

EIRO-Comparative Studies

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European Working Conditions Observatory (EWCO)

Wage flexibility and collective bargaining

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The case of Germany

Content

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Abstract

Variable payment schemes (VPS) are more widespread in banking and insurance than in other sectors, such as manufacturing. Irrespective of the sector concerned, however, profit-sharing, bonus and appraisal schemes do not, usually, refer to multi-employer agreements that govern other aspects of the remuneration system. Opening clauses, however, allow for the derogation of collective standards and/or the ability to make the level of bonuses contingent upon the firm's performance. Whilst employers' associations have, in general, called for the further extension of VPS within the framework of multi-employer collective agreements, unions are rather reluctant to replace regular wages, in part, by VPS.

1 Variable pay: forms, basic data and trends

1.1 What are the main types of variable payments systems (VPS) used in manufacturing companies and retail banking

According to a representative survey conducted by the Cologne Institute for Economic Research (Institut der deutschen Wirtschaft Köln, IW Köln), almost four out of every ten companies in manufacturing and affiliated industries have implemented some form of variable payment system (see Table 1). These are linked either to the profits of the whole company or they refer to the performance of an individual employee or a group of workers. In one quarter of the companies, a profit-sharing scheme has been established. The share is slightly higher when only the manufacturing sector is taken into consideration (26.9%) and the affiliated industries, such as construction or transport, storage, and communication, are ignored. The difference between the share with the affiliated industries and that without them is, however, negligible.

Companies often have more than one variable payment system in place at the same time. Therefore, the true share of firms in the survey paying bonuses or premiums based on individual or team performance (around 26% and 16%, respectively) exceeds the figure of 13.9% reported in the fourth row and fourth column of Table 1. In this respect, profit-sharing and bonuses based on individual performance are, in general, more widespread than payments that depend on the performance of a group.

Unfortunately, the survey does not allow a distinction to be made between bonus and appraisal schemes as outlined in the briefing note.

Table 1 – Proportion of companies in manufacturing and affiliated industries with profit-sharing and other performance-based wage systems in % – 2007

Four out of ten companies have implemented performance-based wage systems.

	Western Germany	Eastern Germany	Total
Profit-sharing for selected employees	10.6	12.9	11.5
Profit-sharing for larger groups of employees	2.9	3.6	3.0
Profit-sharing for the majority of the staff	11.0	14.6	11.0
Exclusively other performance-based wage systems	13.4	17.7	13.9
None	62.1	51.2	60.5

Total number of companies: 3,213

Source: IW Köln

Unfortunately, neither the IAB Establishment Panel conducted by the Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung, IAB) nor other surveys, such as the WSI's Works Councils Survey (*WSI-Betriebsrätebefragung*) carried out by the Institute of Economic and Social Research (Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung, WSI), provide up-to-date and representative information on individual-based or group-based variable pay systems, as the IW survey does. After all, the wave 1999/2000 of the WSI works councils survey showed that almost 30% of establishments across the whole economy had, by 2000, implemented a bonus or appraisal system for their blue-collar workers, another 35% for their white-collar workers, and 30% for their managers (Bispink 2001). As the figures were based on the responses of works council members, they were only representative for establishments with a works council.

With respect to profit-sharing in manufacturing, the IW Köln figures differ, at a first glance, substantially from those provided by the IAB. According to the latter, only 10% of manufacturing establishments had implemented

a profit-sharing scheme by 2005. The average intensity rate, i.e. the proportion of employees involved, was 53% in 2005. However, when only those establishments in the IW survey that have a profit-sharing scheme in place from which the majority of workers in the firm benefit (11%) are taken into consideration, the difference between the coverage rates in both surveys nearly disappears. The remaining gap may be attributed to either the different sample designs (establishments versus companies) or the differing reference period (2005 versus 2007).

Representative data on the coverage rate of profit-sharing schemes only exist for the whole NACE Section J; that is, the financial intermediation sector which includes the insurance industry. According to the IAB Establishment Panel, 26% of the companies offered a profit-sharing scheme in 2005. The intensity rate in banking and insurance (76%) was notably higher than it was in manufacturing.

Though the IW survey does not provide representative data for the banking sector, its indicative information on companies that are affiliated to manufacturing but that belong to banking and insurance can be used, to a certain extent, to corroborate the results from the IAB Establishment Panel. The coverage rate is significantly higher than in other industries. Almost 60% of the firms offer a profit-sharing scheme and/or other variable pay systems.

According to a survey that was conducted by the Centre of European Economic Research (Zentrum für Europäische Wirtschaftsforschung, ZEW) in 2000, 64% of the companies in the banking and insurance sector offered annual bonuses or lump-sum payments to employees who were covered by a collective agreement (see Oechsler 2003). Another 42% paid bonuses that were linked to individual performance. Interestingly, appraisal systems that are based on management by objectives were mainly used in relation to employees whose labour contracts were not governed by a collective settlement. Some 43% of the surveyed companies applied such appraisal systems to non-covered employees. Covered workers were involved in only 19% of the companies.

1.2 Quantitative significance as a proportion of earnings

Representative data that can clearly differentiate between bonus schemes, appraisal systems and profit-sharing do not exist. For example, an empirical analysis by Pannenberg and Spiess deals jointly with bonus payments and profit sharing. It reveals that the mean ratio of variable pay to the fixed basic wage ranged from 6% to 8% between 1991 and 2000 (see Table 2). The study is based on the German Socio-Economic Panel (SOEP) and is restricted to information on income provided by employees in western Germany. The authors also found that the average real monthly amount of profit-sharing or bonus showed both a clear upward trend and significant cyclical variation. Contrary to the fixed basic wage, the standard deviation of the variable pay was larger than its mean value. In addition, the standard deviation increased notably between 1991 and 2000. Finally, the total real wages for employees who benefit from profit-sharing (including variable pay) were significantly higher in each year than they were for those workers who were not covered by a profit-sharing scheme.

Table 2: Mean ratio of monthly variable pay to monthly real basic wages in western Germany 1991-2000

The proportion of variable pay remained relatively constant over the 1990s.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Ratio profit-sharing / fixed real base wage	0.08	0.07	0.06	0.08	0.06	0.06	0.07	0.07	0.08	0.08

Variable pay: profit-sharing and bonuses. Data refer to full- and part-time workers in western Germany aged 18 to 65 in the relevant years.

Source: Pannenberg/Spiess 2007

Therefore, the evidence presented above suggests that the amount of variable pay differs considerably between various groups of employees. This assumption is in line with evidence presented in the annual report by the WSI on collective bargaining (*WSI-Tarifhandbuch 2007*). According to this report, unskilled and skilled blue-collar workers received, in 2005, considerably lower additional annual payments that were linked to

profit-sharing and bonuses (€548 and €1,131, respectively) than skilled white-collar workers (€1,843) and high-skilled professionals (€6,635) did.

With respect to the banking and insurance sector, indicative evidence (see Kipker 2006) suggests that the quantitative importance of variable pay as a proportion of earnings is lowest in retail banking (around 10%) and it is highest in investment banking (43%). Another study (Böhmers 2006) which covers more than 900 companies involved in financial intermediation (excluding insurance) reveals that, in 56% of companies, the level of variable payments amount, on average, to less than one month's wage.

1.3 Main trends in VPS in recent years?

It is often assumed – and managers in surveys often indicate – that the prevalence of variable pay systems has increased over the years. However, quantitative evidence rarely exists and/or is vague.

A reliable representative data base is only available for profit-sharing (see above). According to the IAB survey, the proportion of establishments with a profit-sharing scheme and the intensity rate remained constant between 2001 and 2005 as far as the whole economy is concerned. Both in manufacturing and in banking/insurance the share of establishments with a profit-sharing programme declined slightly. Yet the intensity rate, at least in banking and insurance, increased.

With respect to the various types of VPS, the significance of piecework systems has declined and/or is expected to continue declining in comparison to other modes, such as profit-sharing, appraisal systems or bonuses based on other individual or group performance criteria. This holds, in particular, for firms that have switched from a Tayloristic labour organisation to a more holistic type (flattening of hierarchies, implementing of high-performance work systems etc).

Results from econometric analyses that draw on either IAB or IW data, such as Bellmann/Möller 2005, Strotmann 2005 and Lesch/Stettes 2008, can illustrate the background of the various VPS. The studies suggest that the likelihood of implementing a profit-sharing scheme rises as company size – with respect to the number of employees – or the proportion

of high-skilled workers increases. In addition, the direct involvement of employees in decision-making via high-performance work systems, such as teamwork and the delegation of authority and responsibility to individual workers, enhances the willingness of firms to offer profit-sharing schemes. The same applies to companies that are integrated into a group or holding structure and that have superior performance records. Whereas works councils do not significantly influence the likelihood of implementing a profit-sharing scheme, adhering to a multi-employer collective agreement turns out to be rather an obstacle. Unfortunately, no multivariate analyses exist for the other types of VPS.

2 Variable pay systems and collective bargaining

2.1 Coverage of collective bargaining

According to the IAB Establishment Panel, coverage rates, in 2005, were as follows:

Table 3: Coverage rates of collective bargaining in manufacturing and banking/insurance (2005) – in per cent of establishments and employees

Multi-employer collective agreements are significant.

	Consumer goods industries ¹	Capital goods industries ¹	Industries converting raw materials ¹	Banking and insurance	Total
Western Germany					
Multi-employer arrangements					
Establishments	48	35	39	47	38
Employees	59	62	65	86	59
Single-employer arrangements					
Establishments	2	2	3	2	3
Employees	8	9	9	3	8
Eastern Germany					
Multi-employer arrangements					
Establishments	20	14	18	27	19
Employees	29	25	36	79	42
Single-employer arrangements					

	Consumer goods industries ¹	Capital goods industries ¹	Industries converting raw materials ¹	Banking and insurance	Total
Establishments	5	5	5	n.a.	4
Employees	14	16	14	n.a.	11

¹ The whole manufacturing sector comprises consumer goods industries, capital goods industries, and industries converting raw material.

Source: IAB Establishment Panel

According to data from the Federal Employment Agency (Bundesagentur für Arbeit, [BA](#)), 26.3% of the workforce in manufacturing and 57.4% (56.0%) of the workforce in financial intermediation (including insurance and auxiliary activities) were female in 2006.

2.2 Instances of sector agreement(s) which have provided for a wage freeze or wage increases below inflation?

No evidence exists.

2.3 Instances of 'unauthorised downwards' wage flexibility, whereby companies have effected wage freezes or wage increases below inflation which are not authorised by a sector agreement?

With regard to the manufacturing as well as the banking and insurance sector, reliable information on cases in which companies deviate from a collective agreement without any authorisation does not exist. In addition, a general caveat applies. Results from the IAB Establishment Panel reveal that, in 2005, managers in almost 23% (16%) of establishments in western (eastern) Germany covered by a collective agreement did not even know whether an opening clause could be applied. Responses by workers or works councils in other surveys might be blurred by a similar lack of knowledge (especially in small firms).

Responses to the WSI Works Councils Survey, however, suggest that around 10% of all establishments with 20 or more employees did not, in 2004/2005, comply with the regular wage standards stipulated by a collective agreement. Moreover, unauthorised derogations with respect to annual bonus payments were reported in roughly 7% of establishments, and with respect to other premiums in another 4%. Companies in NACE Section O (90, 91, 92, 93) were reported to deviate most often (24%). In

general, as works councils are entitled to enforce binding collective standards, works councils in the affected firms obviously tacitly accepted the derogation.

2.4 Scope for derogations from the wage norms established by the sector agreement(s) through mechanisms such as hardship, opt-out or discount clauses?

Some multi-employer settlements over the last few years have stipulated that agreed lump-sum payments can be made contingent upon the economic situation of the company. This applies, for example, to agreements in the chemical industry in 2005 and 2007 (full flexibility of the lump-sum payment that, in the past, regularly amounted to approximately 9.8%-12.8% of a monthly wage), in the metalworking industry in 2006 (range: € 0-620, regular level: € 310) and 2007 (postponement of the wage increase for four months), and in the manufacturing of textiles and apparel in 2006 (range: € 0-340, regular level: € 170).

A hardship clause permits companies in the commercial banking sector to derogate temporarily from collectively agreed standards if the firm's economic situation has severely deteriorated and a significant number of jobs are at risk. The maximum amount of variation must not exceed 8% of the stipulated collective standard. The works council as well as the United Services Union (Vereinigte Dienstleistungsgewerkschaft, ver.di) and the corresponding employers' association (Arbeitgeberverband des privaten Bankengewerbes, AGV Banken) must approve the management's application in order for the derogation to come into effect.

A hardship clause also exists, for example, in the chemical industry. In order to safeguard jeopardised jobs and/or prevent the site from being relocated, collective wage standards may be lowered by up to 10% at the establishment level.

In the metalworking industry, a hardship clause (*Tarifvertrag Beschäftigungssicherung*) allows companies to reduce the working time and to lower the regular wage payment proportionally. As the reduction of working time is limited to five or six hours, the wage cut is fixed and restricted, too. The opening clause aims to enable companies to overcome an unfavourable economic situation. Works council and management, how-

ever, can decide on their own whether they wish to make use of the clause. Moreover, since 2004 companies have allowed to apply for coverage under a supplementary company-specific agreement in order to improve the competitiveness of the firm, its innovation capacity and the investment conditions (*Pforzheimer Tarifabkommen zur Standortsicherung*). The supplementary agreements are designed to secure existing jobs or to facilitate the creation of new ones. They can only be agreed by the union and the employers' association. The works council and the management of the applying firm are, however, directly involved in the bargaining process. Prominent cases for the application of the Pforzheimer agreement have been settlements at Siemens and Daimler, both of which took place in 2004.

For information on other industries please refer to a survey carried out by the Confederation of German Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA). This survey also contains opening clauses on working time and those referring to VPS that are mentioned in Table 4 below.

The availability of data on the use of specific opening clauses is limited. According to the IAB Establishment Panel, between 44% and 73% (33% and 47%) of those manufacturing companies as well as 20% (27%) of those establishments in banking and insurance in western (eastern) Germany that could make use of opening clauses, did exercise their right to use an opt-out clause of some kind in 2005. Unfortunately, no differentiation is possible with regard to the field of application. In general, only 31% (37%) of all cases in western (eastern) Germany affected wage payments including those dealt with in section 2.

2.5 Scope for supplementary negotiations over wages at company level (two-tier negotiations) within the sector agreement(s)?

Supplementary negotiations over a reduction of wages are only permitted if an opening clause exists (see paragraph 2 and 4). In general, every company can voluntarily offer to pay its employees above the collectively agreed rates. However, the scope for voluntary, supplementary payments has decreased over the years. According to the German central bank (Deutsche Bundesbank), wage drift has been negative over the

last years. There were, however, exceptions to this in 1996, 2000, and 2001.

2.6 VPS regulated by provisions in the sector agreement(s)?

Table 4 – Variable annual bonus payments in Germany - 2007

Collective agreements in a few industries have enabled annual bonuses to be made contingent.

Sector	Union	Range
Manufacture of food products and beverages	Trade Union of Food, Beverages, Tobacco, Hotel and Catering and Allied Workers (Gewerkschaft Nahrung, Genuss, Gaststätten, NGG)	+/- 20% of the regular payment
Manufacture of chemicals and chemical products	Mining, Chemicals and Energy Industrial Union (Industriegewerkschaft Bergbau, Chemie, Energie, IG BCE)	In western Germany 80%-125% of the regular payment, in eastern Germany 50%-95% of the regular payment
Manufacture of ceramic goods	IG BCE	80%-125 of the regular payment
Manufacture of plastic goods	IG BCE	In Baden-Wuerttemberg 75%-125% of the regular payment, in Bavaria 77%-122% of the regular payment, in Hesse 80%-125% of the regular payment
Manufacture of wood and plastic products	German Metalworkers' Union (Industriegewerkschaft Metall, IG Metall)	In Baden-Wuerttemberg 50%-90% of the regular payment, in Rhineland Palatinate 42.4%-82.5% of the regular payment, in two other districts 37.5%-77.5% of the regular payment
Commercial banking	ver.di	90%-120% of the regular payment

Source: Lesch/Stettes 2008

Depending on the firms' performance, regular annual bonus payments can vary in a few manufacturing sectors as well as in the commercial banks sector (see Table 4). Usually, the management and the works council, if one exists, settle the exact level of the annual bonus. If a works council does not exist, the collective agreements allow for settlements with individual workers or alternative forms of worker representation. The latter have been established in many companies.

Multi-employer collective agreements do not, in general, deal with bonus schemes or appraisal systems that are based on individual or group performance. In selected service industries, such as the commercial banking sector and the cooperative banking sector, up to 8% of the individual annual salary can depend on individual- or group-based criteria. Moreover, an agreement (the so-called *Phoenix* accord) between the employers' organisation for the metalworking industry in eastern Germany (Ostmetall) and the Christian Metalworkers' Union (Christliche Gewerkschaft Metall, CGM) allows the basic wage to be increased by up to 20% depending on the individual worker's performance.

2.7 Provisions in the sector agreement(s) for individual employees to make choices trading an element of wages against e.g. working time (hours/ holidays) or deferred income (pension contributions)?

According to information from the BDA, more than 400 collective agreements provide some type of deferred income scheme. A part of the collectively agreed wage can be converted into a contribution to a pension scheme. Usually, the conversion does not affect the monthly salary, but is mainly drawn from annual bonus payments or tax-free compensations for capital accumulation purposes. In the metalworking industry and in the chemical industry, for example, employees are entitled to have a proportion of any bonus to be converted into a payment to the pension insurance scheme. The proportion that can be converted can amount to up to 4% of the income threshold.

2.8 Instances of any of the above forms of wage flexibility becoming the focus of industrial disputes?

In the cooperative banking sector, Ver.di and the corresponding employers' association (Arbeitgeberverband der Deutschen Volksbanken und Raiffeisenbanken, AVR) have, since 2006, failed to reach a new wage

agreement. The social partners have not been able to overcome their opposing positions with respect to the proportion of pay that can vary.

3 Views of social partners and government

3.1 Employers' organisations

The BDA emphasises that hardship or opening clauses that allow for the derogation of collective wage or working-time standards via company-level alliances for jobs (*betriebliche Bündnisse für Arbeit*) are an effective policy to safeguard jobs that would otherwise be in jeopardy. Moreover, company-level alliances for jobs should be put on a legally sound footing by a statutory clarification of the so-called favourability principle stipulated by the Collective Bargaining Act (*Tarifvertragsgesetz*). The derogation should be regarded as favourable if two conditions hold:

1. The deviation entails an increase in job security and
2. it has been approved by a works council or, if a works council does not exist, by a two-third's majority amongst employees.

Reactions of selected employers' associations underline the BDA's position:

- In a comment for a German newspaper in 2006, Martin Kannegiesser, president of the employers' associations for the metal and electrical industry (Gesamtmetall), stated that the Pforzheimer settlement from 2004 had proved its value. Nonetheless, he claimed that the procedures could have been run more smoothly.
- The employers' association in the chemical industry (Bundesarbeitgeberverband Chemie, BAVC) calls the 'downwards' flexibility via opening clauses a win-win-situation. The BAVC praises the responsible handling of the existing opening clauses in the chemical industry, the first of which was established as early as the mid 1990s. They have prevented many firms from exiting the association so that the multi-employer bargaining system in the chemical industry has been stabilised.
- In its press release on 8 July 2004, the AGV Banken warmly welcomed the establishment of the hardship clause as a significant result of the collective bargaining round in 2004.

In general, employers' associations emphasise that collective agreements should only stipulate proper minimum standards. In this respect, the standards, on the one hand, would not overburden under-performing companies and, on the other, would allow over-performing companies to establish supplementary wage arrangements.

The BDA and several employers' associations at the sectoral level, such as Gesamtmetall, emphasise that multi-employer agreements should contain an increasing proportion of variable payments whose actual level should be agreed at the company level.

The AVR regards the extension of VPS within the framework of multi-employer collective settlements as a prerequisite for starting a regular wage bargaining round with Ver.di.

According to an analysis based on a 2003 survey of companies in the banking sector, VPS mainly serve as an incentive device (see Böhmer 2006). A proportion of 80% or more of the responding firms stated that the VPS aimed to increase employees' effort and motivation. This result is in line with the results of the IW survey in manufacturing. Almost 85% of the companies with a profit-sharing scheme referred to reasons that can be attributed to the 'incentive' category (see Lesch/Stettes 2008). In both surveys, only a small minority of the responding firms intended to transfer risks from the employer to employees and, thereby, protect existing jobs. As this contrasts notably with the goal of the opening clauses in multi-employer settlements, it should be borne in mind that the VPS, which both studies dealt with, are, typically, not governed by any collective agreement.

3.2 Trade unions

The Confederation of German Trade Unions (Deutscher Gewerkschaftsbund, DGB) opposes policies that aim at statutorily enhancing the scope for downward wage flexibility via, for example, company-level alliances for jobs. The DGB fears that work councils may not be able to represent adequately employees' interests, as they are not entitled to call strikes. In the DGB's view, the opening clauses that already exist offer firms a sufficient and an appropriate means to vary wages or working times.

Reactions and positions of selected unions underline this general position:

- At the conference of the IG Metall held in autumn 2005, Juergen Peters, the former chair of IG Metall, heavily criticised calls for a statutory clarification of the favourability principle. The IG Metall's position is that derogations from collective standards have to be guided by principles stipulated by the ruling collective agreements. Moreover, they should only be the exception.
- In his speech at the third regular union conference in 2005, Berthold Huber, chair of IG BCE, also opposed any statutory amendment and stated that collective agreements stipulated the circumstances under which derogations were possible. Nonetheless, he clearly stressed that opening clauses were necessary in order to stabilise the system of multi-employer bargaining.

In general, most opening clauses that allow for derogation, in particular, of wage standards reserve for unions the right to approve the application of that clause by a company.

The DGB is only in favour of profit-sharing schemes that complement regular, collectively agreed wages. According to the DGB, firms could, otherwise, be inclined to report inaccurate profit levels.

The IG Metall strictly prefers regular wage increases to VPS and rejects any policies that aim to extend the significance of variable pay as a proportion of wages within multi-employer agreements.

With respect to VPS in the cooperative banking sector, Ver.di declared that the claims of AVR were not acceptable and might result in pay cuts of up to two months' wages.

3.2 Role of Government

Fiscal incentives aimed at promoting the take up of different types of VPS do not exist. (Employee share ownership programmes cannot be regarded as VPS.)

The collective agreements in the public sector stipulate that a performance-based VPS has to be implemented since 1 January 2007. In the end, the volume of the VPS is to amount to 8% of the wage bill.

4 Commentary

VPS can achieve several goals at once. Such schemes serve as an incentive to increase productivity and to enhance the willingness of employees to adapt to changing circumstances. In addition, VPS can help to attract selected employees or help to retain them. As they align labour costs to the economic performance, VPS safeguard jobs. Finally, they can alleviate conflicts between unions and employers' associations with respect to the income distribution in the various states of the business cycle.

The implementation of VPS, such as profit sharing and performance-related bonuses, is mainly driven by efficiency wage considerations. Therefore, multi-employer agreements cannot be regarded as the appropriate level of stipulating the specific design of VPS. Nonetheless, unions and employers' association can increase the leeway that companies need in order to establish efficient and effective VPS. In some fields of collective bargaining, first steps have already been taken.

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5 Annex - Questionnaire

Section 1. Variable pay: forms, basic data and trends

1) What are the main types of variable payments systems (VPS) used in:

- a) manufacturing companies
- b) retail banks

2) For *each type* of VPS, please provide information on their quantitative significance as a proportion of earnings.

3) What have been the main trends in VPS in recent years?

In particular:

- a) which types of scheme have become more prominent / widespread?
- b) which types of scheme have become less widespread?

Section 2. Wage flexibility and collective bargaining

Please state, for each sector,

i) whether it is governed by single or multi-employer collective bargaining arrangements;

[Correspondent:] This will determine whether you follow route 2a (multi-employer bargaining) or route 2b (single-employer bargaining) for each sector below.

ii) the coverage (percentage of companies and employees) of collective bargaining;

iii) the percentage of the workforce that is female

2a. Wage flexibility under multi-employer bargaining arrangements

[Correspondent:] All answers should report on both manufacturing and retail banking. Where the sector is governed by multi-employer bargaining arrangements, respondents should address the questions under 2a; where collective bargaining is at company level only, answers should be entered under 2b.

1) In the sector(s), are there any recent instances of

a) sector agreement(s) which have provided for a wage freeze or wage increases below inflation?

If yes, under what economic circumstances have such agreements been concluded and what kind of conditions or trade-offs are involved?

b) 'unauthorised downwards' wage flexibility, whereby companies have effected wage freezes or wage increases below inflation which are not authorised by a sector agreement?

If yes, please give examples and details e.g. do they result from 'unofficial' negotiation or tacit approval by local employee representative structures?

2) Is there scope for derogations from the wage norms established by the sector agreement(s) through mechanisms such as hardship, opt-out or discount clauses?

If yes, please provide

- a) details of the mechanisms and the circumstances under which they can be triggered, including whether use is contingent on the presence or involvement of a union or works council in companies;
- b) information on the take-up by firms of such mechanisms (including size or other organisational characteristics);
- c) the quantitative significance of the reduction in wage levels typically involved as compared to basic pay determined by the sector agreement.

3) Is there scope for supplementary negotiations over wages at company level (two-tier negotiations) within the sector agreement(s)?

If yes, please provide

- a) details of the criteria for supplementary company-level wage negotiations (e.g. is there provision for implementation via VP systems?);
- b) information on the incidence of such company-level negotiations and characteristics such as organisational size;
- c) the quantitative significance of the wage supplements which result as compared to basic pay determined by the sector agreement.
- d) information on any trend in wage drift arising from company-level negotiations (whether formally envisaged under a two-tier arrangement or not). Has it been stable, increased or decreased over recent years?

4) Are VPS regulated by provisions in the sector agreement(s)?

If yes:

- a) what types of variable pay are covered by any provisions in sector agreements?
- b) what form does such regulation take? E.g. does it provide a sector-wide framework? Does it specify procedural rules? Does it specify the substantive dimension of variable pay?
- c) what, if any, recent changes have taken place?

5) Is there provision in the sector agreement(s) for individual employees to make choices trading an element of wages against e.g. working time (hours/ holidays) or deferred income (pension contributions)?

Such a 'cafeteria' approach might be seen as employee-driven wage flexibility. If yes, please provide

- a) details of the 'cafeteria' provisions involved, including the proportion of wages available for trade-offs;
 - b) information on the take-up by employees covered by such agreements;
- 6) Are there instances of any of the above forms of wage flexibility becoming the focus of industrial disputes?

If yes, please give details of any prominent examples.

7) Is there any evidence or debate about a gender dimension to wage flexibility, in terms of its effects?

If yes, please give examples.

2b. Wage flexibility under single-employer bargaining

[Correspondent:] Note that questions under 2b only apply where manufacturing and/or retail banking has no multi-employer bargaining. Answers should report on one or both sectors, as applicable, throughout.

1) Are there any recent instances in either/both sectors of wage freezes or wage increases below inflation concluded under company wage agreements, with unions and/or works councils?

If yes, please give examples.

2) In the relevant sector(s), are organisations without collective bargaining

a) any more likely to implement wage freezes or below-inflation increases to base pay?

b) more or less likely to use VPS than organisations covered by collective bargaining?

3) Are VPS in the relevant sector(s) regulated by provisions in company agreements with unions and/or works councils?

If yes:

a) what types of variable pay are covered by company agreements?

b) what form does such regulation take? E.g. does it specify procedural rules? Does it specify the substantive dimension of variable pay?

c) what, if any, recent changes have there been in the types of scheme covered by company agreements?

4) Are there any examples of company-level agreements concerning provision for individual employees to make choices trading an element of wages against either working time (hours/ holidays) or deferred income (pension contributions)?

Such a 'cafeteria' approach might be seen as employee-driven wage flexibility. If yes, please provide

a) details of the 'cafeteria' provisions involved, including the proportion of wages available for trade-offs;

b) information on the take-up by employees covered by such agreements;

5) Are there instances of any of the above forms of wage flexibility becoming the focus of industrial disputes in the applicable sector(s)?

Please give details of any prominent examples.

6) Is there any evidence or debate about a gender dimension to wage flexibility, in terms of its effects?

If yes, please give examples.

Section 3. Views of social partners and government

3a Employers' organisations

1) Under multi-employer bargaining arrangements, is enhancing scope for 'downwards' flexibility in basic wage levels (e.g. via hardship clauses etc.) a prominent objective for employers' organisations?

If yes,

a) what specific proposals are being advanced (e.g. for changes to the procedures governing collective bargaining)?

b) what are the main reasons being advanced?

c) is there any evidence of an organisational rationale or effect (e.g. retention or expansion of the employer association's membership)?

2) Under multi-employer bargaining arrangements, is enhancing scope for 'upwards' wage flexibility through greater scope for supplementary negotiation at company level a prominent objective for employers' organisations?

If yes,

a) what specific proposals are being advanced?

b) what are the main reasons being advanced?

c) is there any evidence of an organisational rationale or effect (e.g. retention or expansion of the employer association's membership)?

3) Is the promotion of wage flexibility through VPS a prominent objective for employers' organisations?

If yes,

a) which types of VPS are being promoted?

b) what are the main reasons advanced by employers' organisations for promoting these different types of VPS?

4) At organisational level, in each of the two sectors, what are the key rationales leading companies to implement *each type* of VPS, as applicable?

5) Have employers' organisations considered or addressed any potential gender dimension to wage flexibility, whether in terms of rationale or effects?

3b Trade unions

1) What is the position of trade unions towards proposals aimed at enhancing the scope for downwards wage flexibility?

2) Where applicable, how have trade unions sought to regulate use of any increased scope in sector agreements for downwards wage flexibility?

3) Under multi-employer bargaining arrangements, is enhancing scope for 'upwards' wage flexibility through greater scope for supplementary negotiation at company / organisational level a prominent objective for trade unions?

If yes,

a) what specific proposals are being advanced?

b) what are the main reasons being advanced?

c) is there any evidence of an organisational rationale or effect (e.g. retention or expansion of union membership)?

4) What is the position of trade unions towards each type of VPS? What objectives have they pursued in negotiations and consultation over the introduction and operation of different types of VPS?

5) Have trade unions considered or addressed any potential gender dimension to wage flexibility, whether in terms of rationale or effects?

3c Role of Government

1) Have there been any recent government policy initiatives to promote 'downwards' or 'upwards' wage flexibility, or variable payments systems?

Please provide any details.

2) Are there any legal provisions which regulate any of the different types of VPS?

Please provide details (e.g. requirement to have certain types of scheme; codetermination rules on implementation of, and changes to, schemes).

3) Are there any fiscal incentives aimed at promoting the take up of different types of VPS?

4) Have there been any significant developments in wage flexibility, as broadly defined in the introduction, in the public sector in recent years?

If so, please give basic details of form and rationale.

5) Has the government considered or addressed in any way the potential for forms of wage flexibility to have differential impacts according to gender?