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Werner Schmidt and Bernd Dworschak
Universität Tübingen and Fraunhofer IAO Stuttgart, GERMANY

Pay Developments in Britain and Germany: Collective Bargaining, 'Benchmarking', and 'Mimetic Wages'

ABSTRACT ▪ This article examines the impact of national industrial relations institutions on pay movements in Britain and Germany between 1980 and 2000. Pay increases are slightly higher in Britain, despite the breakdown of multi-employer bargaining and agreements in the UK and their persistence in Germany. Evidence shows that pay decisions in Britain are mainly determined by imitation and not by markets. The article suggests that a system of 'pay benchmarking' in Britain acts as a substitute for the German 'sectoral agreement model' and explains similarities in pay movements.
KEYWORDS: industrial relations ▪ pay determination ▪ pay developments ▪ collective bargaining ▪ cross-country comparison ▪ United Kingdom ▪ Germany

Industrial Relations in Britain and Germany

Industrial relations institutions in Britain and Germany have diverged during the past quarter century. In Britain, multi-employer bargaining and collective agreements at sectoral level have almost disappeared. In Germany, while the institution of the sectoral agreement has been weakened, it remains basically intact.

In the German system of industrial relations, pay and conditions are negotiated at sectoral level, while statutory works councils monitor the implementation of collective agreements and statutory employment rights, and day-to-day conditions of work at establishment level. In other words, employers' associations and trade unions are responsible for regulating the terms of trade for labour as a commodity, while managers and works councils deal with the practical conditions of employment.

In recent years, there have been some changes: many sectoral agreements now include 'opening' or 'hardship' clauses, which allow management and works councils to renegotiate parts of the agreement. There are

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an increasing number of illegal violations of sectoral agreements, often tolerated or even approved by works councils. This shift towards the establishment level can be regarded as a sign of erosion (Bahnmüller and Bispinck, 1995; Hassel, 1999), as can the decrease in union density from 39.7 percent in 1980 to 29.8 percent in 2000 (Ebbinghaus, 2002). However, the coverage of collective bargaining remains high. In 2002, according to the Establishment Panel of the German Institute for Employment Research (IAB), 70 percent of employees in West Germany and 55 percent in East Germany were covered by collective agreements and a further 15 percent and 23 percent, respectively, worked in firms which observed the collectively agreed conditions. Thus, only 14 percent and 22 percent, respectively, did not work under conditions influenced by collective agreements (WSI, 2002). Works councils remain important (Frege, 2002). Hence we can still speak of a *system* of industrial relations in Germany (Locke and Kochan, 1995), or at least in West Germany, on which we focus.

In Britain, the decline of collective bargaining has been more pronounced. Multi-employer bargaining in the private sector has largely collapsed, giving way to single-employer bargaining or, increasingly, none at all. According to the Workplace Employment Relations Survey (WERS), the collective bargaining coverage rate fell from 70 percent of all employees in 1984 to 54 percent in 1990 and to 41 percent in 1998. By 2004, only 34 percent of employees in private manufacturing had their pay set by collective bargaining, as against 75 percent in the public sector (Kersley et al., 2005: 20–1; Millward et al., 1999: 242). It seems questionable whether one should speak of a *system* of industrial relations in Britain any longer, and the term 'industrial relations' is often replaced by 'employee relations' (Cully et al., 1999; Hollinshead et al., 1999).

The Impact of Industrial Relations on Pay

From established, 'orthodox' perspectives the impact on pay of these institutional trends is clear. The demise of multi-employer bargaining in Britain, and the decline of collective bargaining more generally, should result in stagnant or falling pay or, at best, smaller pay rises. Decentralization of pay determination should also lead to wider wage dispersion between and within sectors. From a neo-classical point of view, wages will fall to a market-clearing level (one which eliminates unemployment). Pay should not increase until full employment is achieved, and may not do so even then because of weak union power.

By contrast, more strongly institutionalized industrial relations in Germany should enable wages to rise above the market level; while multi-employer collective agreements should lead to pay uniformity within

industrial sectors. If one assumes that industrial relations institutions matter, one would expect higher pay increases in Germany than in Britain, and a lower dispersion of wages. A contrary effect would occur only if the more institutionalized German system imposed pay discipline not only on employers, but also on trade unions.

However, the assumption that wages above the market level necessarily decrease without the distorting impact of industrial relations institutions is not common to all explanations of wage determination. From the perspective of efficiency wage theories, wages are neither purely determined by the market nor necessarily a result of power relations between capital and labour. According to the classical formulation by Marshall, these wages are paid 'with reference to the exertion of ability and efficiency required of the worker' (1920: VI.III.9). A variety of models have been developed within this framework, emphasizing the incompleteness of the labour contract, which gives workers the chance for opportunism (or shirking). Since monitoring the achievement of employees is usually costly and imperfect, employers pay above equilibrium wages in lieu of extensive monitoring. Such efficiency effects may be more prominent under the less institutionalized conditions found in Britain.

A variant of this approach is Bewley's 'morale theory' of wage determination, which aims to explain why, in the USA, 'wages don't fall during a recession'. He observes that 'the level of pay itself has little impact on morale, unless pay is so low as to be perceived as grossly unfair . . . Only pay cuts or inadequate raises affect morale, and do so negatively.' Morale, he argues, 'is important in large part because management finds it prohibitively expensive to monitor employees closely', and additionally, 'workers are likely to be so cooperative only if they have good morale' (Bewley, 1999: 432–5).

From this perspective, the different trends in industrial relations institutions in Britain and Germany may be of minor importance. However, Bewley does not explain what 'inadequate raises' are, and which pay rises would be adequate. Although he states that 'most workers know little about pay levels outside their own organization', he argues further that the relation to outside pay is important for 'a firm's supply of labor, which in practical terms means turnover and the number and quality of workers the business can attract and retain'. Besides a touch of contradiction in this statement, it is a labour market argument which is juxtaposed to his crucial argumentation. We can assume that the pay levels of other firms are important, although the relations between employers' wage decisions are not sufficiently explained.

Neo-institutionalist theorists offer an alternative approach. Even though not originally developed to explain wage determination, their concepts may be helpful for our purposes. Meyer and Rowan observe that organizations 'incorporate elements which are legitimated externally,

rather than in terms of efficiency', and that 'institutional isomorphism promotes the success and survival of organizations. Incorporating externally legitimated formal structures increases the commitment of internal participants and external constituents' (1977: 348–9). DiMaggio and Powell cite three mechanisms through which institutional isomorphism occurs: '(1) *coercive* isomorphism that stems from political influence and the problem of legitimacy; (2) *mimetic* isomorphism resulting from standard responses to uncertainty; and (3) *normative* isomorphism, associated with professionalization' (1983: 150). These mechanisms are effective within 'organization fields', that is, areas of institutional life that include 'key suppliers, product consumers, regulatory agencies, and other organizations that produce similar services or products' (DiMaggio and Powell, 1983: 148). This definition comes near to that of industrial sectors, but includes not only competing firms and allows differentiation between distinct dimensions of institutionalized fields with differing ranges. For example, a firm can belong to different organizational fields with regard to wages or product markets.

Applied to the issue of wage determination, in particular to decisions over pay rises, influences other than the labour market and traditional industrial relations institutions need to be considered. In Germany, coercive determination by means of sectoral agreements may be the prevailing feature, while in Britain wages could be determined to a larger extent by, for example, mimetic mechanisms, since pronounced uncertainty remains in consequence of the absence of multi-employer bargaining. According to this neo-institutionalist approach, pay rises within organizational fields may not be higher or more uniform in Germany than in Britain. Nevertheless, some questions remain open in this alternative approach, particularly, how the different mechanisms can be assessed and what consequences can be expected in pay movements.

Pay Trends in Britain and Germany

Our research is based on two sectors which differ markedly within both countries: engineering and retail distribution. In both Britain and Germany, engineering has a strong tradition of collective bargaining. In British retailing, multi-employer agreements were established in 1951, but never gained the same importance as in engineering. Wages were formerly regulated by Wages Councils and are now underpinned by the National Minimum Wage (which has virtually no effect in engineering). Multi-employer bargaining was abandoned in both sectors at the end of the 1980s. In German retailing, in contrast to engineering, sectoral agreements until recently usually received statutory extension to non-signatory employers.

We briefly describe wage trends in both countries since 1980, using data from the British Office for National Statistics (New Earnings Survey or NES) and the German Federal Statistical Office (Statistisches Bundesamt, Verdiensterhebung). We also refer to published data from the OECD (2001), the former German Federal Ministry of Labour and Social Affairs (BMA, 2001), the British Workplace Employee Relations Survey 1998 (WERS98) (Cully et al., 1999; Millward et al., 2000), and the Industrial Relations Research Unit's Pay and Working Time Survey (Arrowsmith and Sisson, 1999, 2001).

In addition, we conducted a postal company survey for Germany in 1998 (Jauch and Schmidt, 2000; Schmidt, 2004). The questionnaire consisted of 25 pages and included detailed questions concerning pay levels, pay rises, pay components, grading structures, and collective bargaining. The survey was targeted at engineering, retail, and printing. In order to avoid a bias towards companies covered by collective agreements, we did not use addresses from employers' associations or trade unions, but purchased addresses from a commercial supplier; unfortunately, many addresses were outdated or the companies belonged to other sectors. The response rate was about 15.5 percent, with 346 returned questionnaires from the engineering sector and 133 from the retail sector. We do not claim statistical representativeness for this survey, but for engineering the proportion of companies in the sample with 100–499, 500–999, and more than 1000 employees comes near to that of the population; in retail, larger companies are over-represented.

We have also drawn on the work of Arrowsmith and Sisson and on the WERS98 publications. In addition, we conducted 14 interviews in Britain between 1998 and 2002 and 15 in Germany (in some cases with Peter Jauch). We spoke to managers, trade unionists, and representatives of employers' associations. Furthermore, in the German case, we also spoke to works council members in four companies active in both Britain and Germany, and in the British case, to the Department of Trade and Industry (DTI) and two organizations involved in collecting information about pay settlements. The interviews with managers were conducted at a UK-owned manufacturer of electronic security systems, a UK-owned aviation company, a German-owned car supplier and a UK-owned high-street retailer. In Germany, we spoke to works council members at all workplaces and with officials from IG Metall and Ver.di. In Britain, we conducted interviews with representatives of the Trades Union Congress (TUC), the Transport and General Workers' Union (TGWU), the Amalgamated Engineering and Electrical Union (AEEU, now Amicus) and the Union of Shop, Distributive and Allied Workers (USDAW). Interviews with employers' associations were carried out with the Engineering Employers' Federation (EEF) and the British Retail Consortium (BRC) in the UK, and with the Association of German Trade and Retail

(HDE) and a regional officer from the Employers' Association for the Metal and Electrical Industry (VMI, now Südwestmetall) in Germany. The interviews were semi-structured and lasted about two hours. The focus was on pay and working-time arrangements as well as on general developments in industrial relations in the sectors.

The following description focuses on quantitative changes in average pay levels, the dispersion of pay, and the incidence of variable pay, with particular attention to engineering and retail. Because the sectoral agreement model is not well established in East Germany, the German data refer to West Germany. Data from the NES only include Great Britain.

Since 1980, real hourly wages for full-time male and female manual workers in Germany and Britain have increased at the same rate, while salaries per hour for non-manual workers have grown faster in Britain than in Germany. Thus overall, hourly pay increased slightly more in Britain. This is true in both engineering and retail (see Table 1), as well as other sectors. Because of working-time reductions in Germany, the increase in real, monthly gross earnings was considerably greater in Britain than in Germany. In both countries, pay increased faster in engineering than in retail.

In Britain, the 'labour share' for the economy as a whole (that is, the share of employees' gross earnings in GDP) was fairly stable over the two decades, whereas in Germany there was a marked decrease (BMA, 2001). The most evident differences can be found in pay inequality, which has increased in Britain in recent years (although all categories of employees received both nominal and real pay increases); whereas in Germany, small increases in inequality between male employees are partly offset by a decreasing gender pay gap (OECD, 2001: Ch. 2, Derived Indicators Table 1; direct additional information from the OECD).

German sectoral agreements mandate the same percentage of pay rise for all workers employed under the same agreement, and structural change in the composition of the labour force has been limited. Between 1980 and 2000, relative pay across job grades was fairly stable for non-manual employees, though among manual workers there was increasing inequality in the 1990s, especially for the lowest grades (Statistisches Bundesamt, 2002).

The British case deserves more scrutiny. If we take the ratio of the lowest and the highest deciles to median earnings as 100 in 1978, this ratio fell by 1998 for the lowest decile of male manual workers to 90.7 in mechanical engineering (90.5 for non-manual males), 86.0 in electrical engineering (83.0 for non-manual males), and 94.8 in retail (89.7 for non-manual males). The ratio for the highest decile rose for manual males to 101.4 in mechanical engineering (113.5 for non-manual males), 113.2 in electrical engineering (110.1 for non-manual males), and 118.9 in retail (118.8 for non-manual males). The comparable figures for female

TABLE 1. Index of Real Hourly Wages for Full-Time Male Employees in (West) Germany and Great Britain, 1980–2000 (1980 = 100)

	Manual males				Non-manual males					
	Mechanical engineering		Electrical engineering		Mechanical engineering		Electrical engineering		Retail	
	Germany	GB	Germany	GB	Germany	GB	Germany	GB	Germany	GB
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1982	97.9	100.5	98.9	100.1	98.1	105.1	98.7	102.5	98.7	99.8
1984	98.0	103.0	98.8	102.7	100.0	111.5	100.9	107.6	93.7	104.1
1986	105.6	108.2	105.9	106.7	111.2	120.1	111.5	114.0	100.5	113.2
1988	113.4	111.9	114.3	109.4	120.1	129.3	121.2	119.7	106.6	127.0
1990	117.5	112.1	118.9	109.4	126.0	130.9	126.9	124.3	110.3	125.4
1992	120.5	118.1	121.3	117.9	127.0	132.4	130.5	129.5	118.2	126.2
1994	120.7	120.0	123.4	118.3	129.3	136.9	133.8	138.4	117.0	126.7
1996	128.0	125.2	129.0	120.8	140.0	144.4	144.4	142.0	110.7	136.5
1998	128.8	134.0	129.5	126.8	142.5	156.2	145.4	152.6	111.6	136.8
2000	130.8	139.1	130.6	130.2	143.5	155.8	144.7	159.4	111.6	143.4

Notes: Real hourly wages are derived from Gross hourly wages (gross monthly salaries divided by agreed working hours for non-manual employees in Germany) deflated by consumer prices.
Source: Office for National Statistics, Statistisches Bundesamt, Sachverständigenrat. Own calculations.

employees were similar, with two marked exceptions: the increase in the ratio of the highest decile to the median for non-manual females was markedly higher than for males, while that for the lowest decile for female manual workers in mechanical engineering actually increased (ONS, 1978, 1998: Tables C74–7, C21–4, own calculations).

Between 1978 and 1998, the dispersion of wage increases for male employees within the relevant sectors did not grow very much (see Table 2). The changes for female employees were more pronounced, but these may reflect changes in the composition of the female labour force more than the effects of decentralized wage determination. Arrowsmith et al. (2000) compare the standard deviations of average increases for the years 1985 and 1994 (a period which is markedly shorter, but without any classification changes; Standard Industrial Classification 1980 in both years) and report little change. Based on their own survey, which generally confirms these findings, but was not restricted to pay changes alone, Arrowsmith and Sisson (1999: 63) state: 'the results suggest that, although the settlement of pay and working time has formally become more localized in engineering and retail, this has not necessarily involved a sea-change in outcomes'.

The incidence of variable payment (pay related to output, achievement, performance, and so on) is often regarded as an indicator of management's room for manoeuvre; a connection with industrial relations

TABLE 2. Dispersion of Increases in Gross Weekly Earnings for Full-Time Employees in Britain

Industry	Males				Females			
	Manual		Non-manual		Manual		Non-manual	
	1978	1998	1978	1998	1978	1998	1978	1998
Mechanical engineering (1978: SIC 1968, VII) (1998: SIC 1992, 29)	0.4	0.5	0.8	1.0	1.0	2.2	0.7	1.3
Electrical engineering (1978: SIC 1968, IX) (1998: SIC 1992, DL)	0.5	0.6	0.7	0.7	0.6	0.8	0.7	1.2
Retail distribution (1978: SIC 1968, 820-1) (1998: SIC 1992, 52)	0.6	0.9	1.1	0.8	1.3	1.3	0.4	0.6

Note: Figures show the standard error of the increase as a percentage of average weekly earnings (overtime pay excluded).
Source: ONS (1978, 1998).

institutions should therefore be assumed. An Anglo-German comparison of variable pay is, however, difficult. According to the NES, incentive pay for manual workers decreased considerably in Britain between 1976 and 2000 (for 'all industries and services' as well as for 'engineering', though 'retail' is an exception). For non-manual workers, however, a slight increase is reported (again with the exception of 'retail'). In 2000, the proportion of incentive pay to total pay was nearly the same for manual and non-manual workers, and amounted to 3 percent on average for males. According to our German survey in 1998, the shares for both engineering and retail are remarkably higher: in engineering, for manual workers it was 15 percent and for non-manual workers almost 7 percent, while for non-manual workers in the retail sector it amounted to 9 percent. Other data indicate that the proportion of employees receiving incentive-related pay has not changed in recent years in engineering (Gesamtmetall, 2001; Statistisches Bundesamt, 1981, 1993/94, 1998). In Germany as well as in Britain, there has been a shift from traditional incentive pay (piecework) to newer bonus schemes, particularly among non-manual employees, which may explain the increase in incentive pay for this group.

Though the data from the two countries are not entirely comparable, the message seems clear: the proportion of incentive pay in Germany is higher and has remained unchanged, whereas in Britain the figures for all employees indicate a decrease. However, the NES fails to record the full scope of variable pay in Britain (Casey et al., 1992). Some forms (such as merit pay, competency-related pay, and performance-related pay) do not always clearly separate basic pay from incentive-related pay. Pay rises dependent on individual performance, even though not absolutely unknown in Germany (in particular, in workplaces not bound by collective agreements (Schmidt, 2004: 188)), seem to be more widespread in Britain. These differences, however, are of limited importance: Arrowsmith and Sisson (1999: 58) report very little evidence of the individualization of pay. Even workplaces with performance-related pay rises often make only a part of these dependent on performance; according to Lawson (2000: 312), a cost-of-living increase is usually given to all employees. Given the differences in schemes as well as in terminology, an exact comparison between Britain and Germany is not possible. Nevertheless, there is no evidence that incentive pay is more important in Britain than in Germany.

Altogether, comparing Britain and Germany we detect more similarities than differences. Because the findings for pay increases are of particular interest from an industrial relations angle, in the following discussion we focus on possible explanations.

Surface Divergence, but Convergence of Substance?

German wage trends to some extent match the expectations of both institutional and neo-classical perspectives, but neither would predict the British experience. Despite a massive decline in collective bargaining, wage increases have on average been higher than in Germany. Can it be that, behind the façade of formal agreements, the actual power relations between capital and labour in Germany and Britain may be quite similar?

Kelly (1998) offers an approach which focuses on workers' interests and power relations between workers and employers. He criticizes industrial relations theories which are centred around job regulation, the joint institutions of capital and labour, and pleads for an approach which focuses on the mobilization of workers' autonomous power. Kelly's approach can be seen as a new version of a bargaining approach based on Marxist class theory. Reformulating industrial relations according to this approach promises a solution to the puzzle described above.

Union density has fallen in both Germany and Britain, and is now less than 30 percent in both countries. Given that in the 1970s union density in Britain was much higher than in Germany, it is justified to speak of a convergence. The incidence and volume of strikes has shown a similar trend, though working days lost in Britain are still considerably higher than in Germany. As long as union membership and industrial action can be seen as indicators of trade union strength and working-class power, the influence of employees on determining pay should be no stronger in Germany than in Britain. From this perspective, both the decrease of the 'labour share' in Germany and its stability in Britain are less surprising.

However, closer analysis does not support the mobilization approach as an explanation for wage trends: the increase in real wages in Britain in the 1980s and 1990s, which exceeded that of the 1970s, does not correlate with the decline in union density and industrial action. In addition, today pay settlements in non-union firms are nearly the same as in unionized establishments. Whether the British unions are as strong as or even stronger than the German unions, the simultaneous decrease in union membership and growth in real pay cannot be explained with an approach that defines industrial relations merely as antagonistic power relations.

This neither means that there has been no connection between worker mobilization and pay movements in the past, nor that there will be none in the future. For the relevant period, however, there is no support for such a link. Possible effects are, at least, more mediated than can be explained by using the mobilization approach. It is necessary to return to issues of efficiency, morale and mimetic isomorphism.

'Mimetic Wages'

The Problem of Uncertainty

As a starting-point, we set out our explanation in an ideal-typical fashion. In principle, any single employer's pay decisions (like other managerial decisions) face the problem of uncertainty. Considering both the competition for employees in the labour market and cost competition in commodity markets, the appropriateness of pay decisions depends not only on internal calculations or negotiations, but also on the decisions of other employers. In addition, as Ross (1948: 79) noted, 'wage bargaining looks forward, not backward'. Since no employer is able to anticipate what other employers will decide, a constellation of 'double contingency' exists. Theoretically, no employer knows what an adequate pay decision will be. But in practice, procedures are found which come close to a solution.

The German system of industrial relations offers such a solution through multi-employer bargaining. Once ratified, sectoral agreements are binding for both employers and unions until their termination. Downward deviation from the agreement is illegal for unions as well as for members of the employers' associations; only better conditions for employees can be agreed at establishment level. Although not all German employers are members of an association, 'outside employers largely follow the outcome of sectoral bargaining' (Traxler, 1994: 178). Wage agreements in one region set the intra-sectoral pattern for other regions and are usually seen as a pattern for other sectors. One should not overestimate the inter-sectoral effects of 'pattern bargaining', but the sectoral agreement still provides a strong signal that orients most employers within the sector.

Since multi-employer agreements have collapsed in Britain, this solution is no longer available. However, multi-employer bargaining never played as central a role as it does in Germany; it was adapted by plant or company bargaining within a two-tiered system. Here, the contingency problem was solved in another simple, but effective way. Unions at workplace level usually demanded 'more' than other unions had achieved within the same establishment or in other establishments in the region, whereas the employer's objective was to achieve a settlement markedly below the union claim. For British employers, therefore, it was more important to have a good tactic to counter union demands or a strategy to avoid union representation within the company. As long as most pay settlements were negotiated, solving the wage problem remained comparatively simple. Non-unionized companies could orient their decisions towards pay settlements in similar companies or the local 'going rate'. As Ross (1948: 50) argued, such comparisons were

important for the wage decisions of an employer, 'whose greatest anxiety, in the absence of imperative economic pressures, is to avoid "getting out of the line"'. However, the need to follow the collective agreements in unionized establishments has obviously lost importance for non-unionized establishments today.

No matter how 'efficiency' is defined and how convincing the particular theoretical arguments are, the underlying problem is that under the condition of widespread efficiency wages (or wages to maintain 'good morale', according to Bewley), single employers cannot know what are the equilibrium wages. Therefore, employers in non-unionized establishments have only two means at their disposal to decide what adequate wages are: they can haggle with single employees about pay changes or (like firms which still bargain with unions at company level) they can look at other employers' pay settlements ('watch each other', as White (1981) puts it). The first method would cause high labour turnover and transaction costs. Negative effects on employees' 'morale' and 'efficiency' could be anticipated. The second method is essentially imitation. Wages resulting from imitation should be called 'mimetic wages', rather than 'market wages' or 'efficiency wages'.

Like efficiency wages, mimetic wages can avoid shirking and motivate employees as if they were based on an 'implicit contract', although they do not actually result from an employer's estimation of 'efficiency' effects at a particular workplace. In an ideal-typical system of mimetic wages, 'paying what others pay' is the only rule for employers to follow. Consequently, if all employers participated in the game, pay would be determined entirely by earlier settlements. Thus, mimetic wages are determined by history, not by the rules of the market. If this is the case, the value of labour power is determined by 'a historical and moral element', in a more radical sense than Marx thought, because there is no quantifiable relationship to any 'means of subsistence'. On the contrary, wages determine what Marx (1975) says is 'practically known' as the necessary means of subsistence: what is perceived as the normal standard of living is an outcome of the wages that are usually paid.

Although employees and unions are in most cases not included in the determination of mimetic wages (in this sense, decision-making is unilateral), the employees' consent is indispensable. Mimetic wages have to substitute for the legitimating effects of both market pressure and efficiency wages. This substitution occurs in a simple, but still efficacious mechanism that results from the imitation process itself. Normally, employees have two standards to which they can compare their current wages: the level of wages they received in the past and the wages other employees earn. In the case of mimetic wages, both comparisons lead to satisfactory results. As long as employers 'pay what others pay', employees will 'get what others get'. Moreover, they receive the same as

or, in the empirical case of Britain, a bit more than they got before. Of course, the mechanism of mimetic wages always depends on environmental preconditions, but assuming that these do not change, the mechanism is self-stabilizing.

Preconditions, Actors, and Limitations

The first precondition concerns the maintenance of employee satisfaction. Employees have to rate the wages as 'fair', that is, as following the principle of reciprocity. Because equilibrium wages are unknown and, therefore, it is unclear what an 'equal exchange' would be, reciprocity can only mean an exchange of money for services perceived as appropriate (Akerlof, 1982; Akerlof and Yellen, 1990). To a certain degree, the acceptance of reciprocity can be described as a customary rule embedded in everyday routines (DiMaggio and Powell, 1991). Since no absolute criterion exists for the fairness of a pay decision, following the pay rises of other employers becomes itself a matter of fairness. Thus, the imitation of pay rises is not only a consequence of uncertainty and mimetic isomorphism, but determines what is to be regarded as fair.

However, what is perceived as fair pay is not independent of other societal influences; it depends on public discourse. Reciprocity can be redefined by the actors. The demands of both owners and employees may increase and thus destabilize the mechanism of imitation. Shareholders may demand higher dividends and trade unions may agitate against management rewards and worker exploitation. Such effects are historically evident, but the latter, in particular, has obviously been weak in recent years. To summarize, the maintenance of fairness and of the proportional development of demands is an indispensable precondition of the mimetic wage mechanism, which seems to have an 'elective affinity' with social partnership: the latter is favoured by the former and vice versa.

A second prerequisite is the employers' ability to pay. Although it is not possible to say what the adequate level of pay is, wages are limited by sales and production costs. In a closed economy, the cost limit can be regarded as elastic because wage increases can cause inflation in lieu of sales decreases. In the extraordinarily internationalized British economy (Hirst and Thompson, 2000), this possibility is limited: cost reduction without pay cuts requires redundancies. Arrowsmith and Sisson identify these as the 'downside' of efficiency wages and stress that, in contradiction to the postulated political objectives of decentralized wage determination, 'the employed "insiders" benefit at the expense of the unemployed "outsiders"' (2001: 149).

Third, the mechanism of producing mimetic wages requires great transparency: a company's management requires information on standards in

other firms in order to match these (or to pay more or less). But even if the information about former pay rises is available, management cannot predict future decisions by its competitors. Mimetic wages depend on high transparency concerning past decisions and a convincing assumption about future trends. This implies a stable 'system' integrated by common norms, procedures, or other institutions.

The mechanism of pay determination in Britain is driven by several actors. There are employers and managers, who have the formal right to decide; the state has gained more importance in recent years (the National Minimum Wage); and employers' associations still play a certain role. In addition, agencies gathering and providing information on pay and conditions have gained importance. Trade unions are also still among these collective actors: today, mainly at company level and only in a minority of workplaces. Analysing data from WERS98, Forth and Millward (2000: 14) conclude that

> bargained arrangements were more likely than non-bargained ones to have produced settlements that were comparable to those of similar workers in the same industry or locality. Some 87 per cent of bargained arrangements generated settlements that were in line with the industry norm, whilst 79 per cent of settlements were in line with the local average. The figures for non-bargained settlements were 72 per cent and 67 per cent respectively.

These figures 'lend support to the idea that trade unions reduce the variability of pay settlements'.

This does not mean that union pressure leads to higher wages, but it does help to bring settlements closer to the average. According to WERS98, managers reported that industrial action or its threat had practically no effect on the size of pay settlements (Millward et al., 2000: 205–12). It seems that British unions participate in the process of pay determination, but the objective of meeting the normal level of pay settlements is not really under discussion. In some workplaces, unions are very likely better informed about other establishments' pay settlements than are the employers. In addition, since receiving the 'going rate' can be seen as a matter of 'fairness', shop stewards might gain more support from the workers for pressure for standard increases than for higher pay rises.

Asking managers about the factors influencing pay rises, the results of WERS98 show two major influences:

> Employers very commonly cite the inflation rate as a major influence upon the size of settlements, but they also commonly say that settlements are the same for their employees as for others in the same industry. It is difficult to disentangle these two influences. However, we produce some empirical evidence that both are at work: private sector settlements were probably higher when background inflation was higher; and there is some

> evidence of employers following a 'going rate' [of increase] in their industry. (Forth and Millward, 2000: 25)

Trade unionists confirm this, in particular with respect to engineering industries:

> Although there is no longer any national bargaining . . . the Engineering Employers' Federation both at regional and national levels does provide an awful lot of information. The unions obviously know what the rates are as well. And there's just huge consensus about going rates. I can't explain that. It just happens to be the case and it's almost as if it's taking pay out of the sphere of dispute really. You're arguing about half a percentage point here and there. (Trade union officer, UK)

Regular pay rounds, still widespread according to Arrowsmith and Sisson (1999: 58), contribute to both transparency and reasonable expectations about temporary wage stability. Without them, it would be more difficult to know what pay rises take place, and assessing future developments would be much harder. Regular pay rounds are a survival of collective bargaining and traditional industrial relations. Whether formally agreed or not, a limited term is a natural feature of a pay agreement. Although regular pay rounds are also functional for the mechanism of mimetic wages, it is doubtful whether they would emerge under the precondition of a non-bargaining environment. Apparently, a history of widespread collective bargaining is a necessary condition for establishing a formal, unilateral, but stable and successful mechanism of wage determination. Therefore, distinct bargaining histories cause differences between isomorphic mechanisms in the engineering and retail sectors. In engineering, a history of multi-employer bargaining had created favourable conditions for the mimetic wage mechanism. The bargaining legacy in retail is more heterogeneous. Whereas large employers had agreements with trade unions (for example, Tesco) or substituted for unions by being a 'good employer' (for example, Marks & Spencer), small retailers often offered poor pay and conditions. The second report of the Low Pay Commission (2000: 42) states that the 'retail sector has the largest number of workers affected by the introduction of the National Minimum Wage', but that these effects are almost completely restricted to small firms. Although statistically retail is regarded as one sector, it actually seems to be divided into more than one 'organizational field'. In summary, whereas the engineering sector almost completely participates in the mimetic wage mechanism, positive wage isomorphism applies only to a segment of the retail sector. This marks a difference with Germany, where until recently collective agreements became binding for the whole retail sector through statutory extension.

Because average pay increases within the 'isomorphic sectors' are currently above the rate of inflation, the latter cannot determine the final

amount of rises. Nevertheless, the cost-of-living increase is an important figure. However, since assumptions on future developments cannot be avoided, even pay rises based on the rate of inflation can be a problem for employers, especially when inflation is high and fluctuating, as it was in the 1970s. In such an environment, a settlement always bears the risk of being considerably above or below the inflation rate. Therefore, each party tries to pass on the risk to the other, which makes it difficult to achieve an agreement without taking industrial action. In recent years, inflation has been low, which has had an impact on rationalizing pay decisions. Moreover, pay rises which meet or slightly exceed the inflation rate seem to be highly legitimized.

However, stability and transparency are also important influences on pay rises, which have exceeded inflation in recent times. Without assistance, single employers would not have enough information on wage movements, and several specialized agencies have been established to provide (sectorally differentiated) pay data for employers. While the primary function of these agencies is to spread information on current trends, their assessment of future developments also has an impact on employers' pay decisions. Their accumulated expertise also allows these agencies to act as business consultants in a broader sense: they can tell an employer not only what others do, but what should be done. In other words, they not only mirror pay decisions, but play an active role in influencing further decisions by recommending 'best practices'. Incomes Data Services (IDS), Industrial Relations Services (IRS) and the Hay group are three of these agencies and their activities are not restricted to the issue of pay rises. For example, Hay's pay databank includes not only pay rates, but also points resulting from many companies' analytical job evaluation.

After the demise of multi-employer bargaining, some employers' associations have changed their function and have also become information agencies for their members. The EEF, for instance, is still an important information source for its member companies. The Confederation of British Industry (CBI) has its own pay databank and the Labour Research Department (LRD) regularly offers pay data to trade unions. Based on their panel survey, Arrowsmith and Sisson (1999) also stress that when management networks are taken into account, there is less fragmentation in determining pay and conditions in Britain than the absence of multi-employer bargaining would imply. In order to emphasize the role of the 'pay-and-conditions information agencies' within this system of determining pay and conditions, we speak of it as 'the benchmarking system'.

Finally, we have to return to the question of labour market effects. We do not completely deny such influences, since the possession of otherwise scarce qualifications by some specialists in the engineering sector

may be rewarded by 'merit pay' or 'performance-related pay' above the average. But against a background of staff reductions this hardly explains the wage trends described for this sector. (Despite sectoral agreements in German engineering, similar effects occur there anyway.) In the British retail sector, the opposite deviation from sectoral wage trends can be found. However, probably this does not signal labour market effects for individual employer's wage decisions, but distinct fields of wage determination connected to different retail formats (that is, distinct 'organizational fields'). The example of retail shows, nevertheless, that mimetic wage isomorphism does not guarantee pay increases. Firms with poorly qualified and easily replaceable employees can follow an alternative course of organizational development. However, this should be regarded as a form of 'bad isomorphism' rather than be equated with market determination.

Concluding Remarks

We have focused on analysing the benchmarking system with respect to pay rises. In principle, its mechanisms are not restricted to mimetic wages. De facto, much management knowledge of 'best' or even common practices is transferred to companies by 'information agencies' or by unmediated orientation towards other companies' practices. This applies to grading structures and incentive pay, but here the differences between companies are more distinct: benchmarking effects produce less isomorphism on these issues, partly because it is more difficult to obtain data in a comparative form (Arrowsmith and Sisson, 2001: 144).

Compared with the sectoral agreement model, the benchmarking system lacks the capability of control. Within this system neither employees and trade unions nor employers can articulate and push for their collective class interests. Pay and conditions are a result of decentralized action, despite some relevant effects from the 'information agencies'. In Germany, employers and trade unions can agree on 'moderate' pay rises without risking negative efficiency effects or damaging employees' morale in a single organization. The British benchmarking system, however, does not allow for consciously controlled changes without state intervention. As a result, in a situation of weak union power, small wage increases are more likely to occur in Germany than in Britain.

The current high earnings inequality in Britain represents an important difference from both Germany and the former British situation. In this respect, trade union participation obviously matters. Metcalf et al. (2000: 16) conclude that even today 'workers in the organised sector have much lower pay dispersion than those in the unorganised sector' and that

'unions narrow the wage differentials between women and men, blacks and whites, those with health problems and those without, and between manual and non-manual workers'. In order to avoid problems for social cohesion, state intervention seems to be more necessary under current British conditions than in Germany. Thus, the British state has to act to limit social inequality via the National Minimum Wage legislation.

Apparently, the main difference between the British and German models is that between a voluntary mechanism to achieve isomorphism and a coercive one. However, this difference is less decisive than it seems. Although German sectoral agreements are legally enforceable, employers can leave their associations and subsequently escape the sectoral agreements. As noted earlier, unaffiliated employers have always decided voluntarily whether to observe the sectoral agreement through mimetic isomorphism. If single employers withdraw from multi-employer bargaining and refuse to adapt voluntarily, German and British unions are in a similar situation.

The stability of both the German sectoral agreement model and the British benchmarking system depend on the employers' willingness to participate. But whether this can be maintained depends on each employer's calculations as well as on normative rules and customary practices. Experiences in East Germany are one of the factors which cast doubt on practices once taken for granted in West Germany. If individual employers leave multi-employer agreements, they place pressure on trade unions for concession bargaining at sectoral level, but may still decide on pay and conditions with regard to the agreement. Under these circumstances, free riding is an attraction for German employers. But abandoning the imitation process results in the risks mentioned previously: the difficulties of knowing the market level for wages and conditions, and the erosion of employees' commitment. Therefore, a change from the sectoral agreement model to the benchmarking system seems more likely than a switch to market determination.

Thus, if the sectoral agreement model in Germany continues to erode, it seems improbable that this would lead to a determination of pay and conditions by the market, but rather to mechanisms similar to those in Britain: mimetic wages and uncontrolled isomorphism, along with growing earnings inequality between employees. With state assistance both inequality and pay rises could be restricted, but the latter seems unlikely in the foreseeable future. Especially for employers, therefore, dismantling the German sectoral agreement model would hold serious risks. Although the behaviour of single employers within a benchmarking system can be explained not only by institutionalized routines, but also by rational decisions under conditions of uncertainty, the system as a whole lacks rationality and is beyond societal control.

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WERNER SCHMIDT is a Researcher at the Research Institute for Work, Technology and Culture, University of Tübingen.
ADDRESS: Forschungsinstitut für Arbeit, Technik und Kultur (FATK), Hausserstraße 43, 72076 Tübingen, Germany.
[e-mail: w.schmidt@uni-tuebingen.de]
BERND DWORSCHAK is a Researcher at the Fraunhofer Institute for Industrial Engineering, Stuttgart.
ADDRESS: Fraunhofer-Institut für Arbeitswirtschaft und Organisation (IAO), Nobelstraße 12, 70569 Stuttgart, Germany.
[e-mail: bernd.dworschak@iao.fraunhofer.de]