak with a single voice and put pressure on employers via strikes. Additionally, divisions were exacerbated because of ideological cleavages. SMT was a radical leftist union and had no links with the governing political parties as OME-OTE did. Thereby, it was unable to steer the interest of the state in support for its demand. Still, the state was keen on advancing its privatisation agenda. Therefore, a narrow labour-state coalition was forged between OME-OTE and the government, not to support centralisation of wage bargaining, but to assist the privatisation process of OME-OTE by removing the 'job-for-life tenure' and generously compensating employees in the firm. The generous compensation of OME-OTE employees aggravated the mutual suspicion and divisions between unions in the sector, and made the prospect of centralisation even more unlikely.

In conclusion, the conceptual and empirical contribution is summarised in the next Table (Table 8.1.). Using quantitative terminology the thesis suggested that two 'intervening variables' (employer associability and labour-state coalitions) mediate the relationship between the 'dependent variable' (wage bargaining agreements) and the 'independent variables' (liberalisation and flexibility). In the Greek banking sector the *breakdown* of wage bargaining was resisted as long as a 'labour-state coalition' was supporting the institution. When the coalition broke up, the pull towards abandonment of centralised bargaining was let loose. In the Italian banking sector the employer associability and the labour-state coalition moderated the destabilising pressures, and facilitated a *reform* of the institution to meet new needs. In the Italian telecommunications sector, there was a *successful centralisation* of wage bargaining due to employer associability and a labour-state coalition. The newly born centralised bargaining system took a form that met the needs of firms in the new competitive environment. Finally, in the Greek telecommunications sector the liberalisation and flexibility led to a decentralised bargaining structure, as was expected by earlier literature. But it was shown that the *failed attempt at centralisation* was explained by the nature of business associations (which represented narrow interests) and by the fact that labour was divided, which hindered the prospect of forging a coalition with the state.

Table 8.1. Summary of Case Studies.

Trajectory of change		***Breakdown of Sectoral Wage Bargaining***	***Reform of Sectoral Wage Bargaining***	***Successful Centralisation of Wage Bargaining***	***Failed Centralisation of Wage Bargaining***
Cases		*Greek Banking*	*Italian Banking*	*Italian Telecoms*	*Greek Telecoms*
Independent Variables	*Liberalisation*				
	Flexibility				
Intervening Variables	*Employer Associability*	No	Yes	Yes (post 2000)	No
	Labour-State Coalition	No (post 2007)	Yes	Yes	No
Dependent Variable	*Sectoral Wage Agreement*	No (post 2007)	Yes	Yes (post 2000)	No
Source: Author's Own Elaboration.					

8.4. Testing the Argument in Other Cases

How might the arguments developed in this thesis be tested to examine whether they are more widely applicable? Although the 'universe of cases' was cautiously constrained to liberalised and privatised sectors in Mediterranean capitalism countries, there seem to be three possible extensions. The first and most obvious way is to test them in further instances within the 'universe of cases'. For example one could test the argument in telecommunications and banking sectors in countries such as France, Spain or Portugal. These cases are especially promising, since the European Union regulatory impact of liberalisation is present, and therefore, the pressures towards destabilisation of wage bargaining are strong. Indeed, recent studies on developments in wage bargaining in French telecommunications suggest that wage bargaining centralisation was aided by the state (Doellgast, Nohara et al., 2009) making the mechanism of a 'labour-state coalition' highly plausible. Another possible extension involves railways, airlines, and electricity sectors in Mediterranean capitalism countries. However, the problem with those sectors is that the European Union regulation developed much more slowly and the pressures from the intensification of competition are expected to be weaker.

The second way is to expand the universe of cases beyond services sectors, within the Mediterranean model of capitalism. For instance, chemicals, food-processing, and textiles, are sectoral cases in which the argument could be tested. While these sectors did not experience the strong impact of European Union liberalisation as 'network services', the increased competitive pressures may have stemmed from general European competition law or from the intensification of competition globally. Additionally, some of these sectors may not have been public monopolies, which were privatised. Still, the internationalisation of flexible working practices is expected to provide additional pressures with the changes on the internal work organisation of firms. The coalitional approach to wage bargaining would predict that despite pressures for the destabilisation of wage bargaining institutions, employer associability may help reform wage bargaining and the institution will survive if it rests on a labour-state coalition. Indeed, the sectoral case of Italian metalworking seems to corroborate this expectation. Wage bargaining agreements have been difficult in an industry that experienced unprecedented competitive pressures from low-cost countries; however, the state stepped in several times and saved the institution from collapsing, while wage bargaining was used as an instrument for business restructuring.[270]

The final way to test the wider applicability of the argument is to check whether it holds in sectors outside the Mediterranean model of capitalism. However, this may also unveil some of the argument's limitations. In LMEs and CMEs the industrial relations systems have been less 'statist', and therefore, there may be little scope for a labour-state coalition to support the institution from collapsing. For instance, examining the decentralisation of wage bargaining during the 1980s in the United Kingdom -in retrospect- may show that a labour-state coalition was not within the range of options. Unlike the Mediterranean countries, the links between the British TUC (Trades Union Congress) and political parties went only one-way; TUC had an organic relationship only with the Labour Party. Therefore, the electoral interests of the ruling Conservative Party were very weak, from the outset. More generally, there was a preference for a 'collective laissez faire system among both trade unions and by employers' (Rubery, 2010:516) which kept the state out of the realm of industrial relations. In CMEs like Germany, the stylised picture is that employer associability is strong. However, this picture is conventionally inferred from the manufacturing sector. For instance, when we look at the liberalised German telecommunications sector, employer associability

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[270] 'National collective agreement in metalworking industry renewed' *European Industrial Relations Observatory* (March 2008) available at: http://www.eurofound.europa.eu/eiro/2008/02/articles/it0802039i.htm [last retrieved: 25 September 2011]; 'New metalworking collective agreement signed' *European Industrial Relations Observatory* (July 2001) available at: http://www.eurofound.europa.eu/eiro/2001/07/feature/it0107193f.htm [last retrieved: 25 September 2011]; 'Metalworking collective agreement signed after nine months of negotiations' *European Industrial Relations Observatory* (February 1997), available at: http://www.eurofound.europa.eu/eiro/1997/02/feature/it9702202f.htm [last retrieved: 25 September 2011].

is non-existent and trade unions appear divided (Doellgast, Nohara et al., 2009). Therefore, the convergence to a decentralised bargaining structure may be partly attributed to those factors.

In a nutshell, the argument presented in the thesis sheds light to the divergent trajectories of wage bargaining change advancing an interest-based explanation of different coalitions between collective actors. However, the argument does not pretend to be able to explain the whole variation between divergent outcomes across the cases. Instead, embedded cultural attitudes, norms and practices are likely to play their part in the dynamics of wage bargaining change.

Despite a similar past until the 1980s, the trade union organisations in Italy and Greece display a differing level of 'maturity' (cf. Kritsantonis, 1998). Greek unionists were more prone towards 'all-or-nothing' bargaining tactics, unwilling to pursue compromises. Indeed, evidence from the interviews suggested that this cultural difference may explain part of the variation in outcomes. As was mentioned throughout the empirical chapters, Greek unionists were more attached on a strategy of playing out the government's electoral motives to easily achieve concessions in wage bargaining. Having been 'socialised' in this version of 'easy' unionism, they never really internalised the logic of compromise.The large state ownership across the economy was of course critical, since the state occupied the seat of the employer. The maximalistic aspirations of unions were nurtured by political parties in opposition via a residual of a 'transmissions belt mechanism' (Mavrogordatos, 1988). Indeed, evidence suggested that when either the centre-left PASOK or the centre-right New Democracy were in opposition, they systematically nurtured the maximalistic aspirations of the Greek unions.[271] This behaviour heightened the expectations of union leaders and members. When elected, the party in government negated its earlier commitments, thus outraging trade union leaders, and making the prospect for compromises even less likely. As the economy moved away from public ownership to private ownership, the trade unionists did not adjust to the new realities, hoping to negotiate wage bargains in the 'old-fashion'.

By contrast, Italian unionists had internalised the logic of 'political exchange' (Pizzorno, 1978) in negotiating and finally reaching compromises with employers and/or the state. Since the 1990s, the Italian unionists were much more pragmatic when carving out their strategies and more willing to accept the government agendas for reform (for instance, on liberalisation, privatisation, and labour market flexibility). Instead of trying to resist them, they attempted to actively shape the direction of change. As far as liberalisation is concerned they sought to protect their members from a 'race to bottom' in wages; or ease out the social costs of adjustment to business restructuring with bi-partite welfare funds. With regard to labour market flexibility they did not reject it *en bloc*, but put limits on the extent and nature of flexibility. In other words, Italian trade unions internalised the logic of *quid pro quo*. Additionally, there is a different evolution in the relationship between trade unions and political parties since the early 1990s (after *Tangentopoli*). Unlike their Greek counterparts, the Italian trade unions distanced themselves from traditional political parties and there was no clear

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[271] For instance, the recent promise of the reversal of privatisation of OTE by PASOK's president George Papandreou before the elections.

alignment between the new political parties and the confederal unions. Even more, the unions' membership became more diversified, and union leaders enjoyed renewed legitimacy from the wider society, because they were not involved in the scandals. As a result their institutional role was upgraded. In essence, when Italian unions were able to 'speak with a single voice' they constituted a quasi-political party, which neither Left nor Right governments could ignore.

8.5. Implications for Broader Academic Debates

Overall, applying the coalitional perspective on wage bargaining has yielded fruitful insights for the dynamics of change in this institution. A contribution is evident not only empirically by looking into new cases and bringing in novel data, but also conceptually by elaborating on the mechanisms of change and the motivation of the actors. The next sub-sections discuss the implications from the argument and empirical findings for broader debates in comparative political economy and comparative employment systems literatures.

8.5.1. Comparative Political Economy: Liberalisation and the Dynamics of Change in the Mediterranean Model of Capitalism

The argument put forward here is also relevant to wider debates in comparative political economy and the dynamics of change within models of capitalism. Conventionally, Italy and Greece are classified as belonging to the Mediterranean capitalism or ‘Mixed Market Economies’ model (Molina and Rhodes, 2007; Schmidt, 2008). More specifically, Molina and Rhodes (2007:225-227) suggested that the state has a distinctive ‘compensatory role’ in this model and domestic actors invest in ‘one kind of asset - political power’. However, they failed to explain adequately why actors choose to invest in this kind of asset and what the motivation is that lies behind it.

The argument presented here fleshes out empirically the motivation behind investment in political power in the Mediterranean model of capitalism. It suggests that the state may use its coercive and persuasive powers and tilt the balance in the conflict over institutional change between domestic business and labour actors. Organised labour’s incentives to invest in ‘political power’ and to develop links with parties were strong in the past, because the state had an important role in a large part of the economy. In publicly owned sectors it was easier for labour to organise, attract and retain high membership rates, as well as to win concessions from the state via alluding to the electoral importance of union members’ vote. However, the traditionally strong statist character of the Mediterranean model has been lessened. The state has largely withdrawn from direct ownership and regulation of a large part of the economy. Yet, the cases suggested that the strategy of labour actors to rely on the state’s coercive power survives despite the ‘redrawing of public and private spheres’. Importantly, the unions may still be able to steer the interest of the government and forge coalitions, because their historical links cover both Left and Right, while the state remains an important arbitrator in the system. In other words, statist cultures and practices survive to some significant degree.

It suggested that the pressures for liberalisation of the 'incoherent' Mediterranean model of capitalism will not necessarily lead to its convergence to the Liberal Market model. Instead, domestic collective actors will mediate the external pressures by forging coalitions and shaping the direction of institutional change. The cases also suggested that common pressures may be refracted differently, even among cases which are commonly held to belong to the same model of capitalism. For instance, in Coordinated Market Economies domestic actors have mediated the European regulatory impact, re-regulating the single market via wage bargaining (Menz, 2003; Menz, 2005). This insight holds even in the less 'coherent' models of Mediterranean capitalism which lack the crucial 'institutional complementarities'. The Italian cases suggest that Anglo-Saxon 'cut-throat competition' was avoided in the liberalised market of telecommunications. The agenda of European Union liberalisation for the network sectors was pragmatically accepted by trade unions, but they sought to create a new wage bargaining institution so that a 'race to bottom' in wages is avoided. By contrast, labour actors in the Greek telecoms case did not accept the European Union's liberalisation agenda and devoted their resources to resist privatisation and delay the opening up of the telecommunications market. Paradoxically, their strategies backfired on them, since they accelerated the faster convergence to Anglo-Saxon 'cut-throat competition' conditions, with an unprecedented expansion of precarious and flexible contracts.

Does this mean that the liberalisation shift may be questioned in those sectors? Not quite. The EU liberalisation in product markets was equally implemented in both Greek and Italian cases. However, this similar change in the regulatory framework in product markets did not lead to similar product market strategies and outcomes. In the Italian telecommunications sector, the 'race to bottom' in wage costs was avoided, pushing firms to concentrate their competition in the quality and diversity of telephony services. By contrast, in the Greek telecommunications sector there was no floor on wage costs. Hence, the firms adopted a price-based competition strategy. The 'cut-throat' competition in prices, pushed many alternative telephony operators out of the market by the end of the 2000s, resulting in a more oligopolistic structure. This corroborates other works in the literature, which find that the institutional convergence in regulatory frameworks, does not necessarily lead to convergence in outcomes (Thatcher, 2007b).

Finally, the argument made here confirms the insight of political economists that the 'coalitional' perspective is best suited to explain institutional change in contemporary capitalism. It has been argued that studying the shifts in actors' coalitions can help us understand what drives the change in the form and functions that institutions take over time (Hall and Thelen, 2009; Thelen, 2003). For instance, the Greek banking sectors suggested that wage bargaining institutions do not only rest on a 'cross-class coalition' (Swenson, 1989) but also on a labour-state coalition. Even more, the changes in the form and the function of wage bargaining in Italian banking sector, was not only shaped by the 'labour-state' coalition, but also by the coalition between small and large firms (employer associability).

8.5.2. Comparative Employment Systems: Flexibility, Convergence and Divergence

The empirical findings of the thesis are able to inform further debates in comparative employment systems which look either at the institutional context of the labour market; or at specific labour market practices inside firms. First of all, the debate between convergence and divergence is replicated in the comparative employment systems literature as well (Farndale *et al.*, 2008; Tregaskis and Brewster, 2006; Wood and Collings, 2009:301-307). Admittedly, a sizeable body of literature has shown that convergence is not happening and diversity persists not only across the institutional spheres of industrial relations in Europe (Hyman, 2001), but also in the range of human resources practices utilised by European firms (Lorenz and Valeyre, 2005).

Nevertheless, the thesis refined the 'converging divergences' argument put forward by Katz and Darbishire (2000) who found an increasing variation in employment practices within countries, and greater homogeneity across sectors. Instead, one of the findings of the thesis was that the introduction of employment practices is shaped by the coalitions between domestic actors and this may lead to variation even in the same sector. The path of introduction of more flexible employment practices diverged, and differences were observed in the intensity and process of adjustment to new market conditions. This in turn, led to different institutional arrangements and outcomes in flexibility. In the Italian telecommunications sector the trade unions shaped the new environment by introducing '*negotiated flexibility*' in line with the government agenda on labour market reforms. By contrast, in the Greek telecommunications the trade unions became attached to the 'status quo' and sought to prevent the tide of liberalisation and privatisation. This was met with a widespread failure. In the meantime, they lost the opportunity to influence the introduction of flexibility in the sector, ending up with '*imposed flexibility*' and an extensive use of precarious labour contracts, which developed beyond their control.

Additionally, the cases outline the diachronic relevance of the old dictum of Allan Flanders from the Oxford School Industrial Relations, who argued that 'trade unions have always had two faces, sword of justice and vested interest' (1970:15). The two faces resound dilemmas of organised labour in the post-industrial age. Thus, Clegg and van Wijnbergen (2011) suggest that unions are still between 'sectionalism and revitalisation': either to focus on protecting insiders; or to embrace outsiders and reach out to new constituencies. In a similar vein, Doellgast et al. (2009) distinguished between inclusive and exclusive strategies of unions, depending on whether they embrace precarious call-centre employees in liberalised sectors.

The cases in the thesis speak to those wider debates. For instance, these dilemmas were addressed differently by unions in the Greek and the Italian telecommunications sectors. In the Greek telecoms the trade unions opted for sectionalism, acting as 'vested interest', protecting only the insiders and adopting an exclusivist strategy towards precarious employees in the sector. By sharp contrast, their counterparts in Italian telecoms opted for a revitalisation strategy, acted as a 'sword of justice' and adopted an inclusive strategy embracing the 'outsiders' in the sector.

8.6. Institutional Change in the Mediterranean Capitalism and Wage Bargaining in the Context of the Eurozone Crisis

Undoubtedly, the current global economic crisis has the potential to destabilise models of capitalism, and certainly arrangements in the industrial relations realm. Yet, there is little consensus on where the countries are heading or how to conceptualise current trajectories of change. For instance, some scholars argue that Coordinated Market Economies such as Germany are well on a path towards convergence to the Liberal Market model (Streeck, 2010). On the contrary, other scholars suggest that Germany retains a shrinking but resistant core of 'CME-type' institutional configuration (Hassel, 2011), which assisted greatly in the recent impressive recovery of the German economy.

The current politico-economic juncture poses further problems for the way we understand the mechanisms of institutional change. In the past, institutional change in models of capitalism was perceived as an incremental and path-dependent process, with the pressures of global markets from intensification of competition increasing slowly over time. The reforms and institutional changes were a result of the interactions between domestic actors (business, labour, and the state), who carved out their strategies and forged coalitions which drove the changes in the institutions. Instead, we now observe that changes are swift and abrupt, and that global financial markets are able to put tremendous pressures on nation-states.

The countries from the Mediterranean capitalism are tragic protagonists in the Euro-zone crisis. Greece and Portugal have already been bailed out by the European Union and the International Monetary Fund (IMF), while Spain and Italy are considered as the top candidates for a 'contagion' from the sovereign debt crisis. Intuitively, this is not totally surprising. Given the 'incoherence' in the political economy of Mediterranean model of capitalism, the countries' competitiveness problems manifest themselves starkly during the crisis. Although the current sovereign debt problems cannot be fully explained by VoC insights, the VoC framework suggests that the absence of 'institutional complementarities' will exacerbate the problems of competitiveness in Mediterranean capitalist countries. Thus, their vulnerabilities will be exposed in the context of a deepening recession, and global markets will doubt their ability to repay debt, increasing the 'spreads' and downgrading their credit ratings. It worths, however, asking the question what future trajectories of change should we expect for this group of countries?

The crisis presents those countries with a huge exogenous shock. The pressures from global financial markets clearly put Mediterranean capitalism on a path towards becoming more liberalised and converging to the Liberal Market model. Still, institutional change in the bailed out cases is not anymore the outcome of interactions between domestic actors, as happened in the past in advanced industrialised countries. Instead, national governments seem to be 'with the back against the wall' limited to second-mover role. We observe that changes and reforms are swift and abrupt, and that international actors such as the EU and the IMF are involved – more than ever before – in domestic institutional change, even in realms that are beyond 'EU competencies'. Indeed, in the bailed out cases of Greece and Portugal, the 'troika' of the IMF, the European Commission, and the European Central Bank accentuates the pressures for 'LME-type' reforms. The pressures are less direct, but equally evident in the Italian and Spanish cases. These extraordinary conditions force national governments to pursue reforms and changes that –perhaps– were not part of their agenda.

In the industrial relations realm, the current recession will likely intensify the pressures towards wage bargaining institutions within the Mediterranean capitalism countries. This thesis suggested that common pressures may be refracted differently across countries, depending on different coalitions between domestic actors. However, the involvement of international actors in domestic institutional change 're-shuffles the cards' in the game. The case of the IMF/EC/ECB 'troika' insistence to allow the derogation in sectoral wage agreements in Greece (i.e. firm level agreements allowed to set wages *below* sectoral minima) is illustrative. The possibility for derogation was imposed top-down, but was not implemented by labour market actors bottom-up. Although the government enacted the law that allowed this option (leading to a change in the regulatory framework), trade unions *and* firms did not use this possibility, so there was no actual change in outcomes. In the face of this, the 'troika' suggested the complete abandonment of sectoral wage bargaining.[272]

The thesis suggested that the consent of labour market actors is critical for the implementation of any labour market reform. It was shown that in any such process of institutional change the 'representation of interests' matters and the different coalitions between actors may well lead to divergent institutional configurations and labour market outcomes. For instance, the IMF applauded the reform of the wage bargaining system in Spain, which was expected to 'to increase flexibility at the firm-level' and ultimately increase competitiveness.[273] However, this institutional change in Spain had the consent of labour market actors, who had signed earlier a social pact for the overhaul of the system.[274] As a result, the implementation is likely to be more successful and lead to a change in outcomes. In sum, the complete abolition of sectoral wage bargaining is not necessarily the best way forward and may be based on a false pre-crisis understanding of the link between labour market institutions and economic competitiveness.

In conclusion, one of the insights of the thesis was that wage bargaining institutions are not intrinsically 'rigid', but may be restructured to meet new needs, as long as the collective actors can forge the requisite coalitions and pursue

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[272] 'Pressures for abandonment of sectoral wage agreements' *Kathimerini,* (30 August 2011); 'Troika asks for wage cutting' *Eleftherotypia,* (30 August 2011).

[273] 'Spain's Parliament Ratifies Wage Decree, Plans Amendments' *Bloomberg News,* (22 June 2011), available at: http://www.bloomberg.com/news/2011-06-22/spain-s-parliament-ratifies-wage-decree-plans-amendments-1-.html (last retrieved 27 September 2011).

[274] 'Spain agrees 'grand social pact' for economy overhaul' *BBC News,* (1 February 2011) available at: http://www.bbc.co.uk/news/world-europe-12333208, (last retrieved 27 September 2011).

compromises. Wage bargaining may still have advantages for firms by ensuring fair competition, minimising transaction costs, and assisting in business restructuring. Even more, if flexibility is introduced via the 'negotiated' route of wage agreements (as opposed to being 'imposed') the implementation of governmental labour market reforms is better safeguarded. These insights are likely to hold even in the context of a deepening recession.

Indeed, the Harvard economist, Richard Freeman, argued that wage bargaining institutions can act as a 'countervailing power' to irresponsible financiers and may well be part of the way out of the recession:

> 'The financial implosion and global recession have, it is safe to conclude, demolished the case that labour institutions are the main source of weakness in a capitalist economy. […] I argue that by reducing economic inequality and raising the purchasing power of the bulk of the work force, collective bargaining can contribute to a healthy recovery from global recession. […] Collective bargaining and wage regulation put a downward floor on deflationary pressures. Stabilizing wages reduces uncertainty about future labour costs and prices. The reduction in uncertainty raises business investment and hiring decisions, which depend greatly on expectations…'(2011:258-267).

Annex: List of Author's Interviews

Italy

Mrs Giacomina Cassina, Trade Union Official at CISL

Mr Antonio Deruda, National Expert Correspondent at the European Industrial Relations Review

Mr Angelo Di Cristo, Trade Union Official FABI and Unicredit

Mr Edgardo Maria Iozia, Member of National Secreteriat at UILCA; President of European Finance Trade Union and Representative in the Economic and Social Committee

Dr Luigi Lama, Scientific Advisor at Centro Studi Nazionale CISL, and Adjunct Professor at University of Firenze.

Dr Salvo Leonardi, Research Coordinator of IRES, CGIL

Mr Renato Matteucci, Coordinator for Services and Tertiary sector, CGIL

Mr Andrea Mone, Trade Union Official at CISL

Mr Luca Panfietti, Trade Union Official FABI and Cassa di Risparmio di Carrara

Mr Eros Pizzi, Coordinator for Services and Tertiary sector, CISL

Mrs Vilma Rinolfi, Banking Sector Expert at CESOS

Mr Marco Rendina, Labor and Industrial Relations Coordinator, Assotelecommunicazioni

Mrs Sofia Sanz, Telecommunications Sector Expert at CESOS

Mr Franco Savi, Trade Union Official FABI and Banca Monte Parma

Mr Rosario Strazzullo, Coordinator for Telecommunications sector, CGIL

Mrs Paola Terzoli, National Expert Correspondent at the European Industrial Relations Review

Greece

Mr Andreas Anastassopoulos, President of SATPE and CEO of Vivodi Telecoms

Mr Takis Arapoglou, President of Hellenic Banks Association and CEO of National Bank of Greece

Mr Markos Daskalakis, Trade Union Official at SMT

Dr Christos Gortsos, Secretary General of Hellenic Banks Association and Associate Professor of International Economic Law at Panteion University of Social and Political Sciences.

Dr Christos Ioannou, Mediator and Arbitrator at the Organisation for Mediation and Arbitration (OMED) and National Expert Correspondent at the European Industrial Relations Review

Mr Manolis Michailakis, ex President of TIM/WIND trade union and Secretary for Industrial Relations at Athens Labour Centre

Prof Andreas Nikolopoulos, Mediator and Arbitrator at the Organisation for Mediation and Arbitration (OMED), and Professor of Industrial Relations at Athens University of Economics and Business.

Mr Miltiadis Papaioannou, Member of Parliament and ex Minister of Labour

Mr Thodoris Pitsikoulis, Secretary for Press and Public Relations at OME-OTE

Mr Christos Protopapas, Member of Parliament; ex President of OTOE; ex president of GSEE; ex-Minister of Labour

Mr Sotiris Saxonis, Secretary of Industrial Relations and Agreements, Federation of Greek Banking Employees (OTOE)

Dr Giannis Syros, General Director of SEPE

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