

ETLA

ELINKEINOELÄMÄN TUTKIMUSLAITOS

THE RESEARCH INSTITUTE OF THE FINNISH ECONOMY
Lönnrotinkatu 4 B 00120 Helsinki Finland Tel. 358-9-609 900
Telefax 358-9-601 753 World Wide Web: <http://www.etla.fi/>

Keskusteluaiheita – Discussion papers

No. 726

Kari E.O. Alho

**IMPLICATIONS OF EMU
ON INDUSTRIAL RELATIONS
- THE COUNTRY REPORT ON FINLAND**

© European Foundation for the Improvement of Living
and Working Conditions, 2000.

ALHO, Kari E.O., IMPLICATIONS OF EMU ON INDUSTRIAL RELATIONS – THE COUNTRY REPORT ON FINLAND. Helsinki: ETLA, Elinkeinoelämän Tutkimuslaitos, The Research Institute of the Finnish Economy, 2000, 83 p. (Keskusteluaiheita, Discussion Papers, ISSN 0781-6847; No. 726).

ABSTRACT: This is the country report on Finland in the project launched by the European Foundation for the Improvement of Living and Working Conditions on the social implications of EMU, especially in the labour market and industrial relations, in six EU countries. The report is essentially based on the interviews directed, according to the research plan specified by the Foundation, at three industries of the economy: automotive, banking and finance, and road haulage, on three companies in each, and the respective employers' and employees' organisations. The interviews were directed to the representatives of the management and the employees, and to the representatives of employer confederations and employee unions, respectively. The interviews and their reporting was carried out from August to October 1999, and the facts and views presented in the report display the situation as prevailing and felt at that stage.

The direct impact of EMU so far on the selected industries, and the companies in them, has been quite limited from the point of view of industrial relations. One of the tasks set out in the study has to be answered in a way that is consistent with the labour market at the national level, i.e. the environment and constraints faced by the parties negotiating in practice in Finland on the terms of employment, being the major channel through which the effects of EMU to the industrial relations are transmitted. Accordingly, the employee unions and confederations of employers, in comparison to decision makers at the company level, have most clearly recognised the new situation caused by EMU. By this is basically meant containing cost developments even more than before. We can also conclude that the bigger the union or the federation and the more pronounced its position in the open sector of the economy, the more strongly it has internalised the new ground rules under the Monetary Union. On the other hand, the companies have so far faced only a few changes in the situation as to the industrial relations in them.

Of course, these findings are country-specific, as in Finland the negotiations take place at the industry or national level and the role of the companies has been secondary with respect to the terms of employment, although in some industries more of these terms have recently been shifted to be decided at the firm level. This does not mean that the firm level could be omitted when talking about industrial relations, quite the contrary.

The difficulties in the changeover to a single currency in practice are still to be seen. Most notably, the start up of the single currency in 1999 has concerned the banking industry. There, too, the numbers of persons involved have so far been quite modest, i.e. dealers of foreign exchange and those operating the TARGET payment system. In other branches the immediate direct impacts have been even more modest. EMU has had a direct impact on the banking industry, but as stated, its full effect as an increase in the work load will remain to be seen when the bulk of small and medium-size companies and households change over to the Euro.

Concerning the international dimension of collective bargaining, *Europeanisation*, the employees look toward such a development as desirable and to some extent inevitable, too. The employers are throughout strictly opposed to such a development towards a new level of centralisation. The workers are trying to minimise wage competition and competition with social security between the various countries. The employees are, however, quite ambiguous and uncertain about what this direction could entail in practice. A co-ordinated, EU-level rise in wages and harmonisation of the terms of employment are totally unrealistic at the moment. As a Finnish pattern and a possible direction of internationalisation of collective bargaining, it emerged in an interesting way from the interviews carried out here that, on part of the employees, some sort of co-operation within the Nordic countries, especially Finland and Sweden, could be possible to start first. This definitely reflects the rapidly tightened and closer ties between Finnish and Swedish firms, and the vigorous activity of acquisitions and mergers that has taken place between these countries in the 1990s.

In general, there is also a basis for national wage agreements in EMU, which will make it possible to reduce the effects of adverse national asymmetric shocks hitting the economy, which the single monetary policy is not able to eliminate and which also some of the persons interviewed mentioned as a risk in EMU.

KEY WORDS: EMU, industrial relations, Finland

ALHO, Kari E.O., IMPLICATIONS OF EMU ON INDUSTRIAL RELATIONS – THE COUNTRY REPORT ON FINLAND. Helsinki: ETLA, Elinkeinoelämän Tutkimuslaitos, The Research Institute of the Finnish Economy, 2000, 83 s. (Keskusteluaiheita, Discussion Papers, ISSN 0781-6847; No. 726).

TIIVISTELMÄ: Tämä on Suomen maaraportti kansainvälisessä tutkimusprojektissa, jonka EU:n European Foundation for the Improvement of Living and Working Conditions käynnisti koskien EMUn vaikutuksia työelämän suhteisiin kuudessa EU-maassa. Säätiön tekemän tutkimussuunnitelman mukaisesti raportti perustuu pääasiassa haastatteluihin, joita tehtiin kolmelle toimialalle: autoteollisuuteen, pankki- ja rahoitusalalle, ja maantiekuljetuksiin. Kullakin alalla haastattelut tehtiin työnantaja- ja työntekijäliitoille sekä kolmen yrityksen johdon ja työntekijöiden edustajille. Haastattelut tehtiin elokuun ja lokakuun 1999 välisenä aikana ja raportti edustaa luonnollisesti tuossa vaiheessa vallinnutta tilannetta yrityksissä ja järjestöissä sekä siihen mennessä kertyneitä kokemuksia ja näkemyksiä EMUn vaikutuksista työelämän suhteisiin.

EMUn suora vaikutus näihin tutkimuksen kohteeksi valittuihin toimialoihin ja niiden yrityksiin on ollut ainakin toistaiseksi varsin vähäinen työelämän suhteiden kannalta tarkasteltuna. Yksi keskeinen tutkimuksen kohde oli kysymys siitä, mikä on EMUn vaikutusväylä työelämän suhteisiin. Tähän voidaan tutkimuksen perusteella vastata, että tämä vaikutus kulkee Suomessa lähinnä kansallisen tason työmarkkinoiden välityksellä siten, että EMU on muuttanut sitä ympäristöä ja niitä rajoitteita, joiden puitteissa työehdoista neuvotellaan. Tämän mukaisesti kansallisen tason työnantaja- ja työntekijäliitot ovat selvimmän sisäistäneet EMUn asettaman uuden tilanteen. Käytännössä tämä merkitsee kustannuskehityksen entistä parempaa hallintaa.

Voimme myös päätellä, että mitä suurempi ja mitä keskeisempi sektorin asema on talouden avoimella sektorilla, sitä voimakkaammin se on sisäistänyt rahaliiton merkitsemät uudet pelisäännöt. Toisaalta, yritykset ovat kohdanneet toistaiseksi vain vähän muutoksia, mitä tulee työelämän suhteisiin. Nämä tulokset ovat tietysti maakohtaisia, koska Suomessa neuvottelut tapahtuvat keskeisesti liitto-kohtaisesti tai keskitetysti, ja yritysten rooli on ollut toissijainen, vaikkakin viime vuosina entistä enemmän asioita on alettu siirtää päätettäväksi yritystasolla. Tämä ei tietysti merkitse sitä, etteikö yritystaso olisi hyvinkin tärkeä työelämän suhteiden toteutumisen kannalta.

Käytännön vaikeudet siirtymisessä yhteiseen rahaan ovat vielä edessä. Toistaiseksi rahaliiton käynnistyminen vuoden 1999 alussa on keskeisimmin koskettanut pankkisektoria. Myös täällä niiden henkilöiden lukumäärä, joihin EMU on vaikuttanut, on melko vähäinen; näitä ovat olleet erityisesti valuuttakaupan hoitajat ja henkilöt, jotka operoivat TARGET-maksujärjestelmää. Muilla toimialoilla välittömät vaikutukset ovat olleet vieläkin vähäisempiä. EMUlla on ollut vaikutus pankkisektoriin, mutta kuten äsken todettiin, sen koko vaikutus jää nähtäväksi siinä vaiheessa, kun valtaosa pienistä ja keskisuurista yrityksistä ja kotitaloudet siirtyvät yhteisen rahan käyttöön.

Työehtojen neuvottelujärjestelmien muutoksessa yksi mahdollinen kehityssuunta on tämän nyt kansallisen toiminnan kansainvälistyminen, eurooppalaistuminen. Työntekijät pitävät tätä kehityssuuntaa toivottavana ja jossain määrin väistämättömänä. Työnantajat taas vastustavat kauttaaltaan tiukasti tällaista kehityssuuntaa, joka merkitsisi etenemistä uudelle keskitetylle TES-toiminnan tasolle. Työntekijöiden tavoitteena on minimoida palkkakilpailua ja kilpailua (alaspäin) sosiaaliturvaetuuksilla eri maiden välillä. Toistaiseksi kuitenkin työntekijätkin ovat aika epävarmoja siitä, mitä tämä kehityssuunta voisi merkitä käytännössä. Koordinoidut, EU-tasolla sovitut palkkaratkaisut ja työelämän suhteiden harmonisointi ovat täysin epärealistisia tällä hetkellä. Työntekijöiden haastatteluista kävi ilmi, että suomalaisena mallina tällä alueella jonkinlainen yhteistyö Suomen ja Ruotsin välillä voisi ehkä tulla kyseeseen. Tämä heijastaa nopeasti tiivistyneitä suhteita suomalaisten ja ruotsalaisten yritysten välillä, mikä on näkynyt voimakkaana yritystasojen ja fuusioiden aktiviteettina maiden välillä 1990-luvulla.

Yleisesti ottaen kuitenkin kansalliselle työehtosopimuksille on perusta myös siinä, että niiden avulla voidaan vähentää kansallisten kielteisten epäsymmetristen shokkien vaikutuksia EMUssa, joita yhteinen rahapolitiikka ei kykene eliminoimaan, ja jonka myös jotkut haastatteluista mainitsivat EMUn riskinä.

AVAINSANAT: EMU, työelämän suhteet, Suomi

SOCIAL IMPLICATIONS OF EMU – THE COUNTRY REPORT ON FINLAND

**A study commissioned by the European Foundation for the
Improvement of Living and Working Conditions**

ETLA, The Research Institute of the Finnish Economy

November 1999

Contents

1	INTRODUCTION	3
2	ADJUSTMENT OF THE FINNISH LABOUR MARKET TO EMU	8
	2.1 The Finnish economy and labour market in the pre-accession phase of EMU	8
	2.2 Effects of EMU in the labour market the light of various studies in Finland	15
	2.3 Economic and labour market tendencies in the selected sectors	18
3	AUTOMOTIVE INDUSTRY	22
	3.1 The employers' and employees' organisations	22
	3.1.1 Economic context	22
	3.1.2 Industrial relations context	22
	3.1.3 Implications for the processes of industrial relations	24
	3.1.4 Implications for pay and employment	27
	3.2 Valmet Automotive	28
	3.2.1 Economic and industrial relations context	28
	3.2.2 Practicalities of introducing the Euro	31
	3.2.3 Implications for the processes of industrial relations	32
	3.2.4 Implications for pay and employment	32
	3.3 Sisu Auto	33
	3.3.1 Economic and industrial relations context	33
	3.3.2 Practicalities of introducing the Euro	35
	3.3.3 Implications for the processes of industrial relations	36
	3.3.4 Implications for pay and employment	36
	3.4 Nokian Tyres	37
	3.4.1 Economic and industrial relations context	37
	3.4.2 Practicalities of introducing the Euro	39
	3.4.3 Implications for the processes of industrial relations	39
	3.4.4 Implications for pay and employment	40
4	BANKING AND FINANCE	41
	4.1 The employers' and employees' organisations	41
	4.1.1 Economic context	41
	4.1.2 Industrial relations context	41
	4.1.3 Implications for the processes of industrial relations	42
	4.1.4 Implications for pay and employment	43

4.2 MeritaNordbanken	45
4.2.1 Economic and industrial relations context	45
4.2.2 Practicalities of introducing the Euro	49
4.2.3 Implications for the processes of industrial relations	49
4.2.4 Implications for pay and employment	50
4.3 Leonia Bank	51
4.3.1 Economic and industrial relations context	51
4.3.2 Practicalities of introducing the Euro	52
4.3.3 Implications for the processes of industrial relations	53
4.3.4 Implications for pay and employment	54
4.4 Pohjola Insurance Company	56
4.4.1 Economic and industrial relations context	56
4.4.2 Practicalities of introducing the Euro	58
4.4.3 Implications for the processes of industrial relations	59
4.4.4 Implications for pay and employment	60
5 ROAD HAULAGE	61
5.1 The employers' and employees' organisations	61
5.1.1 Economic context	61
5.1.2 Industrial relations context	62
5.1.3 Implications for the processes of industrial relations	62
5.1.4 Implications for pay and employment	65
5.2 Schenker-BTL	66
5.2.1 Economic and industrial relations context	66
5.2.2 Practicalities of introducing the Euro	68
5.2.3 Implications for the processes of industrial relations	68
5.2.4 Implications for pay and employment	69
5.3 Beweship	70
5.3.1 Economic and industrial relations context	70
5.3.2 Practicalities of introducing the Euro	72
5.3.3 Implications for the processes of industrial relations	73
5.3.4 Implications for pay and employment	73
5.4 Kaukokiito	74
5.4.1 Economic and industrial relations context	74
5.4.2 Practicalities of introducing the Euro	77
5.4.3 Implications for the processes of industrial relations	77
5.4.4 Implications for pay and employment	78
6 CONCLUSIONS	79
REFERENCES	83

1 INTRODUCTION

The following is the country report on Finland in the project launched by the European Foundation for the Improvement of Living and Working Conditions on the Social Implications of EMU, especially in the labour market and industrial relations. The report is essentially based on the interviews directed, according to the research plan specified by the Foundation, on three industries of the economy: automotive, banking and finance and road haulage, on three companies in each and the respective employers' and employees' organisations. The interviews have been directed to the representatives of management and the employees, and to the representatives of employer confederations and employee unions, respectively.

These industries are important as such, but not very big ones in the Finnish economy: their total number of employment is currently 80 000, less than 4 per cent of the total.

EMU will be a fundamental change in the environment where the business firms operate, where economic policies are pursued and where the labour market functions. It is a new phase in the deepening of the European integration and will lead the participating countries into deeper economic interrelationships with each other. EMU has already had some effects on the economy and the industries and will entail further changes as time passes and the final changeover to the Euro will be made. EMU changes, on the one hand, the conditions and constraints binding the various agents, be they firms, employers' federations or workers' and employees' unions or national level central organisations. And on the other hand, it will change the ways in which various arrangements are profitable and others unprofitable to make in contrast to that situation prevailing previously. One such area is the negotiations on the terms of employment, i.e. whether they should be decentralised to the firm level, or take place on the industry, national or European level. Finding out these changes, how they are considered at the moment in Finnish industries in practice, is one key object of the present study.

The selected industries and the firms operating in them are, as in all other countries in the Monetary Union, affected by their countries' participation in EMU in various

ways and in a different degree. First, we have to make a separation between the *nature of the effect*, i.e.

- the direct and
- the indirect effects

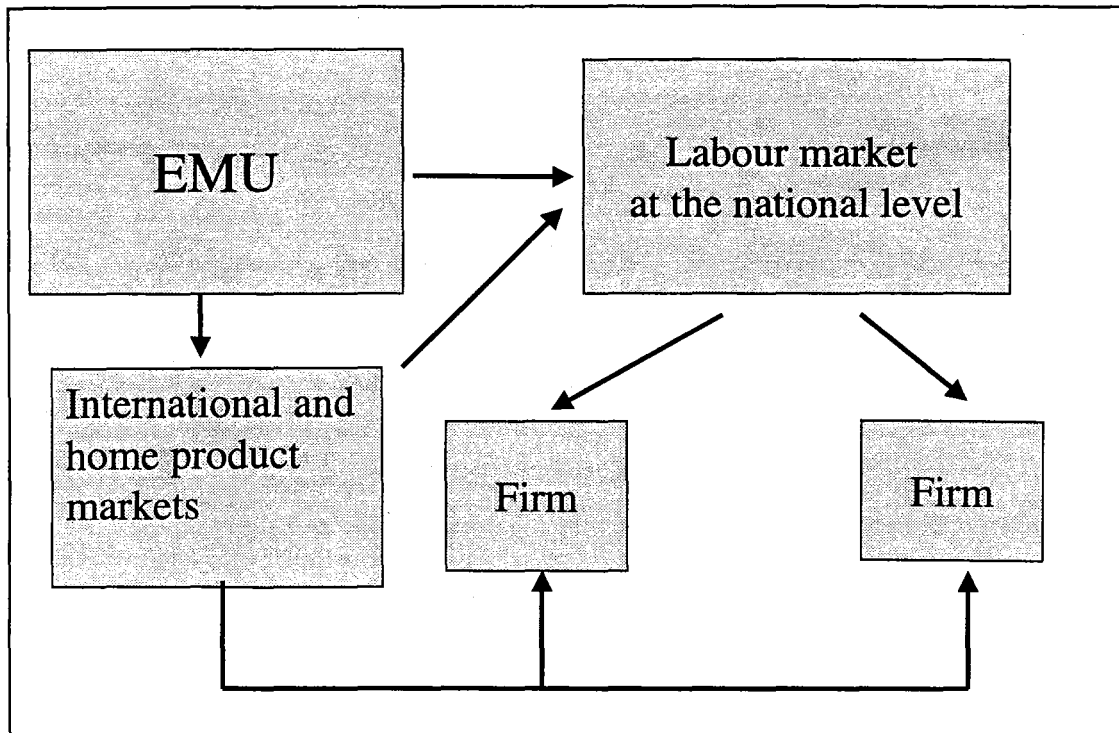
of EMU. By the former we mean the impact of EMU directly on the operations of the company or industry, as is directly experienced by them. These are basically due to the changeover to the single currency, the last stages of which will take place only in the future. It eliminates a major part of the currency risk and much of the need for foreign exchange operations and hedging of the currency positions. For instance, in the banks the loss of a major proportion of the foreign exchange revenue is a marked direct effect. The indirect effects are mostly felt through the change towards keener competition in the goods market. These are due to the fact that EMU lowers the barriers of market access and international operations, both abroad and in the home market. The majority of the – and economically more important – impacts are just likely to be indirect in nature. On the other hand, this also complicates the task identifying them in practice.

We also have to make a distinction between the various *types of channels*, through which the effects of EMU are transmitted to the labour market and industrial relations within industries and companies. There are basically three such channels:

- 1) directly to industrial relations, such as pay and employment within the company or the industry,
- 2) through its effect on the national or sectoral labour market, and
- 3) through its effect on the operation and position of the company concerned in the goods market.

Of these channel 1 can be said to be quite limited, at least so far, or even absent in the context of EMU. In principle, we have thereby the following illustration of the situation of the transmission mechanism of EMU on industrial relations.

Figure 1. The channels of EMU to the labour market and industrial relations



One of the tasks of the research project is to find out the contents and the relative magnitude of these channels.

We also have to discern the *time dimension* of the effects of EMU. We can separate the following:

- the immediate effects felt so far as a result of EMU
- the effects likely to happen in 2002 in connection with the changeover to Euro notes and coins
- the effects to be felt over the coming years through labour market negotiations and practices
- the effects to be seen in the case of possible asymmetric shocks facing either the economy, the industry or the company.

It is clear that, in general, knowledge about the effects of EMU so far on industrial relations, pay and employment, are decreasing in the order of these points.

As such, it is difficult – or even impossible - to assess separately the effects of EMU on each of these issues. The same applies, of course, to all the other major steps in the European integration, such as the single market, EU enlargement and so on. There is also a myriad of other factors influencing the developments within a sector, such as technological change, and general internationalisation and globalisation. One approach is to evaluate these effects with the aid of economic models of various kinds that are able to perform counter-factual experiments. This is in principle a good way to tackle these issues, but there are also major problems and shortcomings related to these exercises. First, the models are at best only an approximation to the “true” economic behaviour. Their outcome has to be taken as uncertain, the degree of which is not known. The models are also normally very aggregative in nature. Their power lies in their capacity to find out indirect effects as well. The case study technique also has its own strengths and weaknesses. It is most powerful as to the determination of the real direct effects of a policy change like EMU and their richness in details and weakest in finding out the often future and uncertain indirect effects. Case studies may not be very representative, either. Be as it may, the methodology adopted in the present study relies heavily on the company interviews and those of the representatives of the employer confederations and unions of employees.

This report has the following structure. In Chapter 2 a concise overall picture is given as to the adjustment of the Finnish labour market in the 1990s to a membership in EMU. Chapter 2 also presents a few observations on the labour market effects found in some of the key studies conducted earlier on these issues in Finland and presents some economic background data on the selected sectors in the 1990s. Chapters 3, 4 and 5 turn to report the interviews. Chapter 6 presents a conclusion of the overall results on the social implications of EMU as found out in this study concerning Finland.

At ETLA Research Director **Kari Alho** has been in charge of this project. He was assisted in a part of the interviews and their reporting and data gathering by Researcher **Anssi Partanen**. **Rolf Maury** has contributed in some of the data gathering and manipulation. Researcher **Anthony de Carvalho** has assisted in the translation into English. The contributions by the representatives of the various parties are gratefully acknowledged and are an indispensable part of the results presented in the report. Their names are announced in connection with the reports of the interviews. Each respon-

dent has had an opportunity to comment on the preliminary version of the interview report. The sole responsibility is, however, borne by the author.

2 ADJUSTMENT OF THE FINNISH LABOUR MARKET TO EMU

2.1 The Finnish economy and labour market in the pre-accession phase of EMU

Finland applied for membership in the European Union in March 1992 and became a member after a referendum from the beginning of 1995. At the outset, it was stated by the Union that the 'Acquis Communautaire' as incorporated in the Maastricht Treaty has to be adopted by Finland as such. This already bound Finland to membership in the Economic and Monetary Union as well. Neither did the Finnish government present any derogations in this sense in the Accession negotiations. The Finnish government – in contrast to the Swedish one – took as its starting point that Finland strives also to join the Monetary Union from the outset in 1999. Accordingly, the government started to make determinate efforts so that the Finnish economy would meet the five convergence criteria of EMU.

The background of Finland to enter the Monetary Union was not an easy one. The country had just experienced a most severe depression and was amidst a recovery from it with many imbalances still in the economy, the most difficult of which was huge unemployment. The crisis was so deep that no other industrialised country has experienced anything like it in the post-war period. The unemployment rate skyrocketed from an average of only 3.5 per cent in 1990 to more than 16 per cent in 1994. At the same time the country could not maintain its fixed exchange rate. Due to heavy speculation, created by the deep recession, leading to peaks in interest rates, the central bank was forced to devalue the Finnish markka in November 1991 and let it float in September 1992. The result was that the currency depreciated initially by as much as 30 per cent against the ECU.

These events gradually turned the Finnish economy onto a phase of recovery. First, there was a very rapid revival and boom in exports, and later on in the home market industries as well. The average growth rate of GDP from 1993 to 1998 was 4.6 per cent. Gradually, also employment started to improve and between 1995 and 1998 it

increased by 1.9 per cent annually. The current rate of unemployment has reduced to a level of 10 per cent (average for 1999).

The depression and the explosion in unemployment also led to adjustment pressures within the labour market. The change in some key indicators is presented in Table 1.

Table 1. Key indicators of adjustment in the labour market in the 1990s in Finland, percentage changes

Year	Negotiated Wages	Actual Wages	Wage Drift*	Price	Real Wage (Cons.)**	Real Product Wage***
1990	5.5	9.2	3.5	6.0	3.0	3.2
1991	4.0	6.4	2.3	4.2	2.1	4.7
1992	0.9	1.9	1.0	2.5	-0.6	0.9
1993	0.0	0.7	0.7	2.1	-1.4	-1.1
1994	0.7	2.0	1.3	1.1	0.9	0
1995	3.6	4.7	1.1	1.0	3.7	1.1
1996	2.8	3.9	1.1	0.6	3.3	3.3
1997	1.4	2.1	0.7	1.2	0.9	0.1
1998	2.7	3.7	1.0	1.4	2.3	1.0
1999 ^F	1.7	3.0	1.3	1.1	1.9	3.0

* Rise in actual wages less change in negotiated wages

** Rise in the actual wage level deflated by consumer prices

*** Rise in the actual wage level deflated by producer (GDP) prices

We see that there has been a clear reduction both in the level of wage rises and inflation. Therefore, we can say that there has been a successful adjustment to and adoption of the low inflation era stipulated by the monetary union where price stability and low inflation is the paramount target of the ECB. Another feature in Table 1 is that, irrespective of the huge rise in unemployment, the wage earners able to maintain their jobs nevertheless suffered quite little from the depression. A more thorough evaluation of this point falls outside the scope of this report. But we can say that, on the

other hand, the rise in wages has also been quite moderate during the rapid recovery phase started in the Finnish economy in 1994.

Another important feature of the Finnish labour market is the type of wage agreement. By this we mean whether the agreement has been made at the national level between the central labour market organisations of employers and employees, which is called a centralised incomes policy agreement (CIPA) and where the government is normally the third party, making, i.a., interventions by tax parameters. The idea during recent times has been that the government can put into effect some reductions in personal income taxation, if the social partners can agree on a moderate rise in wages conducive to low inflation and continuation of the improvement in employment. The other type of solution is then the so-called industry or union level agreement, where the unions, without co-ordination by their central organisations, agree on wages. In this case, the government is not directly involved as a third partner. Both types of wage agreements have been made during the 1990s. At the moment, a two-year centralised incomes policy agreement will end in the beginning of 2000. Some of the key unions in the SAK, the central organisation of blue-collar workers, announced in September 1999 that they are not willing to join a third consecutive centralised agreement, but are heading towards industry level negotiations.

Normally, it is considered that under a centralised agreement the unions internalise the inflationary and employment effects of wage rises and are therefore satisfied with a lower nominal overall wage hike. The co-ordinated solution is also able to eliminate wage-wage competition, which means that the unions also compete with each other in trying to get a better agreement than the others. In Table 1 this effect can be discerned in comparing 1995, when an industry level agreement round took place and 1996-99, when two consecutive centralised agreements have been made.

These experiences of the depression years and the necessity to let the markka float in turbulent times were important background factors for the preparations by the various social partners and firms with respect to Finnish participation in the Monetary Union. Many commentators raised the doubt whether a country with such a history of asymmetric shocks and fluctuations in exchange rates could engage in a monetary regime with irrevocably fixed exchange rates. At the same time, it was pointed out that a new

degree of flexibility in the labour market and wage determination should take place if Finland were to join the single currency.

The labour unions felt these loud and frequent voices of more flexibility as a kind of threat towards their positions. In 1997 the central organisations of blue and white-collar workers, the SAK, the STTK and Akava,¹ responded to this by requiring establishment of so-called "EMU buffers". By this is meant funds, which, in the case of an adverse shock hitting the economy, would soften or even eliminate the effects of the recession on employment. With the aid of these accumulated funds, in a recession the rise in payroll taxes (indirect labour costs) of employers would be prevented, which would otherwise be a necessary outcome in pay-as-you-go social security funding. During the deep depression of the early 1990s in Finland the unemployment payments of employers had to be raised tenfold in order to collect enough money to pay the benefits of the rapidly risen number of unemployed.

According to the agreement between the central organisations of the labour market made in November 1997, the solution is to collect these buffers in two forms, both within the unemployment insurance system and within the pension schemes. These funds represent together some 3 per cent of the annual wage bill in the private sector, so that they are not very big in case of a marked downturn in the economy. Their main role is to buy time in order to make a more fundamental adjustment. In addition, a third element as a means to prepare against adverse employment effects in EMU was mentioned, namely those internal to firms, such as strong balance sheets and profit-related wages, i.e. the more widespread introduction of profit sharing. An agreement on practical measures in this field was not reached, due to the reluctance of the employers to engage in an agreement with the unions on these systems, which the employers consider to be solely an internal matter of the firm and under the discretion of the management.

These buffer funds were considered as an essential precondition by the trade unions for their positive attitude towards Finnish membership in EMU. The position of the

¹ SAK is the abbreviation of the initials in Finnish of the Central Organisation of Finnish Trade Unions, with 1.1 million members, STTK is the Finnish Confederation of Salaried Employees, with 650

employers' central federations, the TT and the PT,² has been positive from the outset towards EMU.

As can be seen from Table 1, there has been a gradual and long-lasting trend towards lower nominal wage increases, necessary and sufficient to reach a low inflation rate in the range of the target adopted by the European Central Bank. At the same time, the whole EMU commitment by the government and the fairly positive adjustment, where interest rates could be steadily lowered, created an atmosphere where joining EMU, irrespective of the aforementioned doubts of many kinds felt in the country towards such a big and irreversible step in deepening integration, reached acceptance by the majority. The final decision to join was made by the Parliament in April 1998.

It is safe to state that the social partners in Finland have at the national level internalised in a profound way the requirements of stable and low inflation, which the EMU stipulates on collective bargaining. There is in Finland an Incomes Policy Information Commission, consisting of the chief economists of the social partners and the government, the Ministry of Finance. This body carries out monitoring of wage and labour market developments and makes evaluations on appropriate policies. In 1996 it launched a concept called *a wage norm*. It is based on the idea of defining a wage rise conducive to the achievement of the inflation target, set at that time by the Bank of Finland at two per cent per annum, and to an unchanged distribution in functional income, i.e. preserving the competitiveness of Finnish industry. The norm is the following. It should be noted that it basically applies to a situation where the economy is in equilibrium with no pressure to change the functional income distribution. Following the norm is sufficient to maintain the inflation rate in Finland within the target set by the ECB.

000 members and Akava the Confederation of Unions for Academic Professionals in Finland, with 360 000 members.

² TT is The Confederation of Finnish Employers and Industry, with members of around 5600 companies employing some 470 000 persons. PT is the Employers' Confederation of Service Industries, with about 8 000 member companies employing 320 000 wage earners.

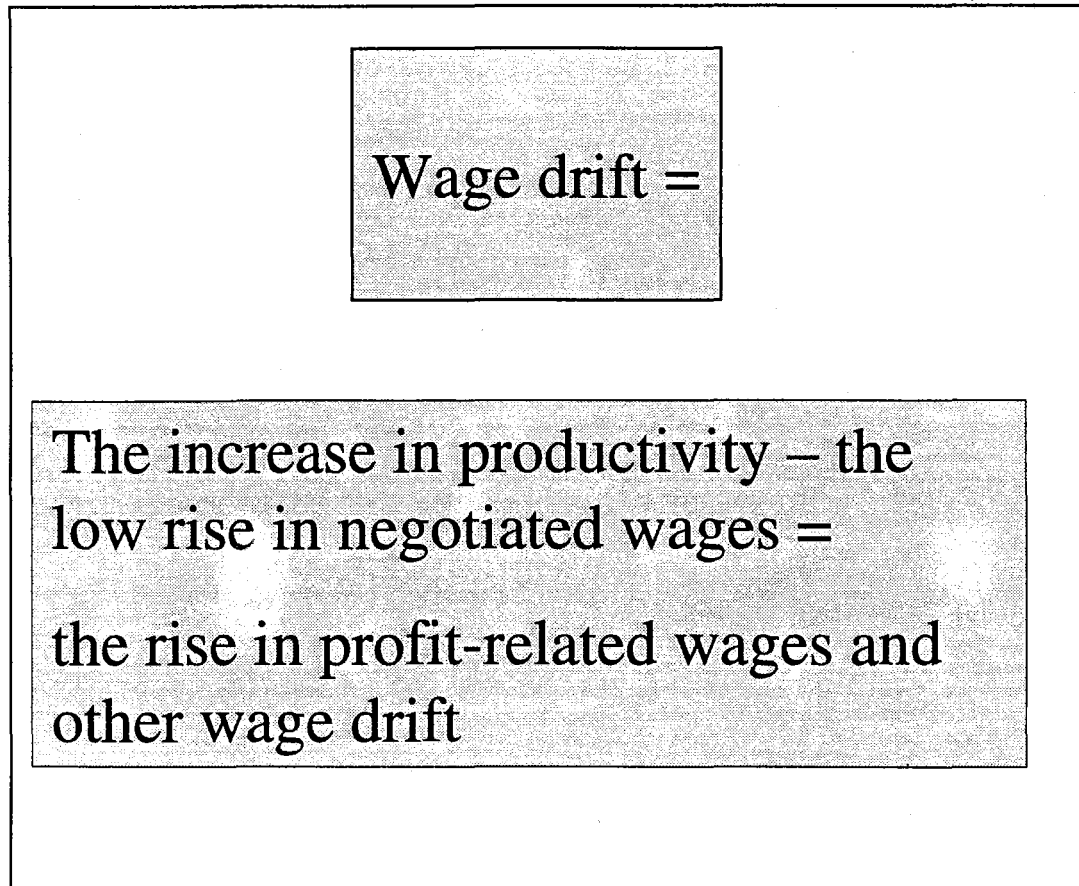
Figure 2. The wage norm (percentage changes)

The diagram consists of a large outer rectangle containing two smaller, shaded rectangular boxes. The top box contains the text "Negotiated wage rise =". The bottom box contains the text "Rise in productivity + inflation target (by the ECB)" followed by "- wage drift - increase in indirect labour costs" on the next line.

$$\text{Negotiated wage rise} = \text{Rise in productivity} + \text{inflation target (by the ECB)} - \text{wage drift} - \text{increase in indirect labour costs}$$

Recently, a slightly revised wage norm has been proposed by Dr. **Martti Hetemäki**, chief economist of the Ministry of Finance and chairman of the Incomes Policy Information Commission. According to this thinking, the whole basis of wage negotiations in an EMU age is that the wage rise will anyway be low in nominal terms. If productivity rises favourably, then the extra benefits of this are distributed, or rather, shared between the firm and the workers on a company level through schemes like gain and profit sharing, which have expanded rapidly in Finland during recent years (see Alho 1998 on this).

Figure 3. The revised wage norm (percentage changes)



The idea of the “new” wage norm is that there will overall be a low rise in negotiated wages, say 2 per cent per annum at the most. Actual wages will further rise by an amount equal to the difference between the rise in productivity and negotiated wages. This will be distributed to workers through company level schemes such as profit and gain sharing, working basically as incentive wage schemes. The basic wage norm solves for the suitable rise in the negotiated wages, while the revised wage norm solves for the wage drift.

2.2 Effects of EMU in the labour market in the light of various studies in Finland

As was mentioned above, EMU was one essential and indispensable part of the Finnish accession to the Union already in 1995. Therefore it was also analysed as one integral part of the membership in studies, where the economic effects of EU membership were evaluated in the early 1990s before the accession, as done in VATT (1992) and at ETLA by Alho et al. (1992).

The gains of EMU are normally classified as two-fold: microeconomic and macroeconomic. By the first it is meant that EMU will abolish the costs related to foreign exchange transactions inside the Euro Area and eliminate the corresponding risk related to the change in the domestic currency value of foreign transactions and assets and liabilities. Although the abolition of transactions costs is also a kind of redistribution of foreign exchange revenues between the banks and their clients, it anyway leads to an increase in the efficiency of economic operations. The effects of the reduced currency risk have been under intensive and extensive theoretical research. The bulk of this evidence is not clear as to the impact of foreign currency risk on economic performance. Anyway, at ETLA, in Alho et al. (1992) it was estimated that these effects are not very large in comparison to total economic activity. Elimination of the cost of foreign exchange transactions (the bid-ask spread) was estimated to result in a gain of the order of 0.2 per cent in relation to GDP and that of the foreign exchange risk as 0.1 per cent.

The far bigger impacts of EMU were in those pre-EU accession times attached to the reduction or the elimination of the risk premium, connected to the possibility of a devaluation, clearly raising the domestic interest rate far higher than abroad. In the early 1990s the interest premium was of the order of 4-5 percentage points. In Alho et al. (1992) it was estimated that joining the EMU will lower the real long-term interest rate by 1.5 percentage points. This would give a boost to investment and lead to a rise in the level of GDP by 0.8 per cent. The consequent channel of transmission would be the import of more credibility through joining a currency union with a "fully" credible anti-inflationary central bank. This argument, however, lost some of its attractiveness

during the above-mentioned successful adjustment phase towards the EMU, where domestic interest rates were lowered while the markka simultaneously appreciated from 1993 to 1996, when Finland joined the ERM. On the other hand, it is quite difficult to assess exactly – or even in quite vague terms – what the interest rate would have been if Finland would have outright decided *not* to join the Monetary Union. And on the other hand, by an interest premium it was mentioned a long-term situation, not a short-run impact.³

The government, in the wake of a Swedish EMU Commission, decided to establish in November 1996 a similar exercise, carried out by a group of academics in Finland as well. The final report of the Commission (see Valtioneuvosto 1997) was a neutral stance with no recommendation either to join or stay outside EMU; it was rather an evaluation of the pros and cons of joining the Monetary Union.

The Ministry of Labour (see Ministry of Labour 1996) has also carried out an extensive survey on the effects of EMU in the economy in general and in the labour market in particular. The study concludes that a Finnish membership in EMU will facilitate stable employment and credibility of the economic policy-making, thus boosting employment, through, i.a., a rise in investment activity.

The labour market was in all these studies and evaluations in a way a residual in the following sense. The stylised picture in these studies was that EMU is from an efficiency point of view a shift in a positive direction and the gains of it will first be felt in firms and then later on passed on to wage earners in the form of higher real wages, as the demand for labour by the expanding firms will rise. In this sense, the labour market plays a secondary role in the whole transmission as the “last link” in the chain of effects.

As EMU will abolish the “last” barriers to trade within the Euro Area, it will also open the domestic market for foreign suppliers and increase competition. This has a positive impact on the real incomes of consumers, but may lead to pressure to rationalise within home market firms. Alho (1996) tried to evaluate the effects of the vari-

³ See also Kotilainen et. al. (1994).

ous channels and the microeconomic gains to the equilibrium in unemployment. The conclusion was that, irrespective of these diverse effects, it is likely that the impact will be positive, although modest, on employment. Within the Finnish EMU Commission (see above) Pehkonen (1997), using a short-run methodology of the growth impulse of EMU, which was, however, to a great extent just assumed, came also to a reduction in unemployment.

The labour market was considered mostly from the light of the risks to be possibly faced in a single currency, when devaluations aimed at adjusting the economy in times of a recession are no longer possible. So, the labour market was given an essential role in the *functioning and adjustment* of the economy *under* EMU. Without a clear commitment to low inflation by the labour market partners, the goal to further reduce unemployment by the policy-makers would be seriously jeopardised. Another important factor was the key role of the labour market in the case of an adverse asymmetric shock hitting the economy. The concept of an *internal devaluation* was coined instead of the standard external one, by which is meant the possible reduction in labour costs – either wages or the indirect costs of employers – in a time of recession.

None of these studies has considered the impact of EMU on industrial relations. None has presented any precise sectoral estimates. However, it can be interpreted to be implicitly indicated by them that the export branches will benefit, the home market branches will be subject to more intense competition and the most severely hit will be banking, which has previously based its activities on the national currency, which will be replaced by the Euro.

The Incomes Policy Information Commission, see TUPOSETO (1999), has recently considered the prospects and alternatives related to the next collective bargaining round. It states that EMU will entail tougher competition and is thereby likely to lead to a reduction in the inflationary price effects of wage hikes, and, consequently, to a rise in their effects on employment. The best outcome with respect to the macroeconomy is one where there are low nominal wage rises, at most 2 per cent annually, and a lowering in income taxes.

2.3 Economic and labour market tendencies in the selected sectors

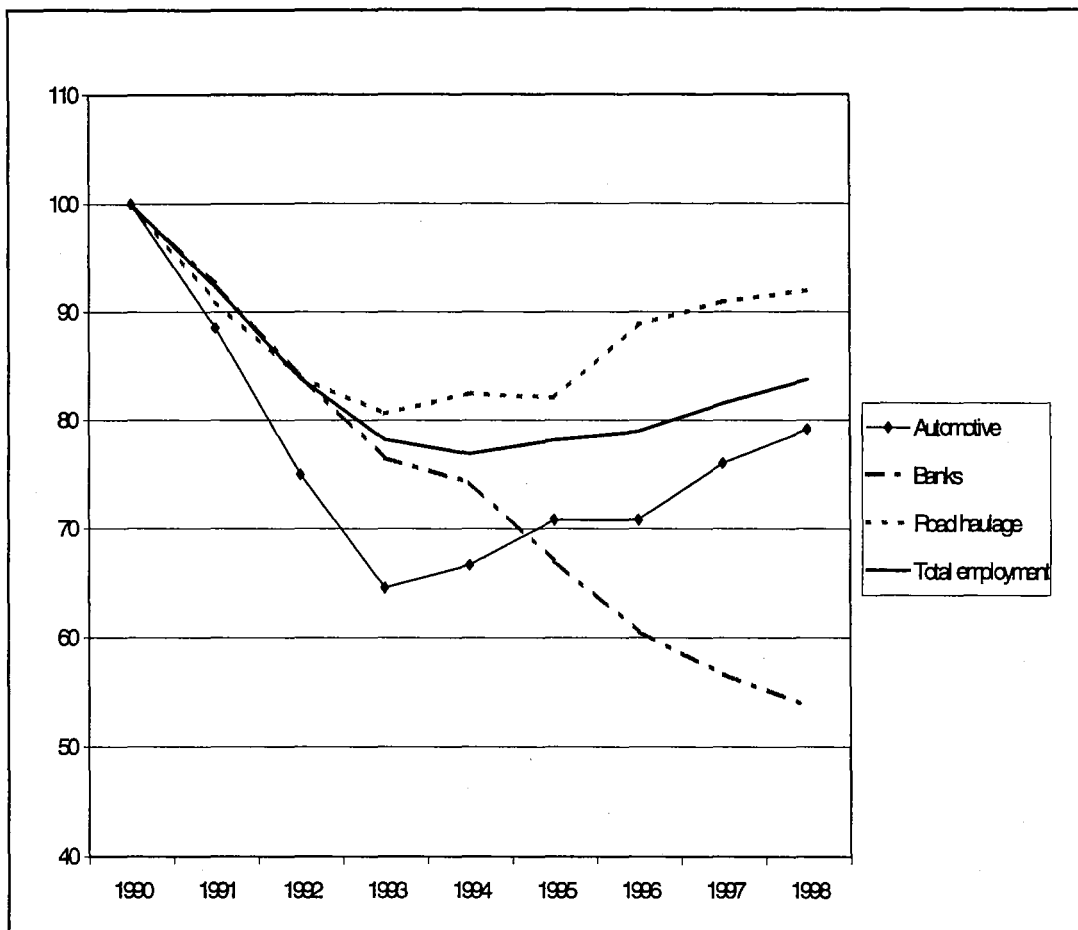
The sectors selected by the European Foundation for in-depth analysis in this study are automotive, banking and finance, and road haulage. These industries cover together some 80 000 employees, which is only 4 per cent of total employment. The industries are, of course, vital to the operation of the economy in general. The road haulage sector is a key player in foreign trade operations, especially in export deliveries, which are more than earlier based on the just-on-time principle, and the minimisation by exporters of their inventories. The banking branch is, of course, vital to the payment system and financial operations within the country and abroad. The automotive sector is not very essential to the Finnish economy, if we compare it to the big export industries, such as (the rest of) the metal and engineering industry and forest industry, and to those in other EU countries. However, this industry has a strong local importance in a few places where its production plants are located, and some firms in it have expertise, which has led them to produce some niche products to the international market as well.

These industries are also influenced by EMU quite differently (see the next chapters). We can state that banking is the branch of the economy where the direct effects running through the product market of the changeover to EMU are felt the most. Some of these have already been materialised in connection with the beginning of EMU in 1999, when the basis of some of the production of services by the banks disappeared, i.e. foreign exchange and hedging operations by their firm clients within the Euro Area. No other industry has experienced anything of the like as a result of EMU. The two other industries selected for the study, i.e. automotive and road haulage are only mostly indirectly influenced through the single currency (see figure 1 on page 4).

The overall economic developments within these branches have also been quite different during the 1990s. In Figure 4 we depict how employment has changed during this decade. There is quite a clear difference between the sectors. Especially banking has experienced a period of very heavy rationalisation, which has driven the number of its employees to a half of that at the start of the decade. The background for this

development has been the deep depression in the early 1990s mentioned above and the banking crisis, which was very difficult indeed in Finland, and which had a large effect on the economy as a whole and the banking industry. Banks suffered enormous credit losses in the early 1990s, when a part of their client firms went bankrupt, which, coupled with the lowering of the interest margin, necessitated an intervention by the government with rescue packages and financial support for the banks. One banking group, the savings banks, had to be taken over by the state and it was then sold to the other major banks in the country. All these events have been at the background of the heavy rationalisation of the Finnish banking industry.

Figure 4. Employment in the selected industries and the total economy (year 1990 = 100)



As can be seen from Figure 4, in the two other sectors the recovery of employment from the abrupt decline in the early 1990s has been favourable, rising during recent years at a more rapid rate than in the economy on average. Especially in road haulage, due to a vigorous expansion in exports, and due to the limited possibilities to increase productivity, employment, as compared to other branches, has almost returned to the same situation where it was in the beginning of the 1990s.

Figure 5. Wage rates (in Euros per hour) in the selected sectors

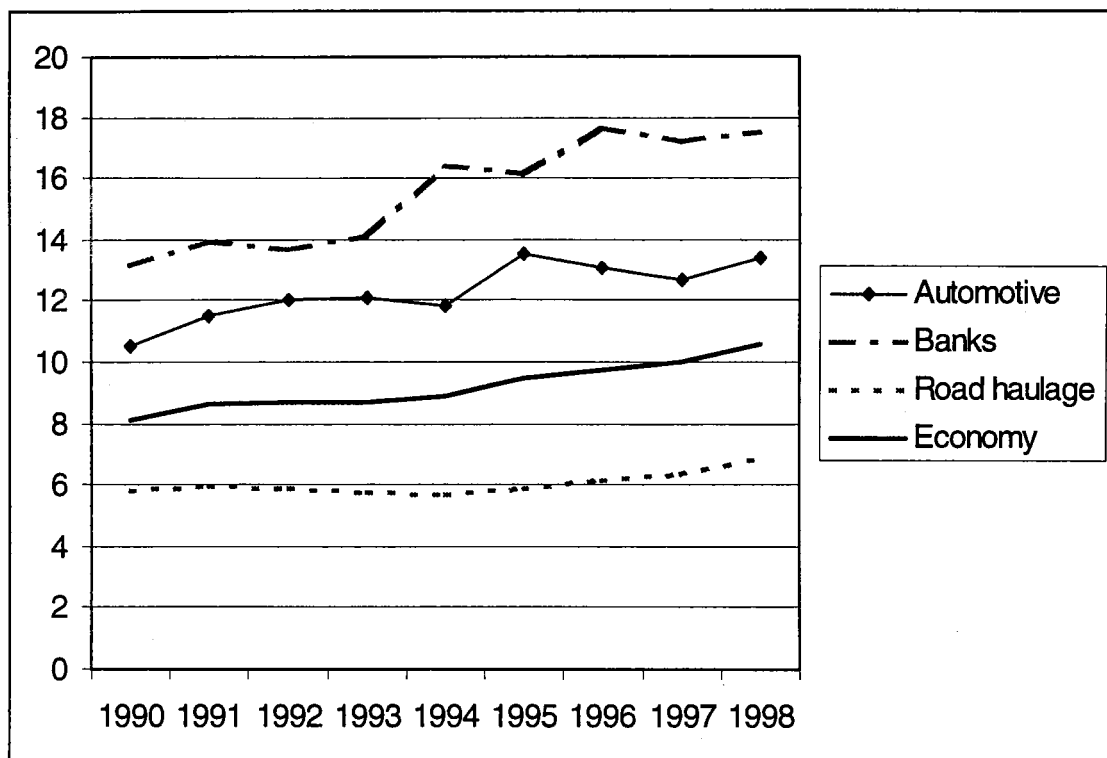
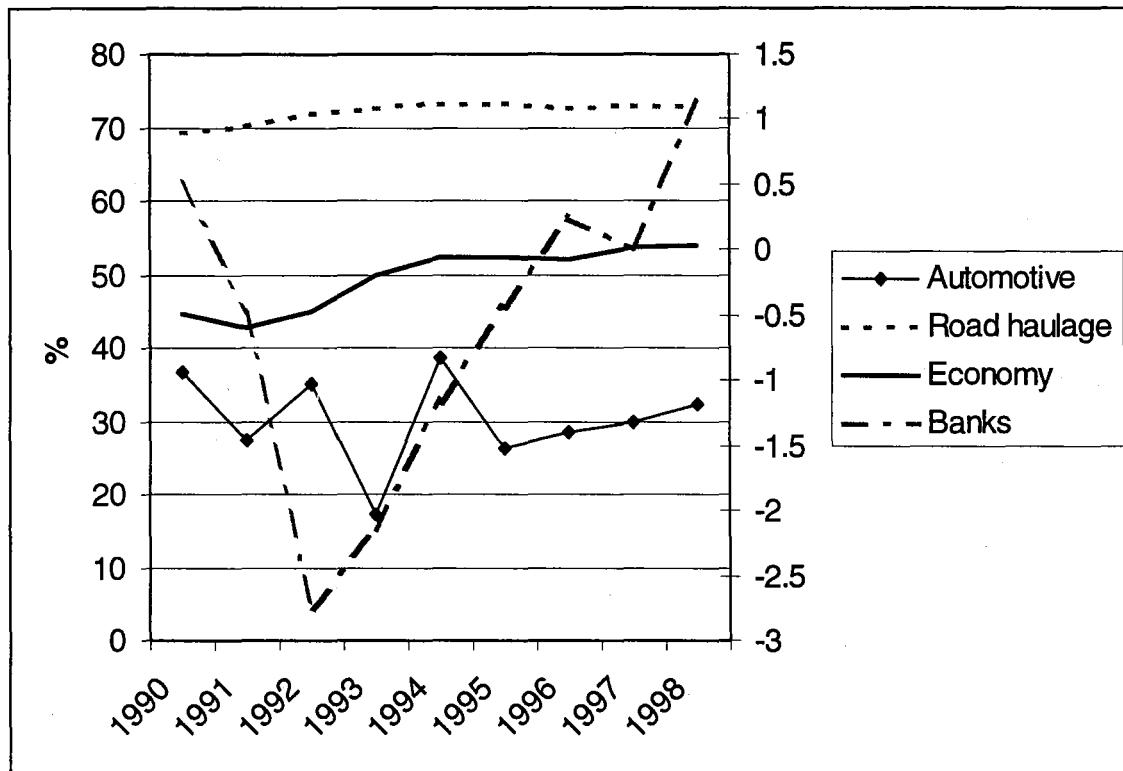


Figure 5 displays the wages rates in the selected sectors and in the total economy. The banking sector clearly has higher wage rates than the economy in general. Road haulage (including forwarding) is a low-wage industry, whereas also the automotive industry has wage levels higher than the average.

Figure 6 depicts the trend in profitability in the selected sectors using two measures for it, the share of gross operating surplus (i.e. value added less the labour costs) in value added for sectors other than banking, and the net profit in relation to total assets for the banks. It should be recognised that the deviations in the levels of the former

reflect the capital intensity of the industry, not so much the deviation in the level of profitability between the sectors. So, we should pay attention to the trend instead of the level in these indicators. Anyway, we see that there has been a clear recovery in Finland in the overall company profitability after the drop in the early depression years. In automotive industry and road haulage this rise has not been so marked as in the economy in general, whereas the swings in profitability have been very large in the banks during the 1990s.

Figure 6. Indicators of profitability in the selected sectors (in banks, net profit in relation to assets in the previous year, right scale, others: gross operating surplus in relation to value added, left scale), per cent



After these preliminaries, we now turn to the interviews in the three sectors.

3 AUTOMOTIVE INDUSTRY

3.1 The employers' and employees' organisations

Interviewed persons:

Mr. Ralf Sjöblom, Director, Federation of Metal, Engineering and Electrotechnical Industry, MET

Mr. Jorma Löhman, Chief Negotiator, The Finnish Metal Workers' Federation, Metalliliitto

3.1.1 *Economic context*

The employers of this industry mostly belong to the MET, which has 1 100 member companies employing some 150 000 workers of the total number of employees being 190 000 in the metal and engineering industry of the total employment of 420 000 in manufacturing. The MET is the biggest and most influential member of The Confederation of Finnish Employers and Industry (TT).

The automotive industry in Finland is quite a small one in international comparison, it comprises of 8 000 employees at the moment. The value of the gross production is some FIM 5.1 billion (EUR 0.85 billion).

3.1.2 *Industrial relations context*

The negotiation relations within the metal and engineering industry are often and with reason considered to be progressive and exemplary. The parties have adopted the principle of continuous negotiation, meaning that they change the current collective agreement within the period it is in effect, if they find this necessary, and have adopted the most decentralised system of firm-level negotiations in the Finnish labour market, where some issues mentioned in the collective agreement (around 20 in number) have been delegated to to be decided at the firm level. The most important of these are related to the working time arrangements. In the collective agreement of the

metal and engineering industry on a local level the chief shop steward makes an agreement with the management on the issues mentioned in the collective agreement to be possibly agreed upon at the firm level. The parties do not separately negotiate on the terms of employment in the automotive branch, but only as a part of the metal and engineering industry.

MET belongs to the WEM, West European Metal Trade's Employers Organisation. This organisation has a small office staff. Its basic function is to collect and disseminate information of wages, terms of employment and social legislation in the West European countries. The Finnish employers have found this data bank as quite useful in their activities to compare the factors influencing competitiveness in Finland to the other major competitor countries, comprising not only of relative wage costs but of other components in the indirect labour costs as well.

The Workers' union, Metalliliitto, is a member of EMF, European Metal Workers' Federation. The union would be willing to proceed towards European level co-ordination in the terms of employment. This could mean that there is more widespread and systematic comparison of the terms of employment such as working hours and social legislation between the countries. The aim is to reach some sort of harmonisation in these in order to prevent unfair competition by the low standard countries and social dumping. The EMF had just recently a meeting in Tampere, Finland and made a declaration on this. It has also suggested to the WEM that the organisations could join in an action of pressure towards the EU Commission with the aim of enforcing anti-dumping measures against the massive subsidies directed to Korean shipbuilding. Altogether, the Metalliliitto would like to start a Social Dialogue e.g. on the terms of employment with the WEM, which currently happens solely between the ETUC and UNICE. The secretary general of EMF belongs to the negotiation group of ETUC.

The internationalisation of Finnish companies through mergers and acquisition to foreign ownership has not yet had a marked effect on the labour market, as they also adapt the national labour market stipulations in Finland. The EU directive on the European Works Council, the EWC, is a regulation which takes place on a European level information dissemination and hearing of the personnel, which is not so intense as that stipulated on the WCs in the national Finnish legislation.

3.1.3. Implications for the processes of industrial relations

Both sides emphasise that EMU has a profound effect on the economy, economic policy and functioning of the labour market and wage agreements. They have also been well preparing during the recent years to the onset of the single currency. For instance, the Metalliliitto has published a memorandum on the new situation prevailing in EMU, which forms the basis for the discussions and preparations by the workers on the local, firm level. The union has adopted the principle that preparations must take place well in advance as "it is too late to start them when the Euro notes are in the pocket".

The workers' union, Metalliliitto, considers it quite unrealistic that negotiations on wage rises could or should be started at the European level. The question of giving a mandate to EMF to negotiate in certain questions is quite a difficult one for the national unions, including Metalliliitto. There has recently been a change in the rules of EMF, so that the mandate could in certain restricted areas be given over to EMF. Anyway, the union sees that it is more a question of time, rather than of whether, the European level will emerge as a level in co-ordination and co-operation. EMU has markedly spurred and speeded up the developments towards this direction.

In this respect attention should be paid to the fact that words and phrases have different contents and meaning in different countries. So, for example, by co-ordination it is meant in Germany quite far-reaching unified measures, while in the Nordic countries this mostly means discussions and comparison of the respective solutions in the different countries. It is the idea that the EMF office would start with more extensive and sophisticated comparisons of the terms of employment on the EU level, which are currently quite deficient, and also translations of the respective collective agreements into English.

The European trade union movement has made some preparations of proceeding towards collective agreements to be made on the European level and have changed the rules of ETUC so that this could be possible. However, a mandate to do that in practice has not been transferred to ETUC.

The employers' international organisation, the WEM, strictly considers that the collective agreements should be maintained to be made on a national basis basing their argument on the principle of subsidiarity. The basic aspiration of the employers, also in Finland, is to change the focus of agreements on pay and terms of employment towards the firm level, without, however, giving up the collective agreements between national level organisations, either on a centralised, i.e. national level, or at the industry level between the organisations. So, proceeding towards the European level would be a change into the opposite direction, a new stage of centralisation, and therefore the attitude of the employers is negative towards such developments.

In practice, too, the employers find it quite impossible to proceed towards such a regime because of the voluminous stipulations on the terms of employment included in the national collective agreements, which should be harmonised. In principle, a rise of the wages with the same percentage would be a neutral solution from the point of view of competitiveness, but the changes in the so-called text questions on a concerted basis would be quite impossible. The employers point out that the changes in productivity and production within the sub branches of an industry like the metal and engineering industry have been so widely dispersed that it has been quite difficult to agree on uniform wage hikes even on a national level for the industry as a whole. The competition is also made by US and Japanese firms, not solely Europeans, as one half of the exports of the Finnish metal and engineering industry goes outside the EU. Therefore, the high uniform wage claims imagined sometimes by the ETUC, considered to be conducive to a rise in consumer demand and thereby in jobs, are quite unrealistic from the employer point of view.

The effect of EMU is that it is much more important to hold the wage rises in line with the rest of the competitor countries, as a devaluation is not any more at disposal among the tools of economic policy. So, the next collective agreement round, taking place at the end of 1999 and early 2000, is a test how well the unions have internalised the requirements towards wage moderation of the new EMU age.

As such, EMU is a new stage in the process of internationalisation, where the markets for the industry have become global. EMU also increases transparency and intensifies

comparisons of productivity, pay and other terms of employment between the various parts of multinational enterprises, both on the side of the management and the workers. The economic developments and conditions for business have to be preserved as competitive on a global level. The trade union considers that the link from wages to the capacity to employ is closer than before. EMU involves, in addition to the benefits of it, the risk of asymmetric shocks, which the single monetary policy cannot handle.

The employers are not overwhelmingly positive towards the wage norm launched to be applicable in the EMU age by the Incomes Policy Information Commission (see above Figure 2 in Chapter 2). As the rise in the productivity is not uniform, there is a pressure caused to the weaker firms by a uniform national or sectoral wage rise. This may be a problem to them and also to the fulfilment of the inflation target as the weaker firms try to catch up with the best by raising their output prices. If this is not possible, then employment will weaken.

The trade union favours the above mentioned wage norm and has noted that the German IG Metall union also in effect applied it in its last wage round. In the EMU memorandum of the Metalliliitto it is also analysed, how the wage norm should be exactly applied in the new situation in EMU, e.g. what is the inflation norm (that by the ECB), and what is the productivity norm, taken from the sectoral, national or Euro Area level. The EMU also changes the situation so that the competitive sector should be perhaps even more than before in a key position in the wage agreement rounds. The Metalliliitto is not willing to adopt the idea that there should be a wage leader such as the German IG Metall in the EU. The union is willing to proceed in the fields of consultation, comparisons and co-operation and some common action, as mentioned above, on e.g. the working hours and imposing a common maximum amount for the overtime hours on the EU level. In this co-operation even the small countries can, if they are active enough, get their voice heard, which is reinforced by the European culture of close human relations and pro-longed discussions and consensus. The framework of the traditional Nordic co-operation have changed due to EMU so that the traditional leading role of Sweden has shifted to Finland.

The employers are more favourable towards the revised norm of wage rises (see above Figure 3 in Chapter 2) with the modest nominal rises in wages as the basic

starting point. A fully decentralised negotiation system (firm level) is neither very realistic and may not be beneficial to the employer, either. It may cause a widening in the wage dispersion, which may be difficult to manage over a longer run. The introduction of this kind of new system would be risky and might take a very long time, several decades, to adopt. The workers have their doubts on the revised system of the wage norm. They point out that they cannot take the situation, i.e. the productivity rise, of the worst firms as its norm in the wage negotiations, and are aware of the pressure caused by the uniform wage claims by the union on the rationalisation in the weaker firms. On the other hand, the union knows that it cannot demand the same benefits to the large cadre of its members as e.g. the big and very profitable Nokia Corporation can afford to a small group of its key personnel through options.

3.1.4 Implications for pay and employment

The MET and the Metalliliitto have revised their agreement on the ground rules of gain sharing in November 1998, which was an updating of the agreement made already in 1989. According to it, the introduction of the system has to take place so that it is informed and explained to the employees and the very introduction is enforced by a written agreement between the parties. The contents of the system depend on the discretion by the employer, solely. Currently, some 50 per cent of the personnel in the metal industry are among the gain or profit related bonus system, and the average amount of profit related wages is some 5 per cent of the annual wage bill.

The employers' MET strongly favours the spread and use of gain and profit sharing. MET considers that the arrangements should be maintained as they are today, i.e. that the management decides, whether a gain or profit sharing system will be introduced, and on which measures of profitability and performance, and how, will it be based. According to MET, it is also one possibility that the gain and profit related bonuses could be divided into two parts. One should be directed to motivation and be based on the performance, effort and the like, by the personnel so that it will be paid by the company to the employees, whenever the goals have been reached, irrespective of the profitability of the company. The other part would then be related strictly to the profitability of the firm, and would be paid or not depending on it. This latter component

could then work as a buffer in the EMU conditions (see on this more above in chapter 2).

3.2 Valmet Automotive

Interviewed persons:

Tapio Kuisma, Executive Vice President, Finance

Tapio Tolsa, Vice President, Human Resources

Mauri Partanen, Chief Shop Steward

3.2.1 Economic and industrial relations context

Valmet Automotive is a contract manufacturer of cars, located in Uusikaupunki, some 70 kilometres north of Turku on the west coast of Finland. It has specialised in the assembly of luxury cars, especially of convertible cars. In this group it ranks among the four biggest manufactures in Europe.

Originally, the company was founded in 1968 through an industrial policy measure, in part with the intention to alleviate the difficult employment situation in the region. It was a joint venture of the Finnish state-owned Valmet Corporation and Saab, the Swedish car manufacturer. The business concept was to build a part of the Saabs, i.e. one third of them in Uusikaupunki. This concept was ended in 1992, when GM bought a 50 per cent share of Saab's car production. Then Valmet bought the shares of Saab in Saab-Valmet, and it became a fully owned Finnish company. In 1998, there was a merger of Valmet and the private metal industry firm, Rauma, and the new concern has announced that its name will be Metso. Valmet Automotive belongs to the machinery division of Metso. The turnover of the Metso Corporation was EUR 3 700 million in 1998 and the number of employees was 23 000.

The annual turnover of Valmet Automotive, consisting of its own value added solely (the components are owned by the principal) is some FIM 715 million (EUR 120

mill.). The value of its gross production is roughly four times bigger than this value added. The company has been profitable all through the turbulent years and made in 1998 a profit of EUR 25 million.

The current strategy is to be a cost efficient producer of demanding special cars, especially convertible ones. The Valmet Automotive factory can produce annually 10-30 000 cars per series, and if it goes over to work in three shifts, up to 100 000 cars per year. The mode of operation has changed so that formerly it consisted basically of car assembling, but nowadays the customer wants to order both product design and assembling. Accordingly, the company has also a R&D department of its own with 70 persons with the aim to develop construction of especially convertible cars and to be able to meet the present challenge of being able to take care of the "turnkey"-principle. The company is actively seeking for new alternatives and new partners, which could bring additional design capacity to Valmet Automotive.

The company has as its strength flexibility and modern and efficient production lines, achieved through reorganisation and investment, and its ability to produce simultaneously several series of cars. Its handicap is the long distance to the market, as its exports all of its production and imports a part of its components, and the consecutive freight costs. Therefore, it has to specialise in the market segment where the value added is the biggest. Currently, it produces two models: Porsche Boxster and various variants of Saab, mostly the Saab 9-3 convertible car. The company is continuously actively offering its production capacity to various car manufacturers all over the world.

Valmet Automotive has experienced wild fluctuations in its production in the 1990s. At the highest in 1992 its production mounted to 46 000 cars with the employment of 2 700. Thereafter its production fell to 11 000 and employment to only 650 as the former large production contract with Saab came to an end. This led to temporary layoffs and then subsequently to dismissal of the personnel. Thereafter the employment has again risen and is currently 1 500, of which 300 are white-collar workers and 1 200 blue-collar workers. These difficult phases have led, on the one hand, to an incentive to increase efficiency, on the other hand it has created an atmosphere of fear on the continuity of jobs being a harmful factor for motivation. There has been a

change in philosophy of the firm from the safe business conditions related to the contract with Saab and guaranteed by the industrial policy, with little need to have any marketing operations or responsibility of them, to a new situation, where the company has had to start to market its production capacity and compete for the production contracts. It has to preserve and improve its competitiveness and also compete with price.

The Finnish EU membership has been very positive for the company. The management considers that without the EU, they would hardly assemble for the Porsche company. The EU membership has increased the credibility of Valmet Automotive. On the other hand, the car industry is plagued by the support related to the EU regional policy with public subsidies for investment in regions entitled to the support. This support currently applies virtually to all the location decisions by the European car industry. The company is actively following up these decisions and is of the opinion that its competitors are likely to be able to raise a bigger support in the form, not only through the Regional Funds, but combining support for training through the EU Social Fund as well in the package. The company uses special agents to monitor the support decisions reached by its competitors. The Valmet Automotive has also itself used the investment support, as Uusikaupunki is located in the support 2 region. Because this EU support is based on a fixed sum of support per capita, and the population in the region concerned is small, the support as a whole does not rise to the amount in the competitor countries.

As to the industrial relations, there is one representative of personnel in the board of management of the Metso corporation (being not from Valmet Automotive). In the management group of Valmet Automotive there is one representative of both the white- and blue-collar workers. In general, the relations between the employer and the employees are good in the company and both sides are used to express their views and standpoints in an open conversation culture prevailing in the company.

The company analyses the industrial relations in three different fields in an international comparison: wage rates, working hours and productivity. The last of these is clearly a competitive advantage for Finland, as the Finns obey the hard working Lutheran way of working life culture. This is also conducive to achievement of high quality in the production. As to the wage comparison, the Finnish wages in car indus-

try are quite much, some 50 per cent, lagging behind the German level, but on the other hand, more and more of the new competition comes from the emerging CEE countries and there the wage level is clearly below the Finnish one in car assembling lines. It is difficult or impossible to compete with low costs only against these producers. As to the working time, the Finnish length of the working day is quite long in an EU comparison. The cost of the over time arrangements is, however, quite high, as in Finland the extra working hours cost 50 per cent more than the normal hours, while in Germany this is only 20 per cent. On the other hand, the regulations concerning lay-offs and severance payments are easier and less costly in Finland, so the whole is a combination of diverse effects. The absence of the workers is minimal in Valmet Automotive.

On the other hand, the company and the employees have not been able to agree on working time arrangements so that the distribution of the annual working time within the year could be that which the employer would find to be the most profitable. This stems from the fact that the demand for convertible cars peaks in the spring and the demand in the autumn is only a half of that in the spring. It is also quite a difficult decision, how the risks related to fluctuations in demand are shared between the company and its personnel and some sort of middle way should be found in this basic difficult question. So, in a way the company has already met the issue, how the firm-level buffers work in practice in the EMU age (see Chapter 2).

3.2.2 Practicalities of introducing the Euro

The Metso concern has already gone over to the Euro in its reporting from the beginning of 1999. Soon the Valmet Automotive will introduce the Euro also into the payroll slips. The company feels that, irrespective of the practical difficulties in the introduction of the Euro, which are likely to be universal, the Euro will in a positive sense stabilise the activities of the company. It has in the traditional way invoiced its production in foreign currencies of the principal, and thereby feels the gains of the stability of the single currency. The company, like other export firms, made, however, a nice profit when the Finnish mark depreciated strongly against the DM. Sometimes the situation was the reverse, however. On the employee side there are no fears raised by the practical difficulties of the Euro.

3.2.3 Implications for the processes of industrial relations

On the containing of the cost developments, both sides think that the internalisation of the tighter constraint on the cost rises in EMU have proceeded fairly far between the employers' and employees' organisations. The most important desire towards the next collective agreement round from the employer's point of view is that industrial peace would prevail, as it would be most difficult for the customer relations if there would be some interruptions in the deliveries. The reputation as a reliable deliverer of goods is utmost important for the company.

3.2.4 Implications for pay and employment

The company has introduced a bonus wage arrangement, which is based on three indicators: punctuality of the deliveries, quality and productivity. The last of these is again closely linked to the company profitability. The share of the maximum bonus wage is 5 per cent of annual income, which corresponds to the average situation in the manufacturing industry. The employees also admit the importance of high quality and punctuality, but are not very eager to proceed towards raising the share of bonuses in total pay and see that the role of pecuniary incentives is, however, limited as to the industrial relations. The employer would be willing to raise the share of bonuses in total pay.

3.3 Oy Sisu Auto Ab

Interviewed persons: Mr. **Hans Elmgren**, Production Manager
Mr. **Yrjö Sainio**, Chief Shop Steward

3.3.1 *Economic and industrial relations context*

Sisu Auto is in international comparison a fairly small company with annual turnover of some FIM 350 million (EUR 60 million) and personnel of 200. It builds some 500 heavy trucks per year, with a weight of more than 16 tons. Sisu was founded in 1931 and has operated at its present location in Karjaa, some 80 kilometres to the west of Helsinki, since 1944.

The company is currently, from 1997 onwards, fully owned by Partek, a Finnish multinational corporation with annual turnover of FIM 13.5 billion (EUR 2.3 bill.) carrying out business, i.a., in construction, logistics, engineering and machinery. Formerly Sisu Auto was owned by the state. The company has also a strategic importance in the country as it produces the military trucks for the Finnish Army.

The company has so far very much concentrated on the home market, and exports less than 10 per cent of its production. In the home market the company has, however, a strong position with a market share of some 17 per cent, being the third biggest player in the truck market. It has plans to internationalise in a substantial degree, especially through a co-operation agreement made with the French Renault VI company in 1997. There is co-operation in three fields: Sisu and Renault own by half the company carrying out service of the trucks, Sisu uses certain components built by Renault, especially cockpits, and third, Renault dealers start to take care of Sisu's marketing in other countries than the near-by markets. Although there has been some quite normal initial friction in this kind of co-operation, the Sisu company expects that the co-operation will bring even more benefits in the coming years and start a new phase of internationalisation of the company. The working language in this co-operation is English, even though the contacts would benefit if the Sisu personnel could cope more in French as well. This has been actively promoted by the company. This co-operation has not yet had an impact on the activities of the shop steward in practice.

The Sisu company considers that it can turn its small size to a strength, as it can operate in a flexible manner in the market. This is also due to the fact that it has product development operations of its own. Currently, all the production is based on ordered trucks only and the company has a rapid production time from the order to the final product. The niche of the company is derived from its cumulated know-how from the northern climate conditions.

Also Sisu Auto has experienced very hard times during the 1990s as most other firms have done during the deep depression of the Finnish economy, which were especially pronounced in industries and firms, the business of which was basically linked to the investment activities. Before the crises in the boom years of the late 1980s Sisu Auto produced some 1 000 trucks per year, while the current number is around 500. The number of the employees has also in the wake of these developments gone into half. As expected, the profitability has also been under stress, but it has steadily improved during the latest years, although was still in 1998 slightly on the negative. There is quite a keen competition in the truck market pressing down the prices of trucks, which have fallen during the 1990s. However, at the moment the company is quite satisfied with its position in the market and is not planning any further cuts in its labour force.

The Finnish EU membership has been in general positive to the company. There will be further harmonisation of the tests, which the trucks have to pass and which may be quite expensive. For instance, Sweden has had a national impact resistance test, which has been quite expensive for a company to pass, but which will be abolished in a few years' time. Gradually, there will be a system where one permission of market entry in one EU country will apply in all others as well. Finland and Sweden can preserve in the EU the maximum weight of an articulated vehicle of 60 tons, due to the long distances in these countries, while the rest of the EU has a limit of 44 tons. This forms one of the strengths of Sisu. The company buys some 65 per cent of the value of its production as intermediate goods, of which around a half is of foreign, also from outside the EMU area, and a half of domestic origin.

On the other hand, the Finnish EU membership has opened the Finnish market for an easier access by the foreign competitors as well.

The Sisu Auto company is a member of MET and the blue-collar workers belong to the Metalliliitto, while the white-collar employees belong to STL, the Union of Salaried Employees in Industry in Finland, being a member of the STTK, and the Akava. Both the employer and the employees consider that they have good negotiation relations with each other, although there has been a heavy phase of rationalisation during the 1990s, as mentioned above. They are quite satisfied with the principle of continuous negotiations adopted by the employers' and the employees' organisations (see above Section 3.1.2). They are also quite satisfied with the scope of local bargaining allowed in the collective agreement of the metal industry. The employer, however, considers that the negotiation culture is such that it is sometimes difficult to reach at the local level essential changes, e.g. in the terms of employment. For instance, it is not easy to achieve a new arrangement in the working time without a claim of extra pay by the employees. The employer considers that it should be the most important for the personnel that their jobs can be preserved.

There has been going on interesting technological developments in the work organisation in Sisu Auto towards multi-task jobs. This has involved that many tasks in material planning, receipt of material and inventory handling, which were formerly taken care by different persons, are now handled by one employee. In general, the company has introduced an organisation structure of team-work.

The Works Councils were introduced some 20 years ago in Finland. The workers in Sisu have two representatives in the meeting of the national Works Council of Partek, but no representative in the Works Council of the whole Partek concern (Partek Personnel Meeting). The employees are fairly satisfied with the functioning of the national Works Council, and there is under preparation introduction of an incentive wage system, which may be viewed as a modification of the profit sharing system.

3.3.2 Practicalities of introducing the Euro

The payroll slip has also been presented in Euro from the beginning of the year. The whole Partek concern considers that the introduction of the Euro will substantially reduce the financing risks of the corporation. As Partek also operates in countries,

such as Sweden, Denmark and the UK, being outside EMU at this stage, the reduction in the transaction risk will not be more than 18 per cent in net payments denominated in foreign currencies. There is also a reduction in the foreign exchange exposure of the equity of the subsidiaries to be hedged. The Euro has also been introduced as the basic currency in the netting system of the internal payments of the concern.

3.3.3 Implications for the processes of industrial relations

The EMU has not yet had much effect on the labour market issues and industrial relations of Sisu.

Both sides consider that a centralised collective agreement would have been at place also in the next collective agreement round.

3.3.4 Implications for pay and employment

During the 1990s the wage drift has been very small in the company due to the general situation of falling production and the small potential to pay extra wages by the company. The employer thinks that the current distribution of salaries and wages does not match properly with the respective distribution of skill requirements and productivity. This is mostly due to the small nominal wage rises and wage drift during the 1990s, which has not allowed a larger reshuffle of the wage distribution.

On EMU, the employer thinks that, aside of its benefits, it also includes the risk of not being able to conduct a national monetary policy, which may be a threat in the case of possible recessions, where a devaluation could be in place. It is difficult to achieve flexibility in wage formation of similar degree on a company level.

The Sisu Auto has not yet introduced a gain or profit sharing arrangement, which may be due to the fact that the company has not been making a profit during the recent years. It has, however, introduced a bonus wage system, not being based on the company's profitability, but on the outcome of the employee's work efforts, quality and precision of delivery.

The company is not using actively comparisons of wages and productivity to other international competitors, due mostly to the difficulty of finding suitable and reliable data.

3.4 Nokian Tyres Plc

Interviewed persons: Mr. **Esko Valtonen**, Head of Industrial Relations

Mr. **Jyri Nousiainen**, Chief Shop Steward

3.4.1 Economic and industrial relations context

Nokian Tyres is a fairly big, at present an independent, publicly listed company. It was for several years a part of the biggest company in Finland, and a world leader in the mobile phone business, the Nokia concern. The headquarters and main production plant of Nokian Tyres are located in Nokia, some 20 kilometres to the west of Tampere, the second biggest city in Finland.

The origin of the company goes back to the year 1898, and it was from 1967 to 1995 a part of the Nokia concern as its business in rubber industry. Its internationalisation began some ten years ago, when a big Japanese rubber company, Sumitomo, bought a share of 20 per cent of the company. In 1995 the Nokia concern wanted to get rid of its rubber industry and the Nokian Tyres were formed as a listed company and the share of Nokia's ownership fell to 40 per cent and has since then been reduced to some 25 per cent at present. The Sumitomo company is not any more a shareholder in Nokian Tyres.

The parent company employs some 1 340 persons, the whole concern of Nokian Tyres over 1 700. The company has subsidiaries in Sweden, Norway, Germany, Switzerland and the USA. In Moscow Nokian Tyres has a sales office. The company has acquired tyre dealer chains in Sweden, Norway and Latvia, and just recently in Finland, too. This means that it has the biggest retail dealer network in the Nordic countries. In Finland, it has two production plants, another small one in Northern Karelia.

The company exports some 70 per cent of its production, the share of the home market being 30 per cent. The company suffered fairly little and for a short time only from the overall depression of the Finnish economy in the early 1990s, which was typical to most of the export-orientated companies. The consequent adjustment of the labour force was carried out in co-operation with the personnel using fairly soft means, such as early retirement and unemployment pension schemes.

The growth in sales of the company during 1995–98 has been 10 per cent on average, and the company expects it to continue. The profitability has been fairly high, the rate of return on invested capital being steadily of the order of 20 per cent. The growth of employment has also been vigorous, of the order of more than 6 per cent per annum.

The niche and the main markets of Nokian Tyres are Nordic conditions, i.e. “where there is forest and snow”. The main products are the tyres of personal cars, especially the replacement tyre markets, i.e. installation of new tyres to used cars, and the tyres for trucks and forest machines, where it is the world leader, and the retreading of used tyres. The global tyre market is a business of some EUR 70 billion annually, of which Europe is one third. There are 135 producers in this market, Nokian Tyres is 26th in size, and in Europe the 10th biggest company. In the home market the market share of it is very high, more than a half. The market areas of the company are the Nordic countries, the rest of Europe, USA, and Australia (mining vehicles). The share of EU is more than half. The Russian market, irrespective of the recent turmoil, is a fairly important destination of exports, with a share of some 6-7 per cent, but there is no joint production in that country. A sizeable part of materials is bought from outside the EU, from Asian and CEE countries.

The company has also an own R&D activity and made inventions of path-breaking new tyres, which have led to patents. The business idea is to have a good product and a good sales organisation. The company specialises in the high quality and price segment of the market for tyres.

The Nokian Tyres is, from both the employer and employee point of view, quite a progressive one pursuing an active on-the-job training of many kinds and has also published a personnel report. It has adopted the principle of life-long learning, and is

actively promoting the education towards higher degrees and examination by the personnel. Much of the training of the personnel takes place in the working place. These include also the language courses, English being the official language of the concern. The company is also active in the environmental questions and has won some prizes in this field, too.

The blue-collar workers belong to the Union of Chemical Workers and the employer is a member of the recently organised Association of the Rubber Industry belonging to the TT. The white-collar workers belong through their union to the STTK.

The personnel representatives are participating in the meetings of the management, which is a fairly large body of the company's top and senior management. The negotiation relations are functioning fairly, or very well, indeed within the company, which is no surprise in such a successful and expanding firm. Internationally, a unified personnel administration system is currently under preparation, as there will be a new personnel manager responsible for the whole distribution chain.

3.4.2 Practicalities of introducing the Euro

The company has introduced the Euro in its financing and risk management right at the beginning of 1999. The amount of risk exposure in foreign invoicing will reduce from 70 per cent to 50 per cent as a share of total net sales. The payroll administration will be the last to change over to the Euro, so that it will be introduced in the beginning 2002. In 2000, the total wages and salaries will be denominated in Euro as well.

3.4.3 Implications for the processes of industrial relations

The company would be willing and capable to cope with various kinds of labour market agreement alternatives. It would also be ready to make local agreements at the firm level. There have been some firm level agreements, especially on the working hours. The employee side would also be ready to this in principle, but they view this kind of developments with reluctance. The company forms some as much as some 40 per cent of the industry, and without its inclusion and "solidarity", the workers in the rest of the industry could not manage so well.

The most vital change of EMU is that it forces a closer follow up of the competitors' wage agreements and emphasises the control of the cost developments even more than before. The international comparisons of say, for example, cost and productivity are not very accessible, however, and not actively used by the company at the moment. It is of utmost importance to preserve competitiveness in an industry where there is a lot of competitors and the price competition is intense.

3.4.4 Implications for pay and employment

The average personnel cost in 1998 in the concern was some FIM 120 000 (EUR 20 000). The company has introduced a reward wage system and a profit related bonus wage system. The latter will be paid only if a minimum net profit per share is reached in the company and it has been introduced at the discretion and according to the model decided by the Managing Director of the corporation. In 1998 the company paid to its personnel some 4 per cent as rewards and 2 per cent as profit related bonuses in relation to the total wages and salaries in the company.

4 BANKING AND FINANCE

4.1 The employers' and employees' organisations

Interviewed persons: **Mr. Jyrki Kiviharju**, Director,
Federation of Bank Employers, PATO

Mr. Hannu Kivipato, Lawyer,
Financial Sector Union, SUORA

4.1.1 Economic context

The Finnish banks have been under extremely difficult and exceptional circumstances in the 1990s. Formerly, they lived under conditions of tight regulation concerning some of their key pricing instruments, such as deposit and lending rates, and set in a collusion within the industry the commissions of the other banking services. Then the banking industry was in Finland very rapidly deregulated, as in many other countries, in the middle and late 1980s. This on its part led to a credit boom, being subsequently one factor behind the collapse of the economy into a deep crisis in the beginning of the 1990s. The depression inflicted heavy credit losses to the banks and led the whole industry into a difficult situation, where one part of it, the savings banks, had to be taken over the state. A consequence was a heavy rationalisation and mergers in the previously sheltered industry. Thereafter the banks have been able to start a process of gradual recovery, which has during the recent years again led them to make a profit (see Figure 6 on page 20). Employment in Finnish banking has gone in half during the 1990s.

4.1.2 Industrial relations context

The industrial relations within the branch have also been under strain due to these difficult and hard phases. The bargaining relations between the parties are not very good at the moment. The employers would like to introduce structural changes of various

kinds in the industry (see below) and the employees try by all means stick to the present situation and maintain their jobs.

The Finnish banks belong to EBF (European Banking Federation) and the employees to EUROFIET, which comprises of employees in the many service sectors in the EU countries. The employers belong to the PT as their central organisation in Finland, and thereby are a member of UNICE. The PT has a permanent representative in Brussels. The employees' union, SUORA, belongs to the STTK, and is thereby a member of ETUC. The SUORA has some 24 000 members, the rate of unionisation being over 90 per cent in banking in Finland. The union is currently expanding to include also employees working in the government institutes (some 6 000 to 7 000 new members). The employers and the employees in the insurance companies have their own unions. There is a Social Dialogue on the European level between parties in the industry in the Banking Committee of European Social Affairs. The collective agreement in banking is uniformly binding for the whole industry, and a part of the negotiation issues has been shifted by an agreement between the employers and employees to take place on the bank level. This is a reflection that there are three big banking groups dominating the market (Merita Bank, the Co-operative Banks and Leonia Bank).

4.1.3 Implications for the processes of industrial relations

EMU is basically an issue of business, not one of collective bargaining, and business issues are not dealt with by the parties, the PATO and the SUORA, but by the Banking Federation and the banks as the agents.

On the current hot issue in industrial relations, namely that of longer opening hours of the banks, which the employers are urgently pushing forward, the employees do not see any need for such a development, because the personnel is already overburdened due to long queues in the branches. The employees consider that longer opening hours merely mean a new stage of competition without any extra revenues to the banks. In their mind, the only option for extending the opening hours as well as to improve the service would be to hire more personnel. The banks are not at the moment, either, fully utilising the possibility to establish so-called shopping centre offices, which op-

erate in an advisory role, and which can be open on Saturdays as well. The employers point out that of the EU countries, Denmark and Holland will start having banks open on Saturdays as well.

The employers think that the recent centralised incomes policy agreements (CIPA) in Finland with low nominal wage hikes and reliefs in income taxation given by the government (“a purchasing power-agreement”) have been beneficial to the recovery of the banks during the recent years and they would have welcomed a continuation of this model. The model has also raised some international admiration. The employees, too, are in favour of a CIPA, which, however, is not going to happen at this time (see above). A weakness of a new CIPA would have been that the employers cannot then start to negotiate more vigorously, as they would like to do, on the widening of the opening hours of banks.

The representatives of the employees retain close relationships with their counterparts in other European countries under the auspices of EUROFIET. The objective is to build co-operation and create contact networks of the persons conducting the wage negotiations. Similarly, there is a network of representatives of European Works Councils from each country. On a company level, there is a plan to form a network of trade union representatives from each country, a special negotiation body, which also operates under EUROFIET. SUORA also monitors developments in other countries through statistical co-operation. The EUROFIET is currently making some international comparisons on wages. The employers also review the pay levels and rises and productivity in other EU countries, but consider this activity be a matter of minor practical relevance as to their policies, which takes place mostly at the national level. The international dimension will become stronger in the future, but how, is still unclear. However, under no conditions are the employers willing to head towards a European level incomes policy agreement.

4.1.4. Implications for pay and employment

The immediate aim of SUORA is to reclassify together with the employers' PATO the different tasks in the banks and to reform the pay scale in the industry. This is a

major change in the industrial relations. This reform will be done because most of the occupations within the banking industry are named and classified using the situation prevailing in the 1960's, which does not reflect the current situation. By upgrading the classification of occupations to include more demanding tasks, it is expected by the SUORA that the compensation levels will also increase.

The TARGET (Trans European Automated Real-Time Gross Settlement Express Transfer) payment system of the ECB has on one part increased opening hours to include also evenings and weekends for those employees operating the new system. In the negotiation on the terms of employment related to the introduction of the TARGET system, the SUORA was co-ordinating its demands with respective unions in other EMU countries through an international co-operation within the EUROFIET.

The workload may rise very much in the banks, when the small and medium sized firms change over to the Euro. If this leads to increased employment, too, the employees see it as a positive factor. The employees, however, fear that the heightened competition due to EMU will lead to a cut in bank employment. The employees strongly stress the increased need for training created by EMU. The PATO and the SUORA have had a joint report made on the requirements of the professional skills in the banking industry in the EMU surroundings. According to a joint statement by the steering group of the project, EMU will be a positive factor for employment in the branch, if the introduction of it is successful and the economic basis of the banks becomes stronger. EMU will be a factor entailing changes to the banks, just as the second one in importance after the Internet. For example, the introduction and spread of international portfolio investment and management as a new item creates a new challenge to the professional skills. The language skills and the knowledge of the international financial products in an internationalised industry are very essential.

So far, EMU has not much affected employment in the banks. It is, however, also very difficult to separate the effect of EMU from the general development in the industry. EMU will, on the other hand, increase competition in the industry.

At the moment the cuts in the number of employed has levelled off, but anyway, the trend is towards a further reduction, a fact that the employees regret as the banks are

currently operating with relatively good profit margins. Similarly, the nature of the job will change completely within the next few years, which would require more training of the personnel to stay competitive. During the 1990's recession in Finland, however, training budgets were cut very low due to profitability problems. The technological advance, especially through the Internet, is very rapid, and very big cost savings can be achieved through it.

Profit sharing is, according to the employers' federation, strictly an issue to be handled at the bank level. The employees stress that the security related to the basic salary should be preserved and strive to agree with the counterpart on the principles, how the negotiations on the operation of profit related salary schemes should take place.

4.2 MeritaNordbanken Plc

Interviewed persons: Mr. **Ari Laakso**, Executive Vice President, Merita Bank
 Ms. **Kaija Roukala-Hyvärinen**, Chief Shop Steward
 Mr. **Markus Lunden**, Shop Steward, Merita Bank

4.2.1 *Economic and industrial relations context*

MeritaNordbanken is a Finnish-Swedish bank, formed in 1997 of the Finnish Merita Bank and the Swedish Nordbanken. The background of the Merita Bank goes to the merger of two largest Finnish private-owned commercial banks, the Union Bank of Finland and the Kansallis-Osake-Pankki in 1995. The management of the Merita Bank sees that, already in this phase, one quite determinate factor behind the merger was preparation for the more intense competition emerging in the EU through the onset of the Monetary Union.

Merita Bank is the biggest bank in Finland with a market share of total deposits and lending being 40 per cent. It has gradually improved its profitability from the difficult years of the deep depression in the Finnish economy in the early 1990s when huge credit losses incurred to the banks (see above). The Merita Bank has already paid

back the capital support injected by the government to it in those years. In 1998, the operating profit of the MeritaNordbanken was FIM 8.15 billion (EUR 1.3 billion). It employs in all some 18 000 persons in Finland and in Sweden, of which 12 000 in Finland. The Bank has been under severe rationalisation from the beginning of the 1990s as the whole banking industry in Finland. The merger between the two big domestic commercial banks cut the number of employment from 18 000 in 1995 by 6 000 to 1997. The rapid technical advancement in banking will further reduce employment. In connection with the merger with Nordbanken it was announced that in all the number of employees will be reduced by 2 000 persons in the three coming years.

The merger between Merita and Nordbanken reduced by itself employment by 600 persons, 300 from both countries from activities such as administration and the financial product units like housing loans, but did not have an effect on employment in the retail banking in the respective countries. The Bank has a matrix organisation structure over the borders and has adopted as its basic principle the concept of a unified labour force. As an outcome of this, it has a single personnel administration for the two countries.

MeritaNordbanken is in its present form a middle-sized, being approximately the 40th largest in the EU. It is at the moment searching for new partners in other Nordic countries as well and has made an offer to buy the Norwegian Christiania Bank, which is at the moment under consideration by the Norwegian authorities.

The representatives of the personnel consider that the recent years of rationalisation have been traumatic to the employees. The amount of personnel has been reduced to half of its previous level. Main vehicle in doing this was to induce people to accept compensation packages worth approximately one year's salary while having to leave the Bank. The employees' union was initially against such a system and claimed that the Bank was "buying people out", but in hindsight, under the extremely difficult situation of the banks, the arrangement was softer and justified compared to outright dismissal. There was also some adjustment downward in the salary, if a person's responsibility was downgraded in the rationalisation process.

At the moment the worst is said to be over in the Merita Bank. The banks have started to recruit new personnel, i.a., to reduce the queuing times for service of their clients in the bank offices recently.

The main effect of EMU for MeritaNordbanken is to force the Bank to take a more global, or at least European view in its operations. In the future it is expected that the average size of major banks will increase, enabling higher risk-taking capability due larger size and sounder capital base. MeritaNordbanken's immediate aspirations lie within the Baltic Rim area, where it has already established presence. Poland is accordingly also high on the Bank's future agenda.

The main problems faced by the employees are connected with the ongoing structural change in the Finnish banking industry. This includes, among others, the rapid advancement of Internet related services, which will gradually make some people, currently working e.g. within payments services, redundant. Similarly, the internationalisation of the banking industry will add a pressure to workers' competitiveness in the new situation. The employees are somewhat reluctant to accept the new conditions, as they do not want to 'sell their own job away' by yielding to computerisation enhancing activities visioned by the management. Some consolation is that the natural outflow of personnel is such that, due to it, the overall employment will of itself be reduced. The employees in the Merita Bank have negotiated and reached an agreement with the employer that the work load should be shifted where the workers are located and that there should be an efficient internal labour market within the Bank. The role of the trade union, SUORA, was in this stage that of a consulting role only, while the main responsibility was left to shop stewards inside the Merita Bank. The employees also aspire to reach a consensus that the natural outflow will take care of most of the need to adjust the labour force.

The co-operation between the employer and the employees at the concern level is an organisation with meetings every two months. There are three representatives of the employer and three representatives of the personnel from Finland and Sweden, but the body does not at this stage have powers for decision making but operates as a consultative EWC body. There are some inter-country comparisons made in this body using data provided by the employer. E.g., the salaries are better in Sweden but the taxes

are, on the hand, higher, too. In the Board of Management of the MeritaNordbanken there is one representative of the employees from Finland and one from Sweden. The contacts of the employees on the European level are quite infrequent, the main channel being also traditionally the Nordic one.

The labour market legislation is fairly similar in Finland and Sweden, but the collective agreements are quite different. The employees strive to harmonise the items in the terms of employment currently different in Sweden and in Finland within the Bank, but the employer has not yet accepted this due to the likely rise in cost. There is, however, not much point according to the employees' opinion, either, that there would be an effort to reach some sort of co-ordination between the countries in collective bargaining activity.

The culture of management is characterised to be more straightforward in Finland and more interactive in Sweden. The co-determination and commitment between the management and the personnel in Sweden is more far-reaching, while in Finland the conflict of interests is more pronounced. This has caused some friction in joint actions by the employees' representatives in the two countries, also due to the fact that the fines related to a wild strike are much harder in Sweden than in Finland. Also in Sweden it has been impossible to amend salaries downwards, if the tasks have been downgraded, whereas in Finland it was, at least technically, possible.

The onset of the EMU era has already had an effect on the banking industry. A part of foreign exchange and interest trading income after disappearance of several major European currencies has vanished. The Euro has abolished a niche of the domestic banks – the national currency. Altogether, the effect for the Bank is a reduction of some 40 per cent in the volume of foreign exchange and interest rate dealing. In monetary terms, this loss for the Bank is in the range of FIM 50 million (EUR 8 million) annually, of which only a limited amount is recoverable due to the introduction of various instruments using currencies outside the Euro area. The objective, though, is not to venture into uncharted territories like Asian or Latin American currencies, but to take a step forward and begin operating across the whole Euro area with its bigger market potential using the existing financial instruments.

4.2.2 Practicalities of introducing the Euro

At the moment the work volumes related to EMU are still low, but in the near future the employees expect and fear too that the still not yet EMU-conscious customers will rush to Merita's counters to ask for advice and increase the workload. Similarly, in the employees' opinion, the Bank has not yet fully explained how it will cope with the introduction of the Euro denominated coins and notes in practice. The changeover to EMU is a big task in practice for the economy and will be felt most intensely in the banks. One positive aspect of EMU might be an introduction of new occupations within the Bank, like in the TARGET system. The challenge is to train the personnel to deal with the new situation, of which EMU is only one, but an important one.

4.2.3 Implications for the processes of industrial relations

The main objective of the employees is to secure jobs, not to increase monetary compensation, although a balanced development of income level is also one of the objectives. In the coming collective agreement negotiations the employee representatives are ready to consider all options, i.e. solutions on the national or the industry level, although in negotiations taking place on the latter level the employees think that they could be better able to cope with the specific problems in the banking industry and to get a share of the increased profitability of the banking industry.

During the upcoming collective agreement negotiations the employer wishes more emphasis on the qualitative aspects of the industrial relations, like working hours etc., and not so much purely on issues concerning monetary compensation. The employer also calls for the need for change and more comprehensive look on the future of the industry and its industrial relations. The technological advancement is very rapid in the banking industry, especially through the Internet, which is very attractive for the younger clients and may lead to a reduction in the need for labour force in the traditional service branch offices.

4.2.4 Implications for pay and employment

As a result of the changeover to the Euro and the abolishment of a part of the foreign exchange operations, a part of dealer personnel has been either forced or voluntarily relocated in other branches of the industry. Merita Bank encourages training of its personnel in other possible career options, but also recognises that dealers are often not suitable in occupations related to the main banking activities.

The other direct effect experienced by Merita from EMU, as has taken place in the banking industry in general in the EMU countries, is the TARGET (Trans European Automated Real-Time Gross Settlement Express Transfer) payment system of the ECB, which has increased the number of days worked within a year for those persons in charge of its operation. The bank employees' union has been quite tough in these arrangements related to working hours (see above). The efficiency of the payment transfer system has improved, but has also increased costs as personnel has to work in overtime hours and on Saturdays and holidays compared to the old arrangement of the payment transfer. The Bank has not recruited new staff to operate the new system.

Reflecting the general trend in service industries both in the Finnish and European economies, Merita is willing to enhance its service by keeping a number of its branch offices open during evenings and weekends. This has been opposed by the representatives of the employees, who do not wish to see such a development. The employees are willing to consider more flexible opening hours, if it simultaneously leads to recruitment of new personnel. In the employer's opinion, however, it is only a matter of time until the general development within the service industry will penetrate the banking industry as well. At the same time Merita would like to see its personnel being better educated, both the newcomers and existing personnel, as it will in part secure the future of both the Merita Bank and its personnel.

Merita, and Finnish banks in general, equipped with a high technology and deep Internet penetration rate, will gradually employ less people in occupations requiring only competence in routine tasks. While the amount of personnel dwindles, its competence level is expected to increase.

From the beginning of summer 1998 the Merita Bank has introduced a profit-sharing scheme, the so-called personnel fund, for its employees, but its reception has not yet been overly enthusiastic. Within the next few years, however, the scheme is expected to gain support from employees. The Nordbanken has had a similar system in Sweden from 1994 onwards. The Merita system functions in such a way that the bonus is in markka terms the same for each person, depending only on the hours worked during the year.

4.3 Leonia Bank Plc

Interviewed persons: **Mr. Olavi Luukkonen**, Director, EMU Coordinator
Ms. Hanna Koivisto, Chief Shop Steward

4.3.1 *Economic and industrial relations context*

Leonia is a state-owned middle sized bank with a market share of about 15 per cent in the Finnish banking market. The employment is 4 700. Partially due to the opening of the borders and the onset of the Monetary Union, the government and the Bank have been searching for new partners, either domestic or foreign. Just recently, in October 1999, an agreement was made between Leonia and a big Finnish insurance company, the Sampo, of a merger between them and formation of a financial agglomerate. This solution was warmly welcomed also by the personnel of Leonia, as an alternative would have been a merger with some competitor bank, with the consequent threat of more cuts in the labour force.

According to the management, one of the aims in the Maastricht Treaty was to force the European banking industry to rationalise itself. In the internationalisation of the European banking industry, the big countries, France and Germany, are the key players which negotiate and decide e.g. how the trade in securities is cleared. The Finnish banks can only follow them in these decisions.

So far, there has not been a marked presence of foreign competitors in the Finnish banking market, the exception being the Swedish banks. The foreign banks are competing for the financial operations of the 100 biggest Finnish companies. Leonia maintains representative offices in Moscow and Tallinn, but is not otherwise planning to expand its operations internationally.

The Leonia Bank has 63 own offices, and it has recently opened 10 so-called shopping centre offices and the like and plans to open 20 new ones. Much of the retail banking of Leonia is so far, up to the end of year 2000, taken care of in some 400 post offices all over the country.

Leonía Bank has traditionally been a payments transfer oriented bank, although that role has somewhat reduced as the Bank will not anymore have a monopoly in government's payments transfer. The heaviest rationalisation has just concerned the people in the payment transfer system, which has been automated and centralised. Personnel from the current payments services related occupations will be reduced, as has already been seen by closing of several service centres in some places in Finland. This year the Internet based services have already grown by 20 per cent. The Bank, however, operates a retraining system to alleviate the transformation, and has also seen a number of this personnel of it to move in insurance companies into similar occupations.

4.3.2 Practicalities of introducing the Euro

According to the employer, the effects of EMU have so far been rather limited. The preparations for EMU in the Leonia Bank were started in autumn 1996, after which around 450 people have been involved in the process. The first 200 were trained as instructors in the matters related to the Euro, after which the information was taught to the rest of the organisation and then on to clients. In the future the teaching of clients will demand even more from the personnel. The Bank thus expects some kind of a chaos around 2001 when the major part of the clients realise the coming of the Euro. The people involved with the process have been overburdened, most of them have worked around data processing, but there is a growing need for professional accountants also. By 2001 the knowledge level in the companies will have to rise to facilitate

the changeover process. This creates demand for persons able to train firms and households in the changeover to the Euro.

The TARGET payment system has created some extra personnel cost to the Bank, but the cost due is estimated to be quite limited, approximately 200 000-400 000 FIM annually. The TARGET system initially considerably increased the workload, but it has somewhat eased now. Originally, the system was open to 8 p.m., but now it is open to 6 p.m. only.

4.3.3 Implications for the processes of industrial relations

According to the employees, the introduction of EMU results mainly in reorganisation of work duties. The planned restructurings in the other departments have been cancelled and no new reductions of personnel are expected in the near future. Through an unanimity reached between the employer and the employees, this policy is due to a renewed emphasis in branch offices by the management of the Bank, which is based on the increased workload. In the capital area and its surroundings some previously part-time jobs have been converted to full time jobs. In the rest of the country, however, personnel reductions have been too severe according to the employees.

The situation between the employer and employees has stabilised and the atmosphere in the negotiations is not so tense anymore. There is a representative of the employees in the Supervisory Council of the Leonia Bank. There is an own collective agreement within the Bank, due to it belonging formerly to the state collective agreement. The bank employee trade union, the SUORA, is willing to support this state of affairs in the future as well, although the PATO, the employers' union, has not yet given its full support to it. On average, the terms of employment of Leonia Bank are the same as elsewhere in the banks, but their vacations are longer. The wage rises within the Bank are, however, the same as in the collective agreement in the industry as a whole. Of the employees in the Bank close to 90 percent belong to the trade union. The employees would have been in favour of a centralised collective agreement also in the next round.

The Bank has recently introduced a new manager in charge of development of the personnel, which the employees hope will increase the amount and quality of in-house training. A successful development in these matters might lessen the tension in future negotiations.

The heavy rationalisation in the banking industry has led to a situation where in a way much of the collective bargaining is taking place at the bank level, i.e. an American way of collective bargaining (see also above).

4.3.4 Implications for pay and employment

The Bank has not recruited new personnel because of EMU. The transition period to the Euro is, however, having a temporary effect as the workload will respectively decrease in the future. EMU will also reduce the amount of non-skilled personnel, and there is no new recruitment due to it. Of the almost 5 000 employees in the Bank some 80 are working in the treasury operations. In September 1999, the Bank announced of reducing the number of its foreign exchange dealers by 20, which did not take place through dismissals, but through offering them the possibility to change over to other tasks in the Bank and also outside it at certain "soft" terms. Several treasury personnel have been offered a transfer to other occupations within the Bank, although not too many dealers are probably willing to accept a new type of work and possibly a job with a lower status. On the other hand, there is a growing need to shift personnel to customer service operations. Possible new positions are to be found in asset management services and international investment. Especially there is a demand for those managing the information systems, sophisticated banking services, and those assessing the risk positions. The preparation for EMU has proceeded in good cooperation with the personnel. The Bank has a Works Council where also the changeover to the Euro has been dealt with some 6-7 times. The EMU Coordinator of the Bank has been lecturing on the changeover to the representatives of the personnel. The personnel requires that there is organised training by the employer related to EMU.

Besides the reduction in the number of dealers, the system is geared towards more competitive and harsher atmosphere, in addition to longer working days. There is a pressure towards longer working hours in the American way, not only in banks but also among the financial personnel in the firms as well. There is "a must to adjust, as otherwise the Bank would be closed". By any standards, the quality of personnel will improve in the future as better educated people, experts, will become the norm. Personnel will be centred in Helsinki and its surroundings, where the majority will work in product-related occupations.

According to the employer, EMU is a threat to all but the 30-40 biggest banks in Europe, and together with the rapid escalation of Internet based banking services, the total amount of personnel within the Finnish banking industry is forecast to drop from the current 22 000 to be only a fraction of it already by 2005. The threat of a loss of jobs in the future concerns not only semi-skilled positions, but middle management also. Internet especially, of which Finland is one of the leaders in the world, will reinforce the effect of EMU in this development. EMU has laid a superb foundation for the expansion of services in the Internet. It has been estimated by the Andersen consulting company that the cost of the services channelled, like financial investment and trade in securities and lending, through the Internet is only some 5 to 10 per cent of the cost related to the traditional branch office channel. It is important for a bank to be a leader in this process rather than a follower. The biggest German bank, the Deutsche Bank has already registered its direct bank in Finland, which is open 24 hours a day on the Internet. At the moment, the Internet based services of the Leonia Bank are not yet up to date, but the introduction of an improved version in the near future will necessitate hiring of technical personnel to operate the system. After that, the Internet will reduce personnel.

There has existed a profit-sharing arrangement in the Bank through the Personnel Fund system since 1990, but due to heavy losses in early 1990's, a share of the profit has been allocated to the fund only after 1996. The terms on the personnel loans of the employees were weakened and through this, a fund was created for the start up of the personnel fund in 1997-98. The employer would like to increase the share of the profit and performance related wages, while the employees are not ready to welcome this

kind of development. Some positions, e.g. in the treasury, will yield additional bonuses if the performance is superior.

4.4 Pohjola Insurance Company Plc

Interviewed persons: Mr. **Jarmo Männistö**, Manager of Terms of Employment

Ms. **Salme Äijälä**, Head of Department

Ms. **Sirpa Komonen**, Chief Shop Steward ⁴

4.4.1 Economic and industrial relations context

Pohjola is a large insurance company with personnel over 2 800. It holds a share of 25 to 30 percent in life and non-life insurance in the Finnish insurance market. It is currently internationalising vigorously as its non-life insurance activities will be shifted to a new joint Nordic company with the new name if..., the partners of Pohjola being Scandia in Sweden and Storebrand in Norway. Pohjola owns 25 per cent of this new company and has one third of the voting power. This change will involve 1 100 of Pohjola's personnel, so it is a major change. The new arrangement has not yet been approved by the supervisors of the insurance companies, and there have recently been some critical voices raised by the trade unions concerning the shift of the stock of statutory work accident insurance contracts to a company in another country, in this case Sweden. The employer thinks, however, that according to the EU directive on insurance such a shift of the insurance contracts abroad is fully in accordance with the principles of the single market, too. The domestic insurance market has also recently been and is currently in ferment, as the state-owned Leonia Bank (see above) and the other big player in the Finnish insurance market, the Sampo, have decided to merge.

The Pohjola corporation has been quite profitable, mainly thanks to its investment activities, although the basic insurance activity has not been so profitable. In 1998, it

⁴ Ms. Komonen is simultaneously the chairman of the Insurance Employees Union.

made a record profit of FIM 1 350 million (EUR 230 million). The Finnish insurance companies, quite unlike the banking industry (see above) were able to go through the depression of the early 1990s without the need of rescue measures by the government. Although there were some losses, the accumulated reserves were enough to manage the situation, with a few exceptions, which were not, however, fatal to the industry as a whole. Pohjola adjusted to the depression by not recruiting new personnel in those years and with some minor dismissals.

The other direction of internationalisation of Pohjola is the nearby countries of Finland around the Baltic Sea, i.e. the Baltic countries, of which the company has established operations already in Estonia and Latvia; and Russia and Poland. In the UK market the company has already been a long time. The general aim of internationalisation is to seek growth and bigger size and thereby to be able to meet the challenges of more intense competition from abroad, made possible by opening of the previously tightly nationally segmented markets in the EU.

The basic idea concerning the industrial relations in the new Nordic non-life insurance company, the if..., is that the terms of employment are maintained according to the collective agreement in the country where the employee stays permanently. If the work in the other country lasts for more than a year, then the regulations of that country will apply. There are no dismissals in the connection of forming the new company. The employees are, however, hesitant, whether the various bases for terms of employment, such as bonus salaries, could be maintained for a long time on a national basis and as different between the three Nordic countries, which they are today, especially as the insurance products will be harmonised within the new company. The employees have had a few meetings in the EWC activity to be established within the if... company, and they intend to start with the comparisons of the fringe benefits and salaries prevailing in the three countries, but have not proceeded very much in this direction, nor started to negotiate with the employer on these. So far the representatives of the personnel have concentrated on how the business units consisting of the employees of the three countries will be formed and the effects of this on industrial relations. It is anyway quite unrealistic that the only best parts of the respective countries' benefits could be maintained in the new regime and the employees are aware of this. The

Nordic collective agreements are not, however, either realistic at the moment, and only possible in a distant future according to the views of the employees.

The new step of internationalisation has changed some of the industrial relations in the company into the direction that the co-determination according to the Swedish model will be adopted, which gives more influence to the employees in general than the Finnish legislation, e.g. the personnel has to be consulted when nominating directors, which the Finnish legislation does not include. At the moment, the employees have their representatives in the management teams of Pohjola's various units, but not in the Board of Management of the concern. According to the Finnish legislation the Pohjola has had committees on co-operation, but not a WC. The official language of the new if... company is English. The headquarters of the new company will be in Stockholm. The responsibility of the Finnish partner, the Pohjola, will be to lead the activities related to the big firm customers.

The Insurance Employees Union is a member of the STTK. It has some 8 500 active members. Its counterpart is the VATY (Insurance Employers' Federation) being a member of the PT.

4.4.2 Practicalities of introducing the Euro

As to EMU, the Pohjola company has changed over to Euro in its accounting in 1999 and will change to the Euro in its pricing of the insurance products in 2000 and the wage administration will change over in 2002.

The current collective agreement in the insurance industry will be effective up to the end of 2000, as the industry did not join the Centralised Incomes Policy Agreement made in 1997. The idea was that, with an industry level agreement, a new wage structure system was to be introduced in the insurance companies. The employees are not, however, satisfied with the outcome, as in their opinion the rises in wages have been quite small. The next collective agreement in the branch will, according to the aim of the employers, include the pay scales both in Euro and markkas, the agreement after that will include basically Euro denominated items and only as an additional

item them in markkas and after that there will be a shift to use solely the Euro. The Euro will be introduced in the payroll slips in Pohjola in the beginning of 2001. How the roundings will be made in wages in connection with the changeover, has not been negotiated yet between the parties, but will be made in connection of the next collective agreement.

4.4.3 Implications for the processes of industrial relations

The employer sees EMU as very positive to its business operations. It is important for an insurance company to follow where some of its key customers, the Finnish export oriented companies are directing their operations, and this definitely means following the Euro process, which creates new conditions and opportunities for the Finnish economy and its firms.

The employees see that EMU does not have a direct impact on the terms of employment and industrial relations.

The employer in Pohjola finds the collective agreements as quite satisfactory, but in certain areas they are limiting the freedom of action by the management. For instance, the company would like to raise the share of the sales commissions at the cost of the basic salary in the pay of the insurance sales personnel, but this is not possible at the moment. Also otherwise, the employer would like to agree on a certain share of the aggregate wage bill to be paid at the management's discretion as incentive salaries, so that the average wage would be on a certain level, but the management could introduce more variability in salaries between the employees. This has not been accepted by the employees' union. According to the collective agreements a part of the wages rises have been distributed on a company basis, of the magnitude of 0.5 or 1 percentage point. It is notable that the management and the employees have been quite unanimous in how to distribute this rise in practice.

4.4.4 Implications for pay and employment

Indirectly the strict wage norm prevailing in the EMU age implies that the distribution of wages over industries has been fixed and it is now very difficult to achieve an improvement in the relative wage level, aspired by the employees' union. The wages in the Finnish banks are somewhat better on average than in the insurance companies, although the personnel in the latter considers that its work is more demanding. On the international arena, the EUROFIET is producing some of these comparisons of the salary levels.

Of the incentive and profit related wages, the Pohjola company has introduced a 13th month's salary, which is not tied to the company's overall profitability, but to the achievements, basically efficiency and productivity, such as speed and how correctly claims are handled. The employees' union has wanted to negotiate on the incentive wage schemes on a company level, but here, as in other branches, the employers have refused to do so and want to maintain the system at their discretion, solely.

5 ROAD HAULAGE

5.1 The employers' and employees' organisations

Interviewed persons: **Mr. Hannu Parvela**, Managing Director,
Employers' Federation of Road Transport

Mr. Juhani Koivunen, Secretary,
Finnish Transport Workers' Federation

5.1.1 Economic context

There are at the moment some 1 000 members in the Finnish employers' federation, The Employers' Federation of Road Transport (abbreviated as ALT in Finnish). The majority of these companies are fairly small, often family companies, almost 700 of them employ less than 10 employees, which is a special feature of the Finnish transport sector. Companies employing more than 100 employees number 40. The companies belonging to the employers' union employ altogether some 21 000 workers and employees. The ALT is a member of the PT, Employers' Confederation of Service Industries.

The industry is very international in its basic character. The major impact of the EU has been the liberalisation of the so-called cabotage traffic in and between third countries in the Union from mid 1998 onward. The EU has also intensified competition through promoting market entry, so that the former needs testing of the transport permissions by the Finnish domestic authorities is replaced by regulations concerning solidity and competence to practice transport business, only. This change caused on its part a worsening of the excess capacity situation of the industry still amid of a lower demand for transport due to the depression.

5.1.2 Industrial relations context

The workers' trade union in the branch is Finnish Road Transport Workers' Union (AKT). It has some 50 000 members in all, of these around 14 000 operating in road haulage. The AKT is a member of The Central Organisation of the Finnish Trade Unions (SAK). The white-collar workers in the industry belong to ERTO (The Federation of Special Service and Clerical Employees) belonging to the STTK, Finnish Confederation of Salaried Employees.

The AKT is a member in ETF, European Transport Workers' Federation, founded in 1999 (the former organisation being FST by name). The ALT belongs to IRU, International Road Transport Union, through SKAL, Finnish Trucking Association and LAL, Finnish Bus and Coach Association. Through these organisations the Finnish social partners in the industry are participating into the European level Social Dialogue. There is a Joint Committee in the EU for the transportation industry, which performs Social Dialogue with the Commission in a Three Partite spirit.

The position of the transport workers union has traditionally been strong in Finland, as in many other countries. Due to the technological developments in transport and production logistics, the firms operate with only small or no inventories and are therefore quite heavily dependant – and vulnerable too – on the smooth functioning of the transport chain from production to consumption. However, both sides consider that at the moment they have fairly well functioning negotiation relations with each other.

5.1.3 Implications for the processes of industrial relations

The direct impact of EMU has been very little so far in practice. In the next collective agreement negotiation round, to take place at the end of this year and in the beginning of 2000, the industry will consider introduction of all monetary values such as wages and salaries and the like also in Euro units.

The biggest current question related to the EU is the proposal by the Commission on the working time in the transport sector, which is at the moment under consideration in the Council. According to it, the maximum working hours of drivers would be lim-

ited to 60 hours per week, while over a rolling four month period the maximum would be 48 hours. There is quite a fierce opposition by the various EU member countries against some stipulations included in the current form of the directive proposal. Especially, the position of the owners of the companies who are also driving is a disputed issue. The employers in Finland are against of their inclusion within the working time regulation, while the employees are strongly in favour of it on two grounds. One is traffic safety, which should speak in favour of the inclusion, another is the neutrality of competition. The workers would in general welcome, if the average size of the transport companies would be bigger. The employers point out that the owners are already controlled by the national regulation on the driving and rest times since 1994. The employers are in general against too much EU level regulation basing their argument on the principle of subsidiarity. The national point of view, as also stated by the Parliament, is against the inclusion of the owners under the working time regulation.

The background of the directive is that there is a general EU directive on working time, which did not cover the transport sector. In Finland, however, the national legislation was enacted in 1996 so that also the transport sector was included in it.

The employers and employees are, however, unanimous that the regulations on the night work are unnecessary in the possible future EU directive, and both are satisfied with the current formulation in the proposal that national employers' and employees' organisations can make an agreement on an exception from this rule.

The industry has joined the two most recent centralised incomes policy agreements (CIPA), although with difficulties and with a delay lagging behind the agreements made by other branches. This is anyway some kind of an exception, as always earlier the branch has made an industry level agreement between the ALT and the AKT.

There is a special system of wage tracking included in the CIPA in Finland. This means that there is a special board of representatives of the employers' and employees' central organisations, which reviews the uniformity of the actual wage rises by industries during the centralised agreement. This system has produced twice the biggest ex post rises in wages for the transport workers. The employers consider that these did not have a solid basis of backwardness concerning the wage rises to be

found in statistical comparisons. The workers consider that their wages will lag behind the general rise in wages in spite of the two extra rises through this mechanism.

As to the coming "first EMU age wage agreement" the AKT has announced that it is not going to enter a new CIPA, but will instead head towards an industry level agreement. The employers view these developments with unrest and fear that the trade unions are not ready to make such moderate claims on wage hikes as should be consistent with preserving competitiveness and the low inflation target stipulated by the ECB. The labour union is, however, of the opinion that containing the cost developments is more paramount under the conditions of a single currency than before. The link from exports to transport is also very close, so that it is in general important in the whole chain, not only in the own branch, to have a good control of the rise in costs.

The industry is, irrespective of its key role in foreign transport operations, quite nationally controlled and owned. There have been acquisitions of companies by the foreigners in Finland, but they operate using Finnish lorries and drivers and terms of employment. The penetration by foreign companies in the transport deliveries in Finland is very modest. This is due to the distant geographical position of the country as far away from the central Europe. Also the weather conditions, especially in the winter time with snow and ice, make it quite difficult or even impossible for foreigners to penetrate into the Finnish road transport market.

The acute problems in the branch are, in addition to that mentioned above, that due to the depression of the Finnish economy, there emerged a substantial excess capacity, which has gradually melted away (see Figure 2). Another more recent problem is related to the transit trade to and from Russia being operated through Finnish ports. The crisis in the Russian economy spread in August 1998 caused that the foreign trade, especially Russian imports has been cut into half. So, there is again excess capacity, which has been reflected in the domestic transport market as reduced level of fees. Another reaction has been that some firms and some of the capacity has been shifted to Russian firms operating as joint ventures of Finnish and Russian companies or are in Finnish ownership and using the much cheaper Russian labour. These firms have the permission to practice transport only to and from Russia, and cannot according to the regulation legally participate in the domestic transport market.

One important trend in internationalisation of the transport sector in Finland is the Nordic dimension, i.e. co-operation between the Nordic countries, especially between Finland and Sweden. There was a plan by the Nordic transport sector trade unions to have a conference recently in autumn 1999, to which also the employers' organisations and the representatives of the respective ministries were invited, with the aim to launch the idea of a Nordic collective agreement in the branch. The conference, was, however, cancelled due to a strike in the taxi traffic in Sweden and the refusal by the employers to participate under these conditions. The idea by the workers is, first, to evaluate the possibility of a Nordic collective agreement, and secondly, more specifically, that the terms of employment on regular transport between two Nordic countries would be covered by a common agreement. In the initial stage, the possible Nordic agreement would not be a substitute for, but rather a complement, to the national agreements. The employers are definitely against such a development also in the transport industry as in general. This would be against subsidiarity and the general desire by the employers to decentralise the negotiation system, rather than to centralise it to a new level.

There is also another international aspect in the transport branch in Finland. There are some 300-400 drivers of Finnish firms who are driving further the Finnish export deliveries in Germany and other central European countries. In contrast to the desire by the AKT, their working conditions are not governed by the Finnish collective agreement, according to a decision by the Finnish Labour Court. They are governed by the minimum legislation in the respective countries added by their individual contracts with the Finnish employer companies.

5.1.4 Implications for pay and employment

EMU is viewed by both sides to have indirect effects on the industry. The existence of international comparable data on pay and cost is lacking. Comparisons have been mostly made within the country to other industries. In the future, in the opinion of the employees, the Euro may be a driving force towards keener European competition and European level of wage agreement between the core countries like Germany and France. Finland, is, however, quite a remote country, where the idea is first to look into the Nordic dimension in this sense.

5.2 Schenker-BTL

Interviewed persons: Mr. **Henry Fagerström**, Managing Director

Ms. **Tuija Linna**, Chief Shop Steward ⁵

5.2.1 *Economic and industrial relations context*

Schenker-BTL is the market leader in the Finnish road haulage market. It is an international company, the internationalisation of the Finnish subsidiary of it being some ten years old. Bilspedition, which was later to become a company called BTL, bought in the late 1980s some firms in the Finnish road transport sector, like the foreign transport activities of Suomen Kaukokiito, and Finnexpress and Polarexpress. BTL entered then later on in a partnership agreement with Schenker, a German company in the field. In February 1999 Stinnes, a big German company in logistics and transport made an offer and bought 100 per cent of BTL. Stinnes is a company with sales in 1998 of DEM 27 bill. (EUR 13.5 bill.), operating all over the world. It employs some 47 500 employees. Schenker-BTL is the market leader in the road transport between Scandinavia and the rest of Europe.

The Finnish Schenker-BTL employs some 2 300 persons and the turnover is some FIM 2.4 billion (EUR 400 million). The market share of BTL is some 30 per cent in the traffic segment where it is operating and some 5 per cent of the total volume of road transport. Transport of piece goods is the main business activity of the company. The company has had intensive outsourcing of its activities in an American style, which reduces the number of its own personnel and uses subcontracting instead. This gives more capacity to adjust smoothly to the changes in the market conditions.

In the current situation, there is excess capacity in certain segments of the transport market, due to the reduced volume of the Russian trade. Also the recent rise in the

⁵ Representing the white-collar workers. The white-collar workers belong to the ERTO union (The Federation of Special and Clerical Employees, which is a member of the STTK) with some 20 000 members in all.

fuel cost and the extra rise in wage (see above) are quite a burden for an industry under intense competition. It is always difficult to reach an equilibrium in a small market; if there is an imbalance in the domestic market, equilibrium must be sought by overseas operations.

The new international owner has changed the management procedures of the company, so that new rights, ways of procedure and reporting have been specified. It has not, however, changed the negotiation on industrial relations within the company. The culture of management has changed so that the more open Nordic one is replaced by a more straightforward direction style. There is punctual and correct dissemination of information in a big multinational company, but not a debate on the solutions to be made.

The personnel was included in the so-called concern co-operation already in the phase when the parent company was a Swedish one. These biannual meetings are still continued within BTL and chaired by the Swedish managing director of BTL. In them budgetary plans and the past performance of the company are considered. Representatives from all the Nordic countries participate in these meetings, where the employer has organised an interpretation between Finnish and Swedish. The employees compare unofficially, without data provided by the employer, the salaries and wages, working hours, taxation, and fringe and social benefits between the subsidiaries in the various Nordic countries. However, the prospect of a Nordic collective agreement, or anything like it, is quite distant in the eyes of the employees. The Chief Shop Steward is a member of the Board of Management of the Finnish Schenker-BTL. The company has also a national Works Council with some 3-4 meetings per year.

There is some tension between the various workers' unions as the white-collar employees feel that the road transport workers and their union the AKT has been overly aggressive, especially in the past, and tried to expand its territory at the cost of the white-collar workers.

The EU directive on working hours is a big question for the company as well (see above). The geographical differences between, say, Germany and Finland with long distances should be allowed for in the EU. A strict regulation of working time can be

a barrier of entry to the market. The Finnish membership in the EU had the big change that customs clearance of imports was finished and this led to further dismissal of people in the company. The enlargement of the Union to cover the Baltic countries as well is a threat to the Finnish road haulage business.

5.2.2 Practicalities of introducing the Euro

The company has also changed over to Euro in its invoicing and has organised training for the personnel in this.

5.2.3 Implications for the processes of industrial relations

The employer is definitely in favour of a centralised incomes policy agreement as superior to the industry level agreement, towards which the developments are currently heading. It is difficult to make an industry level agreement in an industry, which is dispersed into many small companies. The management is of the opinion "that we must fight each day for the Finnish welfare in the EU". There is not any more an isolated Finnish economy, as the trade has changed in character and become a kind of domestic trade. It is of utmost importance to keep good containment of the cost and inflationary developments. The solutions should be quite straightforward and in a way simple to guarantee such a state of affairs. This is the biggest change caused by EMU. The risks of managing wrongly are more pronounced in it. The strategy should be a correct one, as mistakes in it are difficult to be repaired, while tactics can be changed and the errors in it be corrected more easily. Otherwise, there is a fear of dislocation facing the whole Finnish economy. The knowledge of Finland is quite weak in the central EU countries, and Finland has to manage on its own.

An industry level wage round is a risk according to the employer, but may be it is also some kind of a necessity at this time, which has to be experienced in a democratic society. The employer is not, either, willing to go over to firm level agreements. It considers that, as a big company, it has already enough power to influence developments

within the ALT. A big firm can also better adjust to the terms of employment, as the productivity distribution of its workers corresponds more closely to the average in the industry. On the other hand, the company management sees that that in Finland the trade unions have utmost powerful tools at their disposal where misbehaving in the form of wild strikes involves risks of only quite small sanctions. The possibility of a Nordic collective agreement is also according to the management quite unrealistic. This sort of tendency easily has as its basic idea that, from the employee point of view, the best pieces of the various collective agreements would be wanted to be combined. This is, however, quite unrealistic from a more general point of view. The different taxes and relative price levels make it quite impossible to harmonise wages and other terms of employment. The labour cost is also very essential to the industry as some 50 per cent of total costs is made by labour cost. The productivity gains have to be found, e.g., in handling of cargo and driving with bigger trucks and so on.

The employees, however, are of the opinion that now an industry level agreement is in place and able to correct some of the backwardness and the structure of salaries of the white-collar workers.

The employees consider that EMU is quite positive for the business operations "as the company can then transport in one unified country, like in the home country". On the other hand, also the employees have recognised the need to keep the cost rises in control.

5.2.4 Implications for pay and employment

The use of cost and efficiency comparisons is quite vital to the company. With respect to the handling of goods the company considers to be among the best in Finland.

The company has not yet introduced a profit-sharing system. It is interesting to find that the employer has so far been undecided in this point, while the employees would welcome it and consider it as a good system to increase motivation of the personnel in their work.

The industry has preserved its seniority bonus system and the employer would like to get rid of this peculiarity in the private sector, being a system obeyed basically in the public sector.

5.3 Beweship

Interviewed persons: Mr. **Mikko Wildtgrube**, Administration Director

Ms. **Riitta Seppänen**, Transportation Officer

5.3.1 *Economic and industrial relations context*

Beweship is a middle sized transport company, which is notably a Finnish-owned family company, in contrast to the shift of a part of the transportation forwarding industry in the country, first to Swedish, and then later on to a German and Danish ownership. Beweship was founded in 1957 with a current turnover of FIM 240 million (EUR 40 million) and 160 employees in Finland. In addition to that it has established subsidiaries in Estonia in 1993 and Latvia in 1998. Beweship has been reasonably well profitable during the 1990s. The activities have been enlarged to areas, which have been profitable, such as warehousing. The company has also established a customs terminal of its own at the Finnish-Russian border, which has proved to be a logistic success and through it, it has been able to acquire more market share in this transport, which is in general in trouble due to excess capacity (see above). Overall the operations of Beweship have been preserved at the earlier level, irrespective of the difficult situation and heavy competition in the transport business. Over a longer time span, the company has grown vigorously, as some ten years ago it was only a half of its present size. The most important competitors are the other Finnish and foreign companies, which have acquired Finnish subsidiaries here.

The strategy of Beweship is to operate solely in international transport, which is linked directly to Finnish foreign trade, both exports and imports. In this capacity, it

operates in land, sea and air transport world-wide. If a customer demands for transportation service between third countries, this is taken care by partners of the company. International activity of this sort is very small, and mostly concentrated to the EU area, but currently virtually all of the activities are linked to transport between Finland and the countries of exports or imports. The company also takes care of the customs clearance of its customers, which adds some 5 per cent to its sales.

The most direct impact of the Finnish EU membership was to the company, as to other companies in the field as well, that the customs clearance activity came to an end between Finland and the Union. This caused, even though it was well expected in advance by the company to happen some day, a need to restructure its activities towards new markets, such as Russia and the Baltic countries, where this sort of service is still needed. The EU trade, still, requires a statistical report attached to the delivery. The company is operating actively in these new markets. The traditional Western European and Scandinavian markets are now under most intense competition. Of the market areas of the Beweship, Russia, the Baltic countries, and Western Europe have the same weight each, 21 per cent. Air transport is 10 and sea 7 per cent, warehousing 19, and customs clearance 5 per cent.

The road transport has become so efficient that virtually all the transport within Europe is nowadays carried out by it instead of using air in a part of this transport earlier. The business idea of all the big transport companies in Finland and elsewhere is that they are supplying full-scale logistics services to their clients. They are in fact firms, which offer transport dealer services, i.e. they organise transport, rather than carry the transport operations themselves, which they do on a very small scale only. The most of this activity is taken care by subcontractors with which the Beweship company has an agreement. This creates more flexibility and saves the firm from the need to carry out large capital investment. The contracted companies are normally small with 1-2 lorries only. The company owns, though, a part of trailers used in its activities.

Accordingly, most of the staff of Beweship – and its similar competitors, too – have the title of logistician and as the basic training they have passed a matriculation examination and acquired the basic commercial degree in professional training. These

employees belong to the ERTO and the workers in the warehouses to the AKT, the company itself being a member of the ALT.

There is no Works Council in the company, probably due to its tradition as a family company. The company has traditionally negotiated its personnel questions and some of the small number of changes in tasks and location on a person-by-person basis. There is neither a chief shop steward in the company. The company, of course, obeys the stipulations included in the collective agreements relevant to it, and finds no essential problems in this sense. The employees of the foreign subsidiaries obey their own, i.e. local, legislation and agreements.

The employees are neither longing for a formal arrangement concerning their representation in the company. The negotiations have been managed well on a person-to-person basis between the employer and the employee. This relation has been strengthened in the Finnish depression, through which the company could go without any dismissals or reduction in benefits, even though it was a tough time for it, too.

5.3.2 Practicalities of introducing the Euro

The company has changed over to the Euro in its invoicing. The home currency is the Finnish markka so far. Beweship wants first to clear up the Y2K problem and then go over in 2001 into the Euro. Already now, the net salaries of the employees are denoted in Euro in the payroll slip. The Euro is definitely considered to be a positive factor for this internationally oriented company. The company and its employees are very used to deal with various foreign currencies, and therefore it does not expect many problems and no big need to organise training for its staff in the changeover process. There is, however, some need to extra training, when the process of changeover starts to approach. Altogether, the Euro is by no means a threat, but an opportunity for the company.

5.3.3 Implications for the processes of industrial relations

The company also foresees quite calmly on the coming collective agreement round. Anyway, the labour costs are essential as to the company's profitability. There is not a major difference, whether the company goes into a union level agreement or whether it would have its own agreement. There is some worry, however, that the present vigorous growth in the Finnish economy has and will lead to some upward wage pressure, likely to be manifested in the next negotiation round.

5.3.4 Implications for pay and employment

Neither party recognised any effect of EMU on pay. There is no profit sharing system in use in the company, although it is currently thinking of introduction of it, but has not so far proceeded into concrete steps in this.

The mobility of labour between the firms in the industry is an important factor, which equalises the wage levels between the firms, especially now when the employment situation in the industry is quite good. The companies have also changed their behaviour in the sense that, more than before, they nowadays pay attention to the profitability of their various activities and units separately and are ready to make rationalisation in them if such problems emerge.

5.4 Kaukokiito Ltd

Interviewed persons: Mr. **Jussi Sipilä**, Managing Director

Mr. **Pekka Simiö**, Regional Manager

Mr. **Veli-Pekka Kokko**, Shop Steward ⁶

5.4.1 Economic and industrial relations context

Kautokiito is a road transport service dealer company, which has specialised solely in road haulage operations in the home market, i.e. inside Finland, but being also the destination and starting point of transport deliveries related to foreign trade. It forms one of three major road transport chains in the Finnish market, and offers full scale road transport services: long-distance line traffic, local traffic, terminal services, warehousing, special transport, and logistics from each place to each place in Finland.

It was founded in 1953 and is a private Finnish joint stock company owned by its customer haulage companies, for which it organises road transport services of the above kind. As such it could be compared to some of the central organisations in retail trade, which are owned by the individual shopkeepers. Kaukokiito has been building the roof organisation for its chain and will accomplish this task in the near future. The planned turnover in 2000 is some FIM 400 million (EUR 65 million) with a personnel of 250, which produces a fairly high amount of turnover per employee.

The company was previously carrying out transport also in the foreign market, but sold it away some ten years ago (see Schenker-BTL above). The reason for concentration on the domestic market is that the volume required by profitable foreign transport business is large, for instance in order to achieve low prices for the ferry lots. Thereby the foreign transport is dominated by the big companies, like Schenker-BTL and ASG. Kaukokiito operates as a subcontractor for these big haulage companies. The Kaukokiito, however, is open to this business area as well, especially as the ad-

⁶ Representing the transport terminal workers belonging to the AKT.

ministrative barriers in trade within the EU have been dismantled when Finland joined the single market in 1995.

The company was very severely hit by the Finnish depression in the early 1990s, although it had some buffers in its operations in warehousing. The employment of the company had to be cut roughly into half. The depression had, combined with the militant strike by the AKT union in 1991 when the whole economy was sliding with a rapid pace into a deep depression, a profound influence on the functioning of the transport sector as well. The price level of the transport services had to be cut as much as by some 20-30 per cent. All means of adjustment had to be introduced, including wage adjustment. The wage rates in the company were cut by a substantial amount, by which means a further dismissal of personnel could be avoided. This was possible as the wages in the company were in that phase, due to past wage-drift, higher than the levels stipulated in the pay scale of the collective agreement. The workers feel that so far the wages have not reached their pre-depression peak level, as the wage rises have been quite modest in nominal terms in Finland and the branch as well. During the most difficult phase the personnel was laid off so that they were working without pay for some time. The company also outsourced virtually all of its own transport vehicles. Operations had to be made more efficient and flexibility increased in the working time arrangements.

The branch was also in general then restructured in the way that the possibility was offered for the drivers to become entrepreneurs, i.e., to buy the truck they were driving and continue business as an owner, which has further increased efficiency in the branch. In this way also the very strong position of the AKT union in road haulage has been eroded. It is still nationally in a strategic position, but this is almost solely due to its dominance in the loading activity in the harbours. In road haulage it does not any more possess such a key position.

The road haulage operations were manned before the crisis with excess labour force, and the same volume of tonnage is nowadays managed with half of the manpower compared to that prevailing ten years ago. The depression taught a lesson, even though through a hard way.

The road transport industry is also characterised by a marked fluctuation in the volume of transport within a week. The company has a basic personnel, but is actively using subcontractors (so-called hired personnel) to manage the peak loads and hours outside the normal working hours. This is not experienced as a problem by the ordinary personnel, as the hired personnel, not belonging to the union, is working during the evening hours. The branch requires quite a large capital input and incurs thereby a high fixed cost (see Figure 6), and so it is important to operate on a continuous-time manner, and consequently the transport terminal of the company is open 24 hours a day.

The personnel of the Kaukokiito company consists of four types of employees: warehouse workers, both in traffic terminals and warehousing, transportation officers, coders and white-collar salaried employees in administration and sales and accounting departments. The blue-collar workers belong to the AKT and the white-collar workers to the ERTO. The Kaukokiito is a member of the ALT. The industrial relations are functioning according to the management quite well within the company. The personnel has according to the management internalised the idea that "we work in order to have a job also tomorrow".

There is currently, in contrast to the earlier situation, no chief shop steward in the company, but there is a shop steward in each of its units. The employees think that a chief shop steward with a larger authority might be in place. There is neither a Works Council in the firm as was earlier the case. However, the workers are of the opinion that the bargaining relations between the workers and the management are fairly good and functioning well. The road transport workers and the white-collar employees are quite apart from each other, there is not much co-operation, nor friction.

Kaukokiito has not, at least so far, yet experienced a marked impact from the internationalisation of the transport branch, i.e., that foreign companies have acquired ownership of some of the key Finnish companies in the branch. On the contrary, the effect of the big foreign players has been a steady rise in the prices of the transport services, which has assisted a healthy recovery of the branch. These developments may be due to the fact that the foreign companies are likely to have a fairly high requirement on their profitability. Kaukokiito has managed very well in the competition.

The penetration of foreign companies through liberalisation of the cabotage traffic in the Finnish market for road transport is quite unlikely and only a theoretical possibility, as Finland is in its transport logistics a kind of an island behind the sea and the climate conditions are very harsh during a big part of the year. The major effect of internationalisation is through foreign ownership.

The working time arrangements stipulated currently by the EU (see above) are not very essential to the operations of Kaukokiito on the basis of its structure and strategy as a transport dealer.

5.4.2 Practicalities of introducing the Euro

The company has introduced the Euro in its invoicing, but not in its internal accounting or wage billing. It will do that in the last stage in 2002.

5.4.3 Implications for the processes of industrial relations

Personally the management would have been in favour of a centralised collective agreement, even though it does not have such a big direct impact on the branch itself. The biggest impact of the nation-wide industrial relations comes through the fact that the road haulage branch is very sensitive to the possible difficulties, such as strikes in its customer branches, notably in forest and metal industry. This is due to the fact mentioned above that large fixed costs are running even if labour were not working. In general, the company considers that the stipulations of the collective agreement have some positive value in organising the industrial relations in the branch and the firm.

The workers in the company are definitely in favour of an industry level agreement and, in addition to that, are thinking of bargaining after the general agreement with the company of some extra rises in pay. The goal is to be able to get compensation for the effective wage reductions experienced in the depression years, and they feel that the substantially increased volume of transport has created a situation where the company can afford this. The current wages are, on the hand, in the company above the pay

scale in the collective agreement. The employees have not been affected by EU or EMU in some direct way.

5.4.4 Implications for pay and employment

In the 1980s, in the boom years, also the wage developments in the road haulage branch ran out of control, and have since then fallen into a more manageable level according to the management. The wage rates have also equalised over the companies in the branch through competition for the labour force and the fairly good employment situation prevailing nowadays.

The company has not yet introduced a profit sharing arrangement, or a bonus wage system, due to the difficulties in measuring and identifying the contribution by each of the individual employee, and the character of intense team work adopted in the firm.

6 CONCLUSIONS

The direct impact of EMU so far on the selected industries, and the companies in them, has been quite limited from the point of view of industrial relations. One of the tasks set out at the beginning of the study, see Figure 1 on page 4, has to be answered in a way that the labour market at the national level, i.e. changes in the environment and constraints faced by the parties negotiating in practice on the terms of employment, is the major channel through which the effects of EMU to the industrial relations are transmitted. Accordingly, the employee unions and confederations of employers have most clearly recognised the new situation caused by EMU. By this is basically meant containing the cost developments even more than before. We can also conclude that the bigger the union or federation and the more pronounced its position in the open sector of the economy, the more strongly it has internalised the new ground rules under the Monetary Union. On the other hand, the companies have so far faced few the changes in the situation.

Of course, these findings are country-specific, as in Finland the negotiations take place at the industry or national level and the role of the companies has been secondary with respect to the terms of employment, although in some industries more of these terms have been recently shifted to be decided at the firm level. This does not mean that the firm level could be omitted when talking about industrial relations, quite the contrary.

We also interviewed about the experiences of the firms in the deep depression prevailing in the Finnish economy in the beginning and middle of the 1990s. There we found that in most cases the firms and their personnel were under a very hard pressure, and in many cases employment had to be cut even in half. Some firms could soften the reaction to the depression by making a firm level agreement calling in some of the benefits, which had drifted above the minimum standards specified in the collective agreement. This has relevance with respect to EMU as well, as there are likely to be asymmetric – or symmetric shocks – hitting the economy and leading to a recession. Firms and the economy have to be able to adjust, partially in new ways, in such

a case. Of course, this is still a vague point, as the current situation is one of vigorous growth, partially due to EMU and the low level of interest rates itself.

The difficulties in the changeover to a single currency in practice are still to be seen. Most notably, the start up of the single currency in 1999 has concerned the banking industry. There, too, the numbers of persons involved have so far been quite modest, i.e. dealers of foreign exchange and those operating the TARGET payment system. In other branches the immediate direct impacts have been even more modest.

On the international dimension of collective bargaining, *Europeanisation*, the employees look toward such a development as desirable and to some extent inevitable, too. The employers are throughout strictly opposed to such a development towards a new level of centralisation. The workers try to minimise wage competition and competition with social security between the various countries. The employees are, however, quite ambiguous and uncertain, what this direction could entail in practice. A coordinated, EU-level rise in wages and harmonisation of the terms of employment are totally unrealistic at the moment. As a Finnish pattern and a possible direction of internationalisation of collective bargaining, it emerged in an interesting way from the interviews carried out here that, on part of the employees, some sort of co-operation within the Nordic countries, especially Finland and Sweden, is likely to start first. This definitely reflects the rapidly tightened and closer ties between Finnish and Swedish firms, and the vigorous activity of acquisitions and mergers which has taken place between these countries in the 1990s.

In general, there is also a basis for national wage agreements in EMU that, through them, it is possible to reduce the effects of adverse national asymmetric shocks hitting the economy, which the single monetary policy is not able to eliminate and which also some of the persons interviewed mentioned as a risk in EMU.

The employers also in Finland have been quite strongly in favour of more decentralisation of the labour market negotiation system. At any rate, they have now taken quite a positive stance towards a new centralised incomes policy agreement, CIPA, round. The Managing Director of the TT, the biggest employer federation in Finland, Mr. Johannes Koroma, has recently asked the question, why have employers changed their

hesitant attitude towards centralised collective bargaining and have now been in favour of it. He simply states that it is EMU, which is the sole factor contributing to this change in the views of the employers (Koroma 1999) and which implies more need to contain cost rises.⁷

EMU is an era of low inflation and low nominal wage hikes. Some employees find as a drawback that it is also difficult to reach a change in the distribution of relative wages over the industries. Such efforts would easily jeopardise the inflation target set by the ECB, and would destabilise the competitiveness of the Finnish economy.

The *automotive industry*, as a part of the metal and engineering industry, has made the biggest preparations concerning the single currency in labour market practices and the union has published a memorandum on the framework for collective bargaining under EMU. This is due to the fact that the union is in a key position in the Finnish labour market and is the biggest open sector manufacturing trade union. The companies interviewed here are quite small on a European scale, of course. In part due to this, the negotiation and industrial relations between the parties function well in this industry, partially also due to the bargaining culture of continuous negotiations obeyed by the employers' confederation and employees' union. EMU will entail changes through imposing a new, tighter constraints on collective bargaining in the future. This has been well realised by both parties.

Banking has clearly been under the hardest pressure to adjust, due to the banking crises and the strong technological advancement in the industry through automated teller machines and other customer operated payments systems and the onset of the Internet. This substitution has partially been spurred by the tight reluctance of the employees to a change towards more flexible opening hours in banking. EMU has had a direct impact on the industry, but as was stated above, its full effect as an increase in the work load will remain to be seen when the bulk of small and medium-size companies and households change over to the Euro.

⁷ There is going a new theoretical discussion on the appropriate level of collective bargaining in EMU, whether it should be on the decentralised national (i.e. company) level, national level or European level, trying to reformulate the seminal result by Calmfors and Driffill (1988), that within a national economy the decentralised company level or the national centralised level should be the best ones, see on this e.g. Cukierman and Lippi (1999) and Gruener and Hefeger (1999).

Road haulage is an industry with traditionally quite tense industrial relations, and a high level of readiness on the part of the workers union to take industrial action measures. Relations within the companies do not function so well nor are they as confident as in, say, the metal and engineering industry. Also there, however, EMU will entail changes in the industry and likely lead to smaller wage hikes than earlier. On the other hand, Finnish membership in the EU has had a major direct impact on the industry, in changes in market entry and the abolition of the customs clearance, and more recently, in the ongoing process of regulation concerning the working hours in the industry.

So, altogether, EMU will transform the conditions of business. But it is evident that in a market economy in all the cases other factors were experienced as more substantial such as technology, competition and the functioning of the labour market in general. The biggest impact of the Monetary Union is in the fields of the constraints, which the collective bargaining faces in general in the future and in practice just now as Finland is heading towards its first wage negotiation round of the EMU age.

REFERENCES

Alho, K. (1996): EMU, Unemployment and the Flexibility in the Labour Market (in Finnish), in T. Allén and V. Kaitila (eds.), Labour Market in EMU, ETLA series, B 127.

Alho, K. (1998): Profit Sharing – A Payroll System in the EMU Age (in Finnish with English summary), Ministry of Labour, Research Report No. 194 and ETLA series B, No. 146.

Alho, K., Kotilainen, M. and Widgrén, M. (1992): Finland in the European Community – An Assessment of the Economic Impacts, (in Finnish with English summary), ETLA series B, No. 81.

Calmfors, L. and Driffill, J. (1988): “Bargaining Structure, Corporatism and Macroeconomic Performance”, *Economic Policy*, 6, 13-61.

Cukierman, A. and Lippi, F. (1999): “Central Bank Independence, Centralization of Wage Bargaining, Inflation and Unemployment: Theory and Some Evidence”, *European Economic Review*, 43, 1395-1434.

Gruener, H.P. and Hefeger, C. (1999): “How Will EMU Affect Inflation and Unemployment in Europe?”, *Scandinavian Journal of Economics*, Vol. 101, 33-47.

Koroma, J. (1999): “Do we have patience to become prosperous?” (in Finnish), *Demari Newspaper* 5.11.1999

Kotilainen, M., Alho, K. and Erkkilä, M. (1994): Finnish Preparation for EMU Membership (in Finnish with English summary), ETLA series B, No. 103.

Ministry of Labour (1996): Assessing the Finnish Market Effects of the Single Market and the Third Stage of the EMU, (in Finnish, with English summary), *Labour Policy Studies*, No. 136.

Pehkonen, J. (1997): “Unemployment and EMU”, *Publications of the Prime Minister’s Office*, 1997/10.

TUPOSETO (1999): “The Effects of Wage Rises on Macroeconomic Developments”, (in Finnish), *The Incomes Policy Information Commission*.

Valtioneuvosto (1997): The Monetary Union and Finland – The Challenges Facing the Economy, *Publications of the Prime Minister’s Office*, No. 24/1997.

VATT (1992): Finland to a Member in the European Community? The Economic Impacts, (in Finnish with English summary), *The Government Institute for Economic Research, Publications No. 5*.

ELINKEINOELÄMÄN TUTKIMUSLAITOS (ETLA)

THE RESEARCH INSTITUTE OF THE FINNISH ECONOMY

LÖNNROTINKATU 4 B, FIN-00120 HELSINKI

Puh./Tel. (09) 609 900

Int. 358-9-609 900

<http://www.etla.fi>

Telefax (09) 601753

Int. 358-9-601 753

KESKUSTELUAIHEITA - DISCUSSION PAPERS ISSN 0781-6847

- No 696 HEIKKI HELLA - REIJO MANKINEN, Alcoholic Beverage Taxation: Alternatives and Impacts. 30.11.1999. 14 p.
- No 697 VILLE KAITILA - MIKA WIDGRÉN, Revealed Comparative Advantage in Trade between the European Union and the Baltic Countries. 02.12.1999. 32 p.
- No 698 KARSTEN ALBÆK – RITA ASPLUND – STIG BLOMSKOG – ERLING BARTH - BJÖRN RÚNAR GUÐMUNDSSON - VIFILL KARLSSON - ERIK STRØJER MADSEN, Dimensions of the Wage-unemployment Relationship in the Nordic Countries: Wage Flexibility without Wage Curves. 15.12.1999. 40 p.
- No 699 JARI HYVÄRINEN, Research and Development in EU Forest Cluster. 10.01.2000. 37 p.
- No 700 JARI HYVÄRINEN, Global and Regional Aspects of EU Forest Cluster. 10.01.2000. 28 p.
- No 701 PIA JÄRVINEN, Omistajavetoiseen johtamiseen? - Suomalaisten suuryritysten johtamis- ja valvontajärjestelmät murroksessa. 13.01.2000. 37 s.
- No 702 TARMO VALKONEN, Shifting the Tax Burden from Labour to Capital in General Equilibrium. 13.01.2000. 34 p.
- No 703 AIJA LEIPONEN, Competencies and Firm Performance – Increasing Returns from Knowledge Complementarities? 28.01.2000. 28 p.
- No 704 AIJA LEIPONEN, Competencies, R&D Collaboration, and Innovation under Different Technological Regimes. 28.01.2000. 30 p.
- No 705 ESA VIITAMO, Metsäteollisuuden palvelut. Tilastollinen katsaus. 10.02.2000. 70 s.
- No 706 ANTHONY DE CARVALHO, Wage Adjustment, Imperfect Competition and Real Exchange Rate Reversion: An Attempt to Unravel the PPP Puzzle. 16.02.2000. 41 p.
- No 707 MIKA WIDGRÉN, On the Probabilistic Relationship between the Public Good Index and the Normalized Banzhaf Index. 22.02.2000. 16 p.
- No 708 PASI HOLM, Yrittäjäksi ryhtymisen taloudelliset kannustimet. 22.02.2000. 24 s.
- No 709 PEDRO TELHADO PEREIRA – PEDRO SILVA MARTINS, Does Education Reduce Wage Inequality? Quantile Regressions Evidence from Fifteen European Countries. 04.04.2000. 41 p.
- No 710 HANNU HERNESNIEMI – MARJA-LIISA VISANTI, How to Define Occupational Content and Job Profiles. A Dutch Method Applied to Two Finnish Industries. 03.05.2000. 52 p.

- No 711 RITA ASPLUND, Unemployment among Finnish Manufacturing Workers: Who gets unemployed and from where? Helsinki 2000. 51 p.
- No 712 GRIGORI DUDAREV – KONSTANTIN SEVENARD – PAVEL PRIGARA – PAVEL FILIPOV – HANNU HERNESNIEMI, The Potential Competitiveness of Saint Petersburg's Industries. Helsinki 2000. 70 p.
- No 713 JUKKA LASSILA – ROMAS LAZUTKA – AUDRONE MORKUNIENE – SVEND E. HOU-GAARD JENSEN, Lithuanian Pension System: Alternatives and Proposals for the Future – A Summary Report by The Phare Study Group. Helsinki 2000. 57 p.
- No 714 HANNU PIEKKOLA – PETRI BÖCKERMAN, On Whom Falls the Burden of Restructuring? – Evidence from Finland. Helsinki 2000. 42 p.
- No 715 KARI E.O. ALHO, The Stability Pact and Inefficiencies in Fiscal Policy Making in EMU. Helsinki 2000. 23 p.
- No 716 PETRI BÖCKERMAN – MIKA MALIRANTA, Regional Disparities in Gross Job and Worker Flows in Finland. Helsinki 2000. 27 p.
- No 717 RITA ASPLUND – REIJA LILJA, Employment and Unemployment in Finnish Manufacturing 1985-95 is Technological Progress the Cause or the Cure? Helsinki 2000. 23 p.
- No 718 JUHA HONKATUKIA, Kotimaisen päästökaupan kokonaistaloudelliset vaikutukset Suomessa. 13.06.2000. 37 s.
- No 719 JUHA HONKATUKIA, Arvioita energiaverotuksen taloudellisista vaikutuksista Suomessa. 13.06.2000. 43 s.
- No 720 RITA ASPLUND, Private Returns to Education in Finland: Back to Basics. 20.06.2000. 14 p.
- No 721 RITA ASPLUND, Inhimillinen pääoma ja palkat Suomessa: Paluu perusmalliin. 20.06.2000. 14 s.
- No 722 HANNU HERNESNIEMI, Evaluation of Estonian Innovation System. 30.06.2000. 68 p.
- No 723 MARKUS PAUKKU, European Union and United States Trade Relations. 01.08.2000. 14 p.
- No 724 HELI KOSKI, Regulators and Competition Spurring or Retarding Innovation in the Telecommunications Sector? 03.08.2000. 21 p.
- No 725 HELI KOSKI, Feedback Mechanisms in the Evolution of Networks: The Installed User Base and Innovation in the Communications Sector. 03.08.2000. 16 p.
- No 726 KARI E.O. ALHO, Implications of EMU on Industrial Relations – The Country Report on Finland. 17.08.2000. 83 p.

Elinkeinoelämän Tutkimuslaitoksen julkaisemat "Keskusteluaiheet" ovat raportteja alustavista tutkimustuloksista ja väliraportteja tekeillä olevista tutkimuksista. Tässä sarjassa julkaistuja monisteita on mahdollista ostaa Taloustieto Oy:stä kopiointi- ja toimituskuluja vastaavaan hintaan.

Papers in this series are reports on preliminary research results and on studies in progress. They are sold by Taloustieto Oy for a nominal fee covering copying and postage costs.