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9 Cooperation and Power in Labour Adjustment Choices: A Nordic Perspective¹

Dismissal regulation constitutes a basic feature in the organization of labour markets. Dismissal regulations restrict the managerial capacity to dismiss employees to allow for downsizing (Regini, 2000, p. 16), and mainstream economics have often blamed such regulations for the low job growth in the European labour market (Pissarides, 2001). Thus, some propose that laxer employment protection regulation will increase employment and create more flexible labour markets. The employment protection legislation in the Nordic countries is, comparatively speaking, medium strict, according to the OECD employment protection legislation index (OECD, 2012b). The core theme of this chapter is how the dismissal regulation institution influences management choices during company-level crises within the Nordic countries. Do institutional practices follow strictly from the institutional rules or regulations themselves, or do actor relations influence the choices and practices during labour adjustment situations? Is it possible that the regulation of employment protection may lead to diverse outcomes, due to differences in competence requirements, the use of manpower, technologies and so on? Thus, the analysis provides insight into how institutional regulations may result in diverse outcomes, providing ground for incremental institutional change.

Katzenstein (1985), among others, has highlighted that the Nordic labour market regimes enable adjustments during shifting economic circumstances. In his view the predictable and continuous ongoing relations between the social partners and the state enhance the degree of trust and institutional flexibility at all levels of the labour market. This is a system where preferences¹ are traded off against one another and where the idea of the common good and a culture of compromise prevail over employer or employee interests (Katzenstein, 1985, p. 33). These compromises may be understood as an institutionalization of a certain distribution of goods and burdens (Elster, 1992; J. Mahoney & K. Thelen, 2010). Economic crisis and labour adjustment situations accentuate the need for flexibility and cooperation at the company level while potentially crystalizing conflicting interests and triggering mobilization of power resources. Thus, they provide the possibility of studying whether and how trust and long-lasting reciprocal relations influence institutional practices during times of institutional pressure.

Combining laws and collective agreements, industrial relations are organized in a two-level system in the Nordic countries. Wages, productivity, working hours and

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other working conditions are first bargained centrally at the national or industry levels. These centrally negotiated frames provide local unions with the right to consultation and participation regarding a range of workplace issues and a role in local collective bargaining (Falkum, 2008; Løken, Stokke, & Nergaard, 2013). As part of this system unions² and employers are obliged to discuss alternatives to dismissals, such as temporary layoffs, reduced working hours, voluntary temporary or permanent pay cuts or other possible measures, as well as the extent of dismissals and their distribution (Svalund, 2013; Svalund et al., 2013). But the employer has the final say, and the company unions have no right to invoke industrial action in such instances (Stokke, 2008).

J. Mahoney and K. Thelen (2010, p. 19) assert that two main properties influence the type of actions possible within institutional structures: firstly, the characteristics of the *political context* and whether or not it provides the opposing actors strong veto possibilities, and secondly, whether the targeted institution affords actors opportunities for exercising *discretion in the interpretation or enforcement* of a rule or regulation. During labour adjustments, the employer and the unions may discuss *how* the dismissal regulation should be understood or enforced. Furthermore, the relations between the actors involved in labour adjustments in the Nordic countries are often formed by both cooperation and opposition (Huzzard & Nilsson, 2004). Thus, the *form* of the social exchange relationship between the actors involved affects the outcomes of institutional rule enactment.

Further, actors do, in many situations, face several alternative institutional choices. To avoid the burdensome consequences of dismissal regulation the actors may choose to adjust in ways regulated by alternative or complementary measures, choosing to use, for instance, severance pay to avoid dismissals distributed by the seniority rule (Dahl & Nesheim, 1998; Smith, Masi, van den Berg, & Smucker, 1995). It is therefore necessary to also focus on the relation between the targeted institutional measure and other institutions/institutional measures influencing how actors act towards, for instance, the regulation of dismissals (Hall & Soskice, 2001; Sels & Van Hootegem, 2001).

The following presentation is based on a comparison of the rules and regulations of the dismissal institution and other relevant labour adjustment institutions in Denmark, Finland, Norway and Sweden, as well as 21 comparative case studies of companies adjusting labour within the newspaper industry and construction industry in Norway and the manufacturing industry within all these four countries (Svalund, 2013; Svalund et al., 2013).³ Placing the actors at the centre of the analysis provide

² Union is used as a short term for *trade union*.

³ These are presented in Svalund et al. 2013 and Svalund 2013, but with a somewhat different theoretical focus.

insight into their available choices and offers detailed insight into the sources of institutional diversity and change.

The chapter is divided into five sections. Firstly, I discuss the concept of institutions and how institutional diversity and change may be understood and explained. Secondly, the importance of understanding the dismissal institution as related to other institutions providing and regulating other labour adjustment possibilities, each with their own distributive outcomes, is discussed. Thirdly, I argue that broadening the understanding of the actors involved in institutional interpretation, enforcement and change is important for understanding how they relate to institutions and to understand how ambiguity, relations and power lead to diverse institutional outcomes within different industries and in relation to differences in the institutional measures available within different countries. In the fourth section I show, using examples from comparative case studies, how the set of measures facing the actors and the established social exchange relationships influence institutional reproduction and flexibility. Finally, the relevance of the perspective presented is discussed.

9.1 Analytical Framework

9.1.1 Institutions, Agency and Outcomes

Scott points out that “Institutions are comprised of regulative, normative and cultural cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2008, p. 48). What defines institutions is not that actors agree with and follow the norm, but rather that it is *obligatory* to follow it, the rules and regulations may be enforced by a third party (J. Mahoney & K. Thelen, 2010; Stinchcombe, 1968, pp. 154, 188; Streeck & Thelen, 2005). Institutions reduce uncertainty, increase the level of trust between actors and create effective frameworks for decisions (Crouch, 1999, p. chapter 2; Streeck & Thelen, 2005, p. 9; Svalund & Kervinen, 2013). By creating predictability and social order, institutions not only limit the number of choices available, but they also establish criteria and resources that individual and collective actors use to make their choice of action (Giddens, 1984; Immergut, 1998, p. 26; Wailes, Ramia, & Lansbury, 2003). Still, there is usually room for actor discretion in the way rules and regulations are enacted or enforced.

9.1.2 Labour Adjustment Strategies in the Face of Institutional Regulations

Rule makers such as company actors facing crisis and a need for labour adjustments relate to a set of labour adjustment measures, each with their own rules and regulations. In practice, most managers meet numerous and sometimes incompatible demands from a range of external actors (Pfeffer & Salancik, 2003), such as owners/

stockholders, the administration in their parent company, employees and unions and the local community, as well as from rules and regulations governing labour adjustment measures. Management must balance these demands, acting in ways that to differing degrees imply resistance towards the institutional rules and regulations. Hence, while institutional diversity and change may strategically be sought by change agents, it may also be a by-product of events and decisions not aimed at institutional change per se.

Oliver (1991, p. 152) presents a typology with five types of strategies that company actors may enact when facing institutional demands, varying from passively following the rules to active resistance (Oliver, 1991, p. 151). Actors may, firstly, use the strategy of *acquiesces* during dismissal selection, following taken-for-granted norms, mimicking institutional models and trying to obey regulations to the letter. Secondly, they may use a strategy of *compromise*, balancing the expectations of multiple constituents, trying to “bend the rules” and negotiate with institutional stakeholders. Thirdly, they may try to *avoid* the regulations altogether by changing goals, activities or domains by, for instance, shifting from the use of dismissals to the use of voluntary quits by way of severance pay. Fourthly, the company actors may try to *defy* the institutional rules by ignoring or contesting explicit norms and values or by assaulting the sources of institutional pressure. Finally, the companies may choose to try to *manipulate* the institutions by way of co-opting, influence or control those influencing the institutional rules.

As mentioned, J. Mahoney and K. Thelen (2010, p. 19) assert that the *political context* and whether or not it provides the opposing actors strong veto possibilities, *and* whether the targeted institution affords actors opportunities for exercising *discretion in the interpretation or enforcement* of a rule or regulation, influence the type of strategies and actions possible when actors face different institutions. While institutional practices may change over time, for rule takers, the political context, as well as the level of opportunities for discretion in enactment, opens up for *diversity* between, for instance, industries at one point in time. Thus, changes in industry structure (Bell, 1976) may increase the importance of sectors with different institutional practices, leading to incremental macro-level institutional changes.

9.1.3 Power and Compromises Within Long-Term Reciprocal Relationships

Labour adjustment negotiations are embedded in long-lasting relationships, where order and long-term reciprocity are necessary to maintain good, cooperative relationships (Granovetter, 1985). In contrast to, for instance, Germany, employers in the Nordic countries are given the final decision-making authority on labour adjustment decisions (Sippola, 2012; Svalund & Kervinen, 2013). The political context does not provide the unions with the opportunity to veto, for instance, a decision to dismiss a certain number of employees. Still, violating established normative

and cultural expectations, and disregarding advice given by the unions during consultations, may have detrimental effects on the employer–employee relationship. Hence, trusting, long-lasting relationships provide opportunities for other types of social exchanges than non-trusting relationships (Crouch, 1993).

As this relationship does not only relate to the potential dismissal situation at hand, but also to future wage bargaining, productivity, product development and so forth, the concept of *the social contract*, applied within strategic choice theory, points to how social relations might influence the significance of the political context (Walton & McKersie, 1965; Walton, McKersie, & Cutcher-Gershenfeld, 1994). The term *social contract* refers to the shared understandings between management and unions about the meaning of cooperation, the “rules of the game” in bargaining and cooperation (Walton et al., 1994, pp. 3-11). The existence of a social contract, a common history and shared understandings between management and unions may influence the labour adjustment measures chosen and the process of negotiation.⁴ Hence, the actors’ bargaining power also rests on the fact that they are bound to interact in the future and must judge whether use of power may have detrimental long-term effects on their relationship (Walton et al., 1994, p. 43).

9.2 Data

The financial crisis of 2008, with accompanying demand and revenue reductions across countries and industries, offered a unique opportunity to study such issues within several industries and countries facing different constraints and regulations. Case studies were conducted within three construction companies, six manufacturing companies and three newspapers in Norway. These three industries are highly unionized among their core employees and experienced a substantial downswing due to the financial crisis. Manufacturing, a cornerstone of the Nordic labour market model, could then be compared with construction – an industry with long-term projects and fragmented and dispersed product organization – and newspapers, producing intangible products with highly skilled white-collar employees. Further, case studies of manufacturing companies were also conducted in Denmark (three companies), Finland (three companies) and in Sweden (three companies), enabling a comparison of companies within a single industry facing different regulations and measures.

Companies with more than 50 employees prior to the adjustments were selected, giving insight into choices, norms and perceptions of justice in regard to

⁴ “Negotiation(s)” is in this chapter understood as “exchange(s)”, and should not be understood as necessarily *formal* negotiations. The unions have only formal consultation rights, but other power resources may turn these into negotiation processes of sort.

distributional effects not available in smaller companies. Data were collected through interviews with representatives of site management (HR directors and/or production/division managers) and of the main blue- and white-collar unions. The interviews focused on the consequences of the crisis on the company, how the adjustments were handled and whether and how management and unions related to each other and the rules and regulations they were facing. Interview data were supplemented by annual reports, business data and management–union agreements. A common interview guide was used in the fieldwork, and to ensure data quality all interviews in Denmark, Norway and Sweden were summarized and emailed to the interviewees for comments. For assessing the institutional norms and regulations, relevant statutory laws and collective agreements regarding labour adjustments was consulted

9.3 Labour Adjustments in the Nordic Countries: Institutional Characteristics and Alternatives

There are three main types of institutional measures which are nationally regulated, either through law or collective agreements, and I present each below.

9.3.1 Dismissal Regulation

The 1998 EU directive on mass redundancies, applying to all four countries, states that employers must consult with employee representatives before making a decision involving redundancies of 10 or more employees. Discriminatory decisions are forbidden in all countries, but there are other regulatory differences. In Denmark the Basic Agreement between Landsorganisationen i Danmark (LO) and *Dansk Arbejdsgiverforening* (DA) states that dismissals must be based on reasonable grounds related to the employee or the company, but criteria for selection are not defined. The same pertains to Finnish legislation, while the Dismissal Protection Agreement between *Suomen Ammattiliittojen Keskusjärjestö* (SAK) and *Elinkeinoelämän Keskusliitto* (EK) contains guiding principles emphasizing the importance of retaining skilled employees and securing those with reduced work ability. Lack of specification also pertains to the laws in Norway, but the Basic Agreement between *Landsorganisasjonen i Norge* (LO) and *Næringslivets Hovedorganisasjon* (NHO) specifies a seniority rule, which permits deviation from this principle with due reason. The last-in-first-out principle is mandatory under Swedish law as long as the remaining employees have qualifications to carry out the work.

9.3.2 Regulation of Temporary Layoffs

There are state-funded temporary layoff or work-sharing schemes in Finland, Norway and Denmark (Olberg, this volume). The schemes have many similarities, most importantly payment of unemployment benefits to laid-off employees. However, the state-funded UB commence only after an initial period of layoff or short-time working; until then, the cost is borne by the worker, the employer or both. There is also a minimum proportion of time off work before payment is available: 40 per cent in Finland and 50 per cent in Norway, while in Denmark the employee has to be off work at least two days per week or one week off followed by one week at work. In Denmark, temporary layoffs have to be shared evenly between employees in at least a whole production unit, and there could be no redundancies within the unit during work-sharing. By contrast, in Sweden there are no such state-subsidized schemes. In the aftermath of the 2008 crisis, the main employer and employee organizations within manufacturing in Sweden were able to agree on a “crisis agreement”, providing a sort of temporary layoff mechanism, without state subsidizing (Svalund et al., 2013).⁵

9.3.3 Unemployment Benefits and Early Retirement Systems

During labour adjustments the actors may take the unemployment benefit and early retirement schemes into account. There are only minor differences in the generosity of the insurance schemes in the Nordic countries (OECD, 2012a). At the time of the crisis, Denmark had an allowance (*efterløn*) enabling workers to retire starting at the age of 60; in Finland individuals turning 60 before the 500-day period of unemployment benefits was over could move directly into old-age pension; in Norway a state-subsidized collectively agreed upon supplementary pension scheme allowed those covered to retire at the age of 62. In Sweden there was no such publicly subsidized early retirement system, and the normal retirement age was 65.

These institutions complement each other, and present the company actors with a set of choices. Simultaneously, the dismissals selection rules provide more possibilities for employer discretion in Denmark and Finland than in Norway and especially Sweden. In Sweden temporary layoffs are unavailable or very costly to the employers and employees; whereas Denmark and Finland have lenient dismissal selection rules, these countries also have more lenient early retirement regulations, providing more employer choice.

⁵ There have been several minor adjustments in these rules in the last few years for more on this see Chapter 8 (Olberg) in this book.

9.4 Power, Cooperation and Institutions within Three Industries in Norway

Studying companies with different production methods, competence requirements and cooperative relations provides a way to compare how the same set of institutions and measures enable and constrain rule takers and their power resources differently in different situations. The institutions structuring labour adjustments may provide possibilities for different types of strategies in different types of situations, thus comparing adjustments in companies in three different industries highlights how the same regulation may lead to very diverse institutional outcomes.

Table 9.1: Types of measure used by company and industry

Category of measure	Subtype	Company		
		Manufacturing	Construction	Newspapers
1. Reduction of external employees	Stop/reduction in the use of consultants and agency workers	M2, M3, M4, M6*	All	All
2. Temporary adjustments in working hours	1. Flexible working time arrangements, collective agreements	M2		
	2. Temporary layoffs	All	All	
	3. Training measures			NP2
	4. Cuts in working time and pay by CA	M1, M2, M3, M5		NP1
3. Internal re-deployment*		M2, M4, M5, M6	C2, C3	NP1, NP2
4. Permanent changes in pay systems				
5. Exits and early retirement – attrition	1. Voluntary resignments with severance pay		C1	All
	2. Early retirement incentives		(C1)	All
6. Dismissal/involuntary quits	1. Phasing out temporary employees	M2, M4, M6		NP1, NP2
	2. Dismissals	All	All	NP3

Table 1 is a modified version of Svalund (2013, Table 3). M1 stands for manufacturing company nr 1, C2 for construction company nr 2, etc.

Production contingences and the way the crisis hit the companies influenced the choice of measures (Table 1) in specific ways, leaving most room for agency and union power in the newspaper industry and least in construction. It also influenced the cooperation between management and unions and the power resources of unions during these processes.

9.4.1 Manufacturing

The financial and economic turmoil of mid-2008 resulted in a drop in demand that was quick and sudden in the manufacturing plants. Just in time (JIT) production methods swiftly made demand reductions evident on the plant floor, as production was attuned to incoming orders. Further, the uncertainty of the evolving economic situation made it difficult to create long-term adjustment plans, making combinations of temporary measures and dismissals, sometimes with redeployments, more suitable.

The overriding goal for both management and unions was to rescue as many jobs as possible at the plant and retain the competences and skills necessary to be productive in the future. The unions wanted to move the burdens on to external workers first, but the size of this group was very limited and of no real effect. Both actors realized that there was limited room for distributive win-lose power games. Handling the situation effectively could reduce the number of dismissals, while conflicts could increase the crisis and the number of dismissals at the plant. Further, both parties knew they could not offer much in terms of severance pay or keeping workers without tasks employed, as there were limited economic resources available at the plant level.

The speed of the crisis and the fact that temporary layoffs initially required that employees were laid off at least 40 per cent in a maximum of 30 weeks made both management and unions in several companies interested in finding other short-term solutions. Therefore, the unions engaged in *cooperative efforts* enabling win-win solutions rather than forcing the employer into win-lose power games. In the first manufacturing company (M1) the union negotiated a local “crisis” agreement where wages were cut 10 per cent while working time was cut 20 per cent, sharing the burden between employer and employees. Similar measures were created in three other companies, and the unions were essential in building consent among the employees (Table 1). Cooperation saved jobs, enabling solutions where dismissals were avoided and at the same time provided the unions further leverage and goodwill in later negotiations.

Even though other measures were used, all the companies had to dismiss employees. The *interpretation of the rules* for distributing dismissals was pivotal in the negotiations. The unions wanted a strict application of the seniority principle, while management in some cases wanted exceptions on account of competence. While there were discussions about what constituted “a difference in seniority” in some of the

companies, the unions were able to get their opinion through, applying the criteria rather strictly. In the end, both management and unions were usually happy with the principle, as it saved skills, was judged to be fair and enabled an effective, simple selection process. Also, while the unions could not veto the use of other criteria, they could use their informal and formal day-to-day cooperation as leverage, making management accept their definition. As such, cooperation between management and unions on issues such as the creation of short-term adjustment measures, on competence, productivity and wage provided the union with leverage that they could use as an informal local veto power, reducing management's possibilities to interpret the dismissal regulation loosely.

Further, none of the companies used general severance packages or early retirement offers since they followed a strategy of *acquiescence*. Following a strategy where the dismissal process was done strictly according to laws and regulation, severance pay was just not perceived to be necessary by management. Also, the unions did not try to get such packages, or they did not prioritize it against other claims during the negotiations. Another way of avoiding dismissals and the dismissal rules is early retirement. Most of the companies had been working to keep and attract senior employees over the previous years, and as such, they found the use of early retirement packages to be normatively wrong. Thus, the manufacturing plants ended up applying a rather strict interpretation of the dismissal rules while also creating local flexibility through locally agreed upon measures.

9.4.2 Construction

The drop in demand had a slower impact in construction as the need for man-hours on ongoing projects remained the same, while the companies did not have enough new projects at hand. Initially the companies aimed at keeping more of their future projects in-house, limiting the use of sub-contractors and agency workers. The unions' main aim was to keep as many workers employed as possible, preferring general cost-cutting and stops in the use of agency workers and temporary contracts over temporary layoffs and temporary layoffs over dismissals. While the employers shared the interest in protecting employees, especially those with valuable skills, both parties realized that dismissals would be necessary, in combination with other measures (Table 1).

The use of measures and the interpretation of dismissal regulations in the construction companies can be understood as being based on *compromise* and *avoidance*, varying somewhat between the three cases. The application and distribution of dismissals and temporary layoffs were important. The unions wanted the selection of dismissals to be done according to seniority within each occupation. Since seniority and productivity were not necessarily correlated, the employers were more concerned about keeping the skilled, motivated and productive employees than

selecting mechanically according to seniority. Letting some of the less productive employees go would be preferable in their view. Facing conflicting interest, *defining* the operational application of the dismissal selection regulations was important. Management used court rulings and law interpretations to back up that the difference in seniority between employees had to be substantial, up to several years of difference in seniority. In C1 the blue-collar union disagreed with management. Still, many employees were laid off, and despite union resistance the employees were offered a small severance package or early retirement package if they quit voluntarily. Some were offered to quit immediately while keeping their wages through the notice period. In addition the company had a “wage guarantee”. Those lacking new employment before the notice period ended were offered a continuation of their wages for some time, usually one to three months, based on seniority and social considerations. As such, management used a strategy of *avoidance*, moving the manpower reductions from a situation where they were influenced by the dismissal regulation to “voluntary resignations”. In C3 the perception of “usefulness” was stretched further than in C1, implying both specific craft competence and motivational aspects. Early on in the adjustment process there was a conflict between the local management and the blue-collar union regarding the selection criteria, with management wanting usefulness/competence to be the primary criterion, before seniority. The manager was able to convince the local blue-collar union to use usefulness/competence as the primary criterion, using the piece-rate system as an important argument. It was argued that saving what management considered to be the “best” employees could potentially improve the work climate and increase the piece-rate reward for the “survivors” in the future, while using a strict seniority criterion could impair productivity and hence wages and job security of all remaining employees. The result was that “a difference” in length of seniority was widely defined in many instances, making competence the *de facto* criterion. Also, by using a wide definition of “competence”, the dismissal selection was in effect mostly up to the negotiations between management and unions to settle. Hence, the company avoided following the dismissal regulation to the letter. In C2 a relatively high number of white-collar workers did quit, either by choice or by being dismissed, whereas only one blue-collar worker was dismissed.

While the application of dismissals was important for the company-level actors, they also used different strategies to reduce the number of dismissals. All unions made sure that internal redeployments were used and that the use of agency workers was terminated. Further, the blue-collar unions in C2 and C3 demanded that workers were hired out to other construction companies in the region, in accordance with clauses in the central collective agreement. As such, facing somewhat strict dismissal rules, management preferred several alternative measures to avoid the dismissal rules.

These construction companies partly avoided following the dismissal rules to the letter. This can be attributed to the fact that the blue-collar unions had few resources to rely on as they were facing competition from subcontractors and agency workers. Their members were less indispensable in the production process than was the case

in manufacturing, and their role on the actual building sites regarding productivity and other work-related issues was more limited.

9.4.3 Newspapers

The crisis hit the newspaper industry almost instantly, as they all experienced a sudden drop in advertisements during the fall of 2008. The newspapers lost revenues while the need for man-hours to produce the daily news remained more or less the same. The changes in the newspapers were, compared to manufacturing and construction, much more oriented towards reorganizing activities to save labour input and wage costs. As such, the crisis accentuated ongoing reorganization aimed at tackling the structural changes already under way in the news industry.

Several measures were used to adjust the use of labour: The companies reduced their use of temporary employees and freelancers, and as they used such manpower extensively prior to the crisis, these cuts had substantial impact. In NP1 the typographer union instigated an employment pact where half the agreed wage increase in 2009 was returned to the employer in order to save two typographers who otherwise would have to quit because of low seniority. Following this, all quits among the typographers were early retirements, the preferred option for the group. Finally, the companies chose to avoid the dismissal regulations by using severance pay and early retirement packages, thus avoiding the distribution of dismissal by seniority.

While the unions in manufacturing and construction wanted the seniority rule to be applied, management wanted to avoid such a distribution of dismissals within the newspapers as it did not fit the company-specific competences. Within the media industry, and in these specific companies, former downsizing processes had resulted in the use of severance packages and early retirements, often rather generous ones. The union wanted general packages that everyone could apply for; they wanted the severance pay but to avoid that management could pick those management wanted to leave.

More use of internal flexibility measures, reorganizations and changes in production processes made the unions more central than in manufacturing and especially construction, and resulted in tough negotiations and trade-offs between management and unions. The fact that the managers wanted to avoid the seniority principle meant that the journalist unions could use the regulations in trade-offs with management, demanding severance pay and “voluntary” resignations as an alternative if they were to contribute to fast, flexible and legitimate work-time cuts and reorganizations. The need for internal reorganization in the newspaper rather than cuts in labour hours made cooperation with the strong journalist occupation and their union all the more important. Further, former “victories” in the form of severance pay during previous labour adjustments had produced path-dependencies, making it hard for managers to argue against repeating it. The unions were aware of the power

they possessed in the negotiations. The NJ representatives had backing from their members, and stressed both their traditional union power through good finances, that their members skills were essential for the development of the company in the future and that a good cooperative climate was essential for the future adjustment and production processes. A bad management– union relationship could influence the daily work spirit. Journalistic work is, compared to more repetitive work tasks in factories and construction sites, difficult to monitor, and editors and journalists cooperate closely in the search for and presentation of stories. Management in these companies acknowledged that the unions were essential for employee support in the adjustment processes and for further development of the company. As such, the need for cooperative relationships influenced how the dismissals were realized.

9.5 Power, Cooperation and Institutions Within Manufacturing in the Nordic Countries

After comparing adjustments within manufacturing, construction and the newspaper industry in Norway, I discuss differences between adjustment processes in manufacturing in Denmark, Finland and Sweden. Comparing company level labour adjustment situations in a single industry within different national regulatory systems provides a basis for understanding the relevance of institutional diversity for cooperation and outcomes, and especially how variations in rules and available adjustment measures influence choices within the same industry.

The choice of adjustment measures was influenced both by the perceived depth of the crisis and the institutional environment. Many companies needed to adjust labour and production capacity immediately. When the crisis broke out, the prime concern of unions was to shield their own members from loss of jobs and pay, while management was looking for ways to save costs. As a first line of defence, unions in many companies thus called for, and usually won, management accept for *reduction of external labour* in the plants, such as agency workers and consultants (Table 2).

The case studies show that national differences in the regulation of dismissal selection criteria and in the availability of short-term work (temporary layoffs) schemes provided variations in the need for cooperative solutions and in the actors' control over issues of interest to their opposing social partner.

Table 9.2: Types of measure by company and country

Category of measure	Subtype	Manufacturing company			
		DK	FIN	NO	SWE
1. Reduction of external employees	Stop/reduction in the use of consultants and agency workers		FIN2	NO2 NO3 NO4 NO6	SWE1
2. Temporary adjustments in working hours	1. Flexible working time arrangements, collective agreements	DK2	All	NO2	All
	2. Temporary layoffs/work sharing	DK2 DK3	All	All	
	3. Training measures	DK2	FIN1 FIN2		SWE1* SWE2 SWE3*
	4. Cuts in working time and pay by CA			NO1 NO2 NO3 NO5	SWE1 SWE2
3. Internal re-deployment***		All	FIN2	NO2 NO4 NO6	SWE1 SWE2
4. Permanent changes in pay systems		DK2 DK3			
5. Exits and early retirement – attrition	1. Voluntary resignments with severance pay	All			All
	2. Early retirement incentives	DK1 DK2			All
6. Dismissal/involuntary quits	1. Phasing out temporary employees		FIN2	NO2 NO4 NO6	SWE1 SWE3
	2. Dismissals	All	FIN2 FIN3	All	All**

*In SWE1 training measures were funded by the operating budget. In SWE3 an externally funded project covered the costs related to the training, while the wage costs were underwritten by the company. ** In SWE2 only a few white-collar employees were dismissed. ***Included hiring out. Table 2 is a modified version of Table 1, p. 191 in Svalund et al. (2013).

9.5.1 Denmark: Dismissals as an Employer Prerogative – Employer Choices without Union Interference

The adjustments in DK3 involved fairly extensive cooperation between management and unions in an effort to find mutually acceptable ways to adjust working hours and labour costs while protecting employment security. In the two other companies

consultation was at arms' length (Walton et al., 1994). The unions were consulted late in the adjustment process, and their involvement was kept to a minimum, mostly as one-way formal information.

The companies did to a limited degree use work-sharing schemes. A wish to retain general and firm-specific skills made management in two of the companies prefer work-sharing instead of dismissals for some employees (Table 2). Further, management was able to win union acceptance for reorganizing bonus systems in order to lower wage costs permanently. In DK2 management obtained substantial savings on pay, implementing a new pay and bonus system for blue-collar workers, while in DK3 a planned pay rise was converted into a bonus agreement.

Overall, regular dismissals were the most important means of adjustment in all companies. While the employers and unions had a long-lasting reciprocal relationship in these companies, dismissal selection had been regarded as an employer prerogative for many years. As such, the employers and unions did not expect union involvement or influence over this matter. Therefore, with lenient rules and clear expectations, both actors chose institutional *acquiescence*, following norms and expectations in these situations. The employers' criteria for distribution of dismissals were based on their perceptions of the future need for skills and capabilities; in DK2 employee motivation and sickness absence were also important considerations. The unions' normative expectations of not being involved meant that their lack of involvement did not influence the social contract. While the unions did not expect it, the employers in DK2 and DK3 asked the union to forward their views, for instance, regarding social considerations when distributing the dismissals. In addition to dismissals, severance pay was to some extent also applied to promote employee loyalty, calm union discontent and provide incentives to keep up productivity while working through the notice period. Finally, Denmark has been known as holding a norm of early exit from the labour market (Hult & Edlund, 2008). A sizeable share (27 per cent) of the manpower reductions in DK3 was obtained through early retirements. As the union in DK3 aimed at avoiding dismissals, early retirements or severance pay was viewed as a better option, leaving the individual employees with a choice and some financial returns.

9.5.2 Finland: High Level of Employer Discretion during Dismissals Combined with Limited Veto Possibilities

The adjustments involved some cooperation between management and unions in FIN1 and FIN2, where management formally consulted the unions to find mutually acceptable ways to adjust labour. The unions in FIN3 were involved late, and management kept their involvement to a minimum, mostly restricted to one-way formal information.

Finnish manufacturing companies have extended opportunities for temporary layoffs, as well as company-specific work-sharing schemes. This was used extensively to postpone and possibly avoid dismissals, supported by both sides in the plants. Still, regular dismissals were the most decisive means of adjustment in all companies but FIN1. The selection of whom to dismiss and retain was largely a management prerogative. The selection of dismissals in FIN2 and FIN3 was distributed with emphasis on job descriptions and skills and less on seniority. The unions were consulted but felt they had little influence regarding the number, selection and distribution of dismissals. In one of the companies with less trustful relations, the dismissals were perceived as an illegitimate “cleansing operation” (FIN3) by the union, while the CEO explained that the crisis created a perfect opportunity to remove unsuitable employees. The Finnish manufacturing companies faced a situation where the dismissal selection rules were rather loose and unclear, putting weight on a range of factors not possible to measure or veto and a temporary layoff arrangement that was cheap and easy to use. The combined effect was that there was little need for discussion, and acquiescence to the rules was perceived by both unions and management as the only logical choice.

Further, the unions also had limited influence in other areas outside the specific dismissal rules, as the cooperative relations with management about production development, competence and wages were limited. Thus, they could not build on and use their cooperative relationship to persuade the employer to follow their wishes. Hence, institutional differences beyond those directly relevant to the dismissal processes also influenced the bargaining power of the unions.

9.5.3 Sweden: Lack of Temporary Layoff Mechanism Combined with Strict Dismissal Rules Laid Ground for Union Power

In Sweden the adjustments involved extensive cooperation between management and unions trying to find mutually acceptable ways to adjust labour. Regular dismissals were the most widespread means of adjustment in all companies but SWE2. The overriding rule for dismissal of blue-collar workers was seniority, and deviations from the seniority rules needed to be justified and negotiated with the blue-collar union.

To achieve immediate adjustments, companies initially drew on existing agreements regarding flexible *working time* (Table 2). Such agreements enabled hourly adjustments of around 10-15 per cent within a year. The actors in several instances re-negotiated their agreements or struck entirely new deals. This was usually instigated by the unions, which wanted to distribute the losses of work and income evenly while saving jobs. Further, the partners in SWE1 agreed on 20 “stop-days”, when production was closed down and workers were paid 85 per cent of their normal wage. Similar measures were seen in SWE2. Thus, the local partners negotiated measures in line with the central crisis agreement, even when not being

covered by it. To complement the drive towards flexible working time adjustment, a training scheme (SWE1) and earmarked funds for education and in-service training (SWE2) were used to retain employees in the company. Faced with the diving market, management was forced to negotiate with the blue-collar union over how to save costs and skills by developing a scheme for internal working time flexibility that, in effect, served as a private functional equivalent to the publicly financed temporary layoff schemes known elsewhere. Instead of passing the costs on to the state, they were shared between the workers and the company. Finally, the wage agreements were delayed and moderate.

The Swedish companies did not have any kind of state-sponsored buffers for labour hoarding or flexibility. Both management and unions would have preferred to have access to temporary layoffs. The absence of a temporary layoff scheme put greater pressure on the actors to negotiate mutually acceptable (win-win) alternative solutions. Thus, searching for alternatives, the employers needed to make compromises with the union. The combined effect of tight, long-term cooperative relationships between unions and management and sudden crisis while having a rigid, mechanical dismissal rule based on a last-in-first-out principle made other available labour adjustment methods all the more important.

In the Swedish companies we find the clearest signs of give-and-take cooperation. The blue-collar unions would accept cuts only in working time and pay losses on the condition that there would be no dismissals within a certain period of time (SWE1, SWE2), that blue- and white-collar employees would be subject to fair distribution of the savings (SWE1) and that early retirement and redeployment would be offered (SWE3). Further, in these companies, voluntary exits with severance pay were frequently used as part of trade-offs in negotiating crisis packages. The unions could, for instance, demand such offers, especially for elder employees, in “return” for accepting dismissals. Early retirements or severance pay was viewed as a better option, avoiding dismissals and leaving the individual employees with a choice and some financial returns.

9.6 Discussion and Conclusion

This chapter began by discussing dismissal regulation and how such rules have been attacked for creating rigid labour markets. While the Nordic labour market does not have the strictest rules on these issues in Europe, one aim of this chapter has been to investigate the flexibility of such rules, and whether and how their application is influenced by the political context, the local cooperative relations and the actor discretion allowed by the rules, as well as how the existence of alternative measures influences the political context and the choices made during labour adjustments.

The Nordic manufacturing cases showed that national differences in the regulation of dismissal selection criteria and in the availability of short-term work

(temporary layoffs) schemes provided variations in the political context, in the *need* for cooperative solutions and in the actors' control over issues of interest to their opposing social partner. Even though the temporary layoff mechanism in all three countries did not allow for the use of discretion, applying it saved jobs and skill investments and was therefore preferred by both employers and unions. The combined effect of tight, long-term cooperative relationship between unions and management, and the possibility to deviate from the seniority rule if due cause in Norway, made it possible for the unions to behave flexibly and with strength and to expect flexibility in negotiations on other issues in the future. In Sweden, the absence of a temporary layoff scheme put greater pressure on the actors to negotiate mutually acceptable (win-win) alternative solutions, thus enabling the new institutional mechanisms the Swedish employers needed to make compromises with the union. Without a temporary layoff arrangement, the employers and unions in Swedish manufacturing engaged, at both the company and industry levels, in tough discussions and trade-offs not necessary in Denmark and Finland, who had more lenient dismissal rules and temporary layoff arrangements. Hence, the combined effect of rigid dismissal rules and the absence of a temporary layoff scheme bred grounds for cooperation and union power, using discretion while operating within institutions.

Hence, the set of alternative or complementary institutional mechanisms influenced the power of the unions, whether there were conflicts of interest between the employer and unions or not, and the strategies and choices made. Thus, while veto possibilities are important in some contexts, when studying variations in practices the available alternative strategies possible to deploy is as important. As witnessed in Sweden, facing company-level crisis and no publicly funded temporary layoff measure, the company actors articulated the need for such a measure to the sectoral and central actors. Building on a long-term trusting reciprocal relationship, the parties were able to create a new institutional crisis agreement, providing numerical company-level flexibility. While doing so, the institutional foundation of new measures and new institutional rules was contingent upon a strong reciprocal relationship. As such, the existence of strong cooperative relations and complementary institutions provided a basis for *institutional stability*, at least in the short run.

Being more involved, the local unions were able through cooperative endeavours to provide new win-win solutions such as local crisis agreements on working time. While the tighter cooperation between management and unions in Norway and Sweden led to compromises and provided union influence, the Danish unions were mostly only informed about the dismissal selection process or the use of short-time work. As also shown by Hagen (1995) in the public sector in Denmark, unions, even though less involved than the unions in Norway and Sweden, found it natural that the dismissal selection was an employer prerogative. Hence, while regulative institutions influence whether the unions are involved, what Scott (2008) refers to as normative and cultural cognitive institutional elements, expectations of not being involved mean that a lack of influence does not necessarily influence the social contract.

Comparing construction, manufacturing and the newspaper industry within a single country (Norway), the case studies clearly show that market conditions, production contingencies and work organization influence the possible choice of measures during the labour adjustment process and hence the possibilities for agency and power. This being so, these differences in production contingencies and skill needs influenced the cooperative relations and the degree of occupational union strength and control and thus the institutional processes and its outcomes.

Management and unions in the manufacturing companies making products that were not large and time demanding *had* to cooperate to create possibilities otherwise not possible, agreeing on work time cuts and saving jobs and skills, which benefited both parties. There was less room for distributive win-lose power games compared to the newspapers, since they had much less economic resources available. In construction, the blue-collar unions had even fewer resources to rely on. Facing competition from subcontractors and agency workers, the main blue-collar occupational group had no closure on their work tasks. The union could not, compared to the journalist unions in particular, rely on their members' indispensability in the production process. In newspapers, the need for the reorganization of production and work organization, and saving through work-time cuts, put the unions in a more central negotiation position than in manufacturing and construction.

The strategies and institutional outcomes in these cases are firmly anchored in the social contract between management and unions at the company level. The influence of the unions and their use of power was reliant on the way production and the organization of work influence the need for cooperation. The unions, when possible, based their power on skills, cooperation and reciprocal exchanges over time. The depth of the day-to-day cooperation between unions and employers was important for union power during labour adjustments. Employers in manufacturing and the newspapers had invested in building cooperative relations with the unions for years, and wanted these to continue, while there were less cooperative traditions to rely on and uphold in construction. The less reciprocal relationship with the employers in construction reduced their bargaining power through the social contract, reducing the possibilities of management using compromise as a strategy.

Further, the dismissal rules impacted the dismissal processes even when not applied. While national measures may fit some industries more than others, industry-level path-dependencies and norms of appropriateness (March & Olsen, 1984) structured the labour adjustments and the impact of national regulations. While dismissal selection through seniority fit the company-specific competences within manufacturing fairly well, this was not the case within the newspapers. The journalist unions could therefore use the regulations in trade-offs with management, demanding severance pay and "voluntary" resignations as an alternative to dismissals by seniority if they were to contribute to fast, flexible and legitimate work-time cuts and reorganizations. In the newspapers, the use of severance pay during previous labour adjustments produce path-dependencies, expectations. Breaking these expectations

could undermine the social contract and the cooperative relations with the unions. As such, the characteristics of the local political context and the local power relations led to the use of both strategies of institutional avoidance and acquiescence. While a long term reciprocal relation seemed to be of less importance within construction, the employers in manufacturing and newspapers were eager to hold on to a good relationship. Thus, veto power based on regulations was not the only or prime motive when adjusting labour, suggesting that the employment protection regulations in the Nordic countries are rather docile and that their application is dependent on the combined effect of employee power and the productive need facing the companies.

Avoiding the effects of the seniority principle in the newspaper industry in Norway was important both to avoid the outcomes of the rule, for instance removing some of the young, skilled employees, but also since severance pay was an established norm within the industry. Thus, not paying severance pay could threaten the social contract between the local parties, damaging the relations necessary to develop the company further. As such, former institutionalized practices and the strength of the social contract together created institutional stability.

This chapter has provided insight into the significance of complementary institutions for explaining institutional stability and institutional change from below. Comparing labour adjustments within different industries, I have shown that the impact of regulations changes due to shifts in the environment, and how, conditioned by the employers' need for a certain quality of the social contract, the employers may bend the interpretation of the rules, pushing a certain compromise, a certain interpretation of the regulations forward. The typology of J. Mahoney and K. A. Thelen (2010), pointing to the characteristics of the political context and characteristics of the targeted institution, may also be used to understand and explain why institutional regulation may cause limited conflict within some industries and much more in others. Such differences between industries, combined with long-term changes such as changes in the labour market structure over time, for example an increase in the relative number of white-collar workers and a decrease in blue-collar workers, may thus contribute to institutional changes over time, where some norms and interpretations prevail over others.

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