# Struggling to Follow the High Road:
# Unionised Firms in an Open Economy

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## Introduction

Collective bargaining is a voluntary process entered into by employers and trade unions to establish pay and working conditions either inside organisations, across industries or at times for the entire economy. Traditionally, collective bargaining has been used by unions to advance the interests of their members in a number of ways. One is to obtain wage rates above those prevailing in non-union firms (Dunlop 1954). Another is to exert some control over working conditions: on this perspective, collective bargaining is a process that seeks to cushion the internal labour market from the full vagaries of competition so that pay and working conditions are stable (Webb and Webb 1920). A third is to establish rules to govern the behaviour of management and employees (Flanders 1970). There is a fair amount of agreement that the extent to which trade unions can advance their interests through the collective bargaining depends on the amount of 'countervailing' power they possess (Martin 1992).

One influential view is that the use of countervailing power by trade unions to advance the interests of their members can actually have a beneficial impact on organisational competitiveness (see Mishel and Voos (eds) 1992). On this view, there is a high road and a low road to competitive success. The low road involves firms seeking to try and steal a march on rivals through reducing costs. By contrast, the high road is about firms following competitive strategies based on quality, which normally involves investing in innovative technology and upgrading the skill base of the workforce (Streeck 1997). By using the collective bargaining process to establish good pay and working conditions for employees, trade unions effectively create institutional barriers to firms following the cost route to competitiveness: to survive firms have no choice but to travel the high road (Wever 1995).

This is an attractive argument as it creates a win-win scenario: firms remain commercially successful and employees enjoy decent pay and working conditions. But this paper uses two Irish case-studies to suggest that it is proving increasingly difficult for unionised firms to lock into 'high road' business strategies. More and more, cost-based considerations are figuring as prominently as other quality-based factors in business strategies. The paper suggests that the economic openness of the Irish economy is increasingly pushing firms towards cost-driven business strategies. The organisation of the paper is as follows. Section one examines the pressures that are being placed on firms in Ireland due to the extreme openness of the economy. The next section examines the difficulties of creating a high road business strategy in response to market pressures inside Waterford Crystal. The following section sets out a case-study of the impact of a cost-reduction programme on collective employment relations in Shannon Aerospace. The fourth section draws out the main lessons from the case studies for the future of firm-level collective bargaining relations. The conclusions bring together the arguments of the section.

**The Openness of the Irish Economy**

The Irish economy is extremely open. Exports make up about 64 per cent of GDP while the figure for imports is 63 per cent. Multinational companies have a huge presence in the country's tradable sector, most of which are USA in origin. Roughly three quarters of the manufacturing labour force is employed in multinationals and these organisations account for more that 80 per cent of exports from the country.

More recently, the internationalised nature of the economy has been deepened in new ways. On the one hand, there has been a significant growth of the international financial services sector. On the other hand, after decades of being a net exporter of people to other parts of the globe, Ireland is now a net recipient of labour. Workers not born in the country, referred to locally as the new Irish, make up over 11 per cent of the labour force (Lane and Ruane 2006).

There is near unanimity amongst economists that economic openness is beneficial for a country (Freidman 2005). The argument is that economic openness brings businesses in the tradeable sector face-to-face with the world's best practices in particular industrial or service sectors. International economic interdependence ensures that organisations find it difficult to avoid this interaction: unless firms adapt in some form to international best practices as well as levels of competitiveness then they are likely to be increasingly vulnerable (Berger 2005). In other words, economic openness creates a productivity challenge for businesses. Responding positively to this challenge can reap dividends for organisations as they can become more capital and knowledge intensive, which allows them to pay employees higher wages. It also leads to economy-wide benefits. A country's ability to improve its living standards depends more than anything on its ability to increase its productivity performance (Gorg et al 2005).

Thus, high levels of economic openness impose real and persistent pressures on organisations to upgrade continuously. During the past fifteen years the spectacular performance of the Irish economy suggests that these pressures have been met successfully, thereby allowing the country to catch up with, and in some instance overtake, the standard of living of other advanced economies (Honohan and Walsh 2002). But this process has unavoidable consequences. In particular, as the economy has caught up so its price and cost-base has increased. Ireland has become a fully paid up member of the club of rich nations. This poses problems. One is that it becomes more difficult to attract inward investment – the cost/skill mix in other countries currently riding the catching up wave is as attractive, if not more so, to multinationals than Ireland's: it is instructive to note that the deeply impressive IDA has won only one big inward investment project in the past eighteen months. The other problem is offshoring – the migration of firms and jobs out of Ireland. There has been no close study of the extent to which offshoring is occurring in Ireland, but there is widespread acceptance that it has been happening and if anything is gathering momentum. Some economists regard offshoring as a routine extension of economic openness in that jobs lost due to globalisation will be compensated by jobs created in other parts of the economy (Mankiw and Swagel 2006). But this approach tends to underestimate the possibility of offshoring being a new powerful disruptive force that not only leads to actual job displacement, but also to a big increase in job insecurity: people now worry more about losing their jobs (Blinder 2005).

In a nutshell, as Ireland has prospered so the competitive challenge of maintaining, let alone increasing, current standards of living has intensified. In other words, the drive to improve productivity becomes more important as this is the only sustainable way to improve living standards. A country can use a variety of methods to maintain or improve productivity, including investing in infrastructure, R&D and skills. But also crucial is the behaviour of management and employees inside organisations. Those that successfully increase the average value of output of goods or services - the essence of productivity - are more likely to remain competitive. This is the high road scenario – employers and employees working together in the pursuit of high quality business strategies that hold out benefits for both of them. But in some economic sectors, particularly where cost plays a prominent role in a competitive strategy, responding to the productivity challenge in a high road manner is very difficult. Nevertheless, if no upgrading occurs companies will become vulnerable. Thus, the new business environment in Ireland has obliged organisations to focus more than ever before on improving productivity performance.

The argument presented in the literature on high road competitive strategies is that unionised firms are able to meet productivity and other competitive challenges provided they possess a number of properties. One is an internal system of collective employment relations that generates a high level of trust and cooperation among trade unions and managers (Gittal et al 2007). High levels of trust leads to a system of credible commitments emerging inside the firm whereby management and employees gain an assurance about the behaviour of the other party, but at the same time provide an assurance about their own behaviour (North 1991). Credible commitments in turn facilitate what Windorf (1989) calls ‘productivity coalitions’ inside the organisation. These coalitions promote shared understandings about the challenges facing the company and the formation of business strategies that meet these challenges in a manner that incorporates the interests of labour. Credible commitments also improve industrial relations inside the firm: workplace conflicts and problems, for example, tend to be low and when they do arise they are addressed efficiently and fairly. The continued ability of many German companies to pursue successfully competitive strategies based on the utilisation of high skills and the payment of high wages tends to suggest that it is possible for unionised firms to pursue high road competitive strategies. But the lesson from the case-studies below is that the adoption of such strategies by unionised firms in Ireland is proving difficult.

**Waterford Crystal**

Waterford Crystal was first established in 1783, but closed in 1851. However, it re-opened in 1947 as a small concern on the outskirts of Waterford. In subsequent years, the company grew rapidly to become in the late eighties one of the largest indigenously-owned manufacturing firms in Ireland, employing over 3,300 people in two factories, one in Waterford and the other in Dungarvan. Selling a wide range of high quality crystal glass products mainly to the USA - this market represented 60 per cent of total sales - was the cornerstone of the company’s success. However, since its heyday at the end of the eighties the company has struggled to be competitive on a sustainable basis and has had to implement a number of restructuring plans. The first big restructuring plan was introduced in 1989 to reduce employment numbers and increase efficiencies in response to a dramatic fall in profits. Between 1989-1995, the company shed more than half of its workforce, over 1600 employees were made redundant.

This huge rationalisation programme was strongly opposed by the unions in the company: a bitter 14 week strike occurred in 1990 over the implementation of the job cuts. Relations between management and trade unions were embittered and trust between the two sides reached a very low level. Four separate industrial relations agreements, which were only concluded after the intervention of the Labour Court, were required to end the strike. These agreements proved to be immensely important. On the one hand, they paved the way for the rationalisation of the company so that its cost base would be more in line with its market position. On the other hand, they established a quid pro quo which involved trade unions agreeing to the introduction of new work practices in return for the company investing in state-of-the-art new technologies. This far reaching and painful restructuring plan restored the company to profitability, but perhaps equally important it forged a closer working relationship between management and trade unions. A manifestation of this new found cooperation was the introduction of a profit-sharing scheme in 1992, which guaranteed that 9 per cent of profits would be distributed among employees. The cooperation was also at the centre of the new corporate strategy introduced in the early nineties, which put a heavy emphasis on training, better communications and improved working conditions inside the company.

In essence the company was trying to transform that nature of the company from a traditional craft-based manufacturing company to an operation using advanced technological production methods. The corporate strategy, *Waterford 2-5-0*, introduced in 1995, pushed forward modernisation even further. The company was considered to be facing two key challenges. One was an increasingly competitive business environment: the industry was seen as having few barriers to entry, thereby making new market entrants highly probable. In addition, the market was seen as changing in a way that made the ‘gift business’ as equally important as the functional household market to the company’s success. As a result, making premium glass crystal products whose design features would have a relatively short life cycle became a core aspect of the company’s corporate strategy. The second challenge facing the company was to deepen even further the use of new technology. Old style production methods such as using mouth-blow techniques were seen as increasingly obsolete. Thus, the formidable task facing the organisation was to make high quality products with the use of highly skilled workers cheaply: to combine cost and quality within the one corporate strategy required the focus to be placed on people management.

Part of the corporate strategy that evolved led to the creation of a workplace partnership in the company. The workplace partnership was configured as follows. At the company level, management and trade unions established an overarching partnership committee which devised and monitored joint efforts to improve workplace operation. In addition, specific project groups were established to develop a cooperative management-trade union approach to particular topics aimed at advancing the competitive performance of the company. Management and trade unions interacted with each other quite differently in these project group meetings than in collective bargaining sessions. In particular, the emphasis was very much on reaching agreement through consensus and on all parties adopting a problem-solving approach when addressing an identified matter. The whole thrust of the approach was to establish shared understandings between employees and management about the challenges that the company's faced and how these should be addressed.

Other people management policies were introduced to complement the move toward workplace partnership. An extensive training programme known as KTCEP, Knowledgeable, Technically Competent Employed/Employable Person, was implemented to upgrade the skills of employees. During the second half of the nineties, the company engaged in a huge training effort: on average 180 employees attended evening classes each year during 1995-2000, approximately 50 per cent of these were involved in obtaining a third level qualification; nearly 700 employees received on-site information technology training each year. As a result of the programme, approximately 500 employees were successfully re-deployed into different jobs.

The company also introduced new forms of team work, which allowed employees to get involved more than ever before in decisions about production and workplace matters. Communication systems were revised so that employees were informed early of any developments that had a bearing on the performance of the company. A more consensual style of management was introduced into the company: on the one hand, supervisors at the workplace were encouraged to build up employee loyalty and commitment rather than pursue narrow controlling actions; on the other hand, a close relationship opened up between the trade unions and the HRM department which allowed potential problems to be addressed in an informal, but effective manner.

The strategy yielded dividends. Profit levels were restored. New product ranges were introduced. The company's production system was fully modernised. Employees were upskilled and actual employment levels increased modestly during the late nineties. All in all, a winning 'high road' competitive strategy appeared to have been formulated for the company. But just as the company seemed to have been put on a secure footing, the company once again hit hard times. After nearly a decade of healthy performance, profits once again slumped in 2000. New low cost entrants to the industry capturing market share from the company alongside a general downturn in the market for glass crystal products were identified as the main reasons for the decline in profits. Introducing cost-cutting measures was the only effective way the company could respond to this situation.

But efforts to get an agreement on a rationalisation plan proved very difficult. Consensual relationships between management and trade unions were very quickly replaced by hard-headed negotiations about the number of jobs that needed to be lost. These negotiations proved protracted and the further they went on the more adversarial became the relationship between management and the trade unions. Finally, in 2002 the union and management concluded an agreement on a 'plan for renewal and future growth', which opened the door for voluntary redundancies, changes in work practices and the outsourcing of some activities to lower costs countries, such as Brazil. Organisationally, the biggest causality of the negotiations that led to the agreement was the workplace partnership. On the one hand, trade unions became disillusioned with the process – they had engaged fully with the partnership process yet found that it could not save jobs. On the other hand, management regarded the process as not robust enough to make far-reaching decisions to secure the viability of the organisation. Thus, the partnership experiment floundered as a result of it neither being able to satisfy the social concerns of employees nor the competitive concerns of managers. The shared understanding that had been fostered in the late nineties unraveled rather quickly when commercial times turned bad.

A new senior management team was installed in the company in 2002-03, which resulted in the introduction of a fresh human resource management strategy. Perhaps the main feature of this strategy was a move away from a partnership approach to industrial relations and a greater emphasis on modern HRM thinking. A number of aspects to this strategy stood out. One was that the traditional distinction between hard and soft HRM was considered artificial: it was considered important to combine cost and quality issues within people management policies. Ensuring that people management both embodied and advanced the overall corporate strategy of the company was another element of the new HRM approach. Interestingly this was not interpreted as the HRM department getting closer to any other function or department within the organisation. Senior human resource managers thought that being relatively autonomous from other departments enhanced the status of the HRM department among other managers: being separate was seen as allowing a mystique to develop about how HRM managers concluded agreements with unions on organisational restructuring, which worked to enhance the their status. At the same time, the new approach emphasised the importance of the HRM department 'internalising' the corporate strategy within its activities so to advance the overall strategic goals of the organisation.

The new HRM approach involved stepping back from partnership-type employment relations policies pursued by the previous HRM team. Part of this involved streamlining the formal and informal systems of management-union interactions. Previously, the management team in most management-union forums and committees consisted of about 20 people, however, this number was radically cutback to four people. Avoiding protracted discussions within the management team on what positions should be adopted on particular matters was the main reason behind this change. Greater responsibility was devolved to line managers on people management policies - a practice espoused by nearly every modern human resource management textbook. Making people continually aware of the challenges facing the company in as full and honest a manner as possible was another part of the new human resource approach. This reflected the underlying strategy of the new human resource management strategy of building up a reputation for integrity and professionalism.

Thus, the new human resource strategy envisaged gaining the trust and cooperation of employees not by enacting workplace partnership policies, which, in theory at least, seek to balance the interests of employees and employers, but by HR managers acting in a highly professional and ethical manner. Under the new approach there was no attempt to marginalise or in any way undermine the trade unions. The head of the HR team sought to maintain good working relations with senior trade union representatives based on mutual respect, but independence from each other. This situation was seen as more conducive to ensuring that employees bought into agreements concluded by management and the unions. Thus, the new human resource management approach was more professionally-focused, which advanced the interests of the company on the one hand, but encouraged an organizational culture that emphasised dignity and respect of employees.

Soon after the arrival of the new management team and with the 'plan for renewal and future growth' agreement in place, the company announced a large-scale redundancy plan, which involved the closure of the Dungarvan factory with the lost of 390 jobs; a further 95 jobs were axed at the main factory in Waterford. These job losses reduced the workforce in the company to about 1,000. Unlike in the early nineties when the first big rationalistion programme was introduced, trade unions re-acted in a muted, resigned manner: launching a major campaign of opposition was not considered a viable option largely because it was recognised that the company was in a perillous position. As a result, even though the unions wanted the company to devise a corporate plan that would save jobs, they focused mostly on negotiating the best possible redundancy deal with the company. These negotiations, which occurred under the stewardship of the Labour Relations Commission (LRC), the public employment dispute resolution body, although protracted resulted in a deal. The agreement mainly related to the severance package for workers made redundant. The parting terms negotiated were six weeks pay for each year of service in addition to normal statutory payments, with a maximum payment of € 121,000 (after 25 years service). The fact that the voluntary redundancy call was overscribed suggests that the deal was generous.

The job cuts clearly signaled that the company was finding it hard to get out of commercial difficulties. Despite trying to upgrade its products, the company was still unable to increase market share: it found competing with lower priced producers based in Asian particularly difficult. Profit levels were also hit by the collapsing value of the U.S. dollar, a market that had traditionally accounted for at least half of Waterford's worldwide sales. The hope was that shedding a third of its workforce would better position the company to address the competition. Since 2003 a variety of new initiatives have been introduced to strengthen performance: new products have been designed to appeal to younger tastes and products have been strengthened so that they can be cleaned in dishwashers. In addition, the company has increasingly examined the possibility of shifting production overseas, including to Brazil, where Waterford-branded wine glasses are produced.

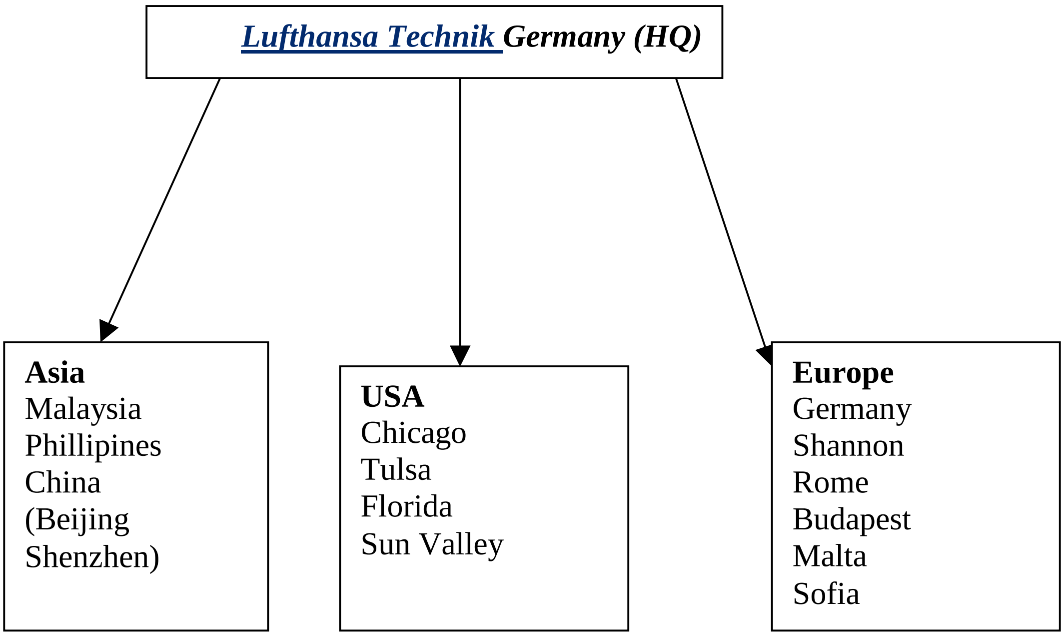
During the past four years despite these various activities the company has continued to struggle to make a profit. In other words, the big rationalisation did not have the effect of making the company fully competitive. Perhaps this is the reason why the company announced in late 2007 that it wanted to lay off nearly 400 employees, or 44 percent of its work force. Moreover, there is speculation that the company is negotiating with Steklarna Rogaska, a glass manufacturer based in Ljubljana, Slovenia, to shift more production lines from Waterford to the central European country. The Slovenian company already produces one Waterford-branded line of hand-cut crystal, Marquis. After this restructuring exercise the company will have reduced its workforce from 3,300 to 550 in about eighteen years. Once the icon of Irish artisanship, the company is clearly of the view that glass production has only a limited future at the Waterford plant. Other countries are considered to be better positioned to combine low cost and high quality production than Ireland.

**Shannon Aerospace**

Shannon Aerospace was established at Shannon Airport in 1992. Currently the company employs nearly 800 people, most of whom are highly skilled. It is a wholly-owned subsidiary of Lufthansa Tecknik AG, which has its headquarters in Hamburg Germany. The company performs heavy maintenance checks on Lufthansa's fleet and other airlines such as Airbus, Boeing and McDonnell Douglas: it also specialises in the heavy airframe overhaul of narrow body aircrafts. The factory at Shannon contains five maintenance bays, equipped with full docking for heavy maintenance, and a sixth bay that is dedicated to strip and painting work. A form of lean production is used to do interior refurbishments and external sheet metal repairs, which sometimes involves the complete overhaul of the aircraft. A quality assurance scheme ensures that all repair and maintenance activity is documented and checked on a continuous basis. In addition, the IT system in place fully records all man hours and materials consumed by a project. Owners of the aircraft can receive this information on a real time basis. As a result, a customer can monitor the progress of any repair or maintenance work being done on an on-going basis. The company encourages interaction between its workforce and a customer to create customised solutions to identified problems.

The workforce consists of a mixture of professionals, managers and technicians, painters and cabin trimmers. Most of the technicians and skilled operators have gone through the company's in-house training programme. This two year, highly intense programme is not a traditional craft apprenticeship scheme, but one that encourages employees both to develop core competences and work flexibility in teams. Because work organisation is based on Japanese lean production principles, the company makes every effort to reduce job demarcations. In addition, it operates a highly flexible working time policy, which seeks to fully utilize the factory by operating a 24 hour, 7 day a week work schedule. Staff are also required to work during busy periods and in return get extra time off during off peak times. Thus, although the company is owned by a German company, the work organisation system is influenced more by Japanese management principles.

Shannon Aerospace's parent company Lufthansa Tecknik AG is one of six business segments of Lufthansa.  Lufthansa Tecknik AG is a world leading company in the maintenance, repair and overhaul business (MRO). It has an extensive network of companies and facilities in Germany, but it also holds direct and indirect stakes in 42 companies. Figure 1 sets out the countries where the company has subsidiaries. As can be seen, Shannon Aerospace is only one of six subsidiaries that the company owns in Europe. The company operates a fairly decentralised human resource management policy: little attempt is made to transfer headquarters-designed human resource management practices to Shannon Aerospace However, the subsidiary in Ireland is expected to pursue policies and practices that are not only consistent with but actually advance the corporate strategy of the group. Overall, the company's performance has been strong in recent years due largely to the growth in the air transport sector, which has caused the number of aircraft in use to expand considerably. In recent years, the company has expanded its contract work for airlines outside the Lufthansa group. This contract work came on stream due to traditional airlines deciding to outsource maintenance and repair operations (MRO) as well as to the new low cost airlines not having internal MRO capacity. In 2006, the operating profits for the company overall were €248 million.




Although the MRO market was buoyant worldwide, the company was of the view that the business environment was becoming more competitive. Aircraft engine manufactures had started including long-term maintenance contracts as part of the sale package for engines. The MRO companies of traditional airlines, those that had not been outsourced, began to seek increased market share with an aggressive pricing policy. New firms from eastern European and Asia had entered the market to capture some of the growing repair and maintenance business in these areas. In response to these developments the company introduced in 2005 a cost-cutting and efficiency programme known as Perspektiven Technik. The main aims of the programme are to reduce material stocks and logistics costs, to make work systems more flexible and to optimise material purchasing. This was the corporate strategy framework within which Shannon Aerospace had not only to operate, but also to contribute.

In addition to this efficiency strategy, the company has embarked on an expansion policy to increase capacity in all three main regions in which it is operating. In Europe, the company has recently opened a new facility in Sofia, Bulgaria which comes not long after opening a facility in Budapest, Hungry. These plants are engaged in broadly the same time type of work as Shannon Aerospace; in fact personnel from the Irish plant were heavily involved in the planning and training required to get these sites up and running. At the moment, the skills and experience that exists at Shannon gives this factory an advantage over the new establishments. But in a few years time this advantage is likely to have eroded and as a result Shannon Aerospace will be operating alongside other plants inside Lufthansa Tecknik AG which have much lower labour costs. There is nothing to suggest that senior management at the company’s headquarters in Germany will introduce internal changes which would oblige the different plants in the group to compete for work, but if such an internal form of competition were to be introduced then the Irish factory would be at a distinct advantage. At the very least it can be said that the corporate context is not conducive to any form of rent-seeking on the part of the Irish plant.

Between 1992, when the factory was first set up, and 2005, employment relations inside Shannon Aerospace were stable. Most of the technicians and others directly engaged in the repair and maintenance of aircraft were in the recognised trade union, SIPTU. During these years the company had operated under the terms of the national social agreements which established rates for annual pay awards, although it did engage in occasional local pay bargaining when this was permitted by a national wage agreement. Most of these negotiations were completed professionally. In addition, workplace modernisation, which has had to be done virtually continuously as production methods and materials have a relatively short cycle in the industry, was never a source of conflict between unions and management. In many ways, employment relations in the organisation during its first thirteen years displayed all the positive features of successful collective bargaining systems in unionised firms.

The union was not compliant, but equally it was not belligerent. Management were business-oriented but equally realised the importance of keeping employees on board. Formal interactions between management and unions were respectful and professional, which allowed problems and differences of view to be addressed in a manner that was focused on obtaining solutions rather that on engaging in recriminations. Close informal relationships between key trade union representatives and management complemented formal processes. These informal channels were continuously used to ensure that problems were addressed quickly and promptly and to keep each party aware of developments that were emerging. In other words, the collective bargaining system gave rise to credible commitments between the trade union and management: each gained an assurance about the behaviour of the other party, but at the same time provided an assurance about its own behaviour.

But this stable industrial relations situation changed in 2005. The introduction of the parent company's efficiency exercise, Perspektiven Technik, obliged management at Shannon Aerospace to focus more than ever before on cost-cutting. A strategic review was carried out which concluded that while there was enough work for the company, the cost base of the operation needed to be dramatically reduced. In concrete terms this meant closely controlling the rate of pay increases on the one hand and implementing new work practices designed to reduce dramatically the man hours required to complete an overhaul of an aircraft on the other. Not long after the completion of the review, talks started with the main trade union, SIPTU, about the 4 per cent pay increase that had been set by the national agreement, Sustaining Progress. The company told the unions that they were evoking the inability to pay clause of the national agreement. In addition to the pay freeze, the company also told the union that a major work retructuring plan was required to improve the efficieny of the organisation.

The union agreed in principle to the work retructuring plan, but baulked at the pay freeze announcement. Not paying the 4 per cent permitted under the national agreement had an immediate negative impact on management-union relationships as well as on the wider commitment of the workforce. The professionalism that had pervaded the collective bargaining system for about fourteen years was replaced by suspicion and mistrust. Negotiations started in 2006 between management and unions about whether the company was able to pay the 4 per cent permitted under the agreement. These talks quickly broke down as each side held quite different views about the financial position of the organisation. On the one hand, SIPTU claimed that the company had made profits of between €1.2 million and €12.5m each year since 2000. On the other hand, the company claimed that it had accumulated operating losses of €24m which have been offset by contributions from shareholders and from government grants.

As a result of the breakdown in talks, an independent assessor was appointed to review whether or not the company was in a position to make the pay award. The assessor found in favour of the company, however the union refused to accept this verdict. Successive rounds of internal negotiations failed to solve the impasse which resulted in relations between the union and the company becoming even more acrimonious. In the end, the union balloted its members on strike action and employees voted in favour of industrial action. A week later the company issued protective notices to its 800 workers warning them that their jobs were in jeopardy. This major escalation of the dispute led to a variety of high level talks, which at times involved senior managers from Lufthansa Tecknik AG and the Minister of State at the Department of Enterprise, Trade and Employment. It also resulted in the LRC being brought into the negotiations to try and broker an agreement. Further protracted negotiations occurred, which progressed very slowly. Finally, an agreement was reached in September 2006 to implement the 4% pay increase awarded by Sustaining Progress. The agreement also committed the union not to take industrial action and the management not to introduce non-agreed changes to work practices.

With the conflict about the pay award settled, talks began on ways to reduce labour costs inside the organisation. Once again little movement occurred in these talks, which led to the LRC re-entering the negotiations. Within a year the professional way collective negotiations had previously been conducted had dissipated: both formal and informal relations between management and unions were polite but not workman-like. Towards the end of 2006 the company started to recruit new employees as contract maintenance assistants, who were to take on lower-skilled tasks within the plant. In addition, a new performance management arrangement was introduced and people returning to work after sickness absence started to be interviewed as part of a new sickness policy. These actions triggered a fresh round of conflict as unions adopted a policy of non-cooperation with these changes.

The company responded by taking out a High Court injunction preventing the union from carrying out its policy of non-cooperation: the company case was that the union had reneged on the September 2006 collective agreement and therefore was in breach of the 1990 Industrial Relations Act. The High Court agreed to the injunction, but also stipulated that both parties enter talks under the auspices of the LRC with a view to ending the dispute. Yet again these talks proved difficult to conclude, but finally a comprehensive agreement was concluded with a number of different elements.

The main element of the agreement involved the capping of regular pay increases. The capping was designed in manner to impact the least on lower paid employees in the company. Another aspect of the agreement was the introduction of a new profit-sharing mechanism to apply in 2007 and 2008. A further part of the deal gave agreement in principle for SIPTU to organise and negotiate on behalf 200 non-union employees who carried out administrative tasks. The agreement also committed the unions to engage fully with management on the recruitment of less skilled personnel who would do some of the tasks of existing employees. Management, for its part, agreed to consult fully with the union on the terms and conditions of employment of these new recruits.

The agreement prevented a difficult problem escalating even further, but it did not restore full working relations between the management and unions. Agreement between the parties has proven elusive on the terms and conditions under which the envisaged new semi-skilled operatives would be employed: terms in relation to possible career progression for the new employees have been particularly difficult to conclude. In addition, other disagreements such as on flexible working and sickness policy are now also on the negotiating table. Both parties say relations between them are not embittered yet they seen incapable of reaching any sort of agreement internally. On the one hand, management appears to be strongly committed to pushing forward its change management programme. On the other hand, the union appears equally committed to having as little to do with it as possible: the classic recipe for disagreement and stalemate. The upshot is that the parties have been forced yet again to call upon the LRC to obtain an agreement. The reciprocity and mutual understanding that had existed previously appear a distant memory and there is little prospect of these relationships being re-established in the near future.

**Lessons from the Case-studies**

Perhaps the most striking point that emerges from the two case-studies is the almost constant pressure on firms to upgrade performance through restructuring the organisation. The case studies show that neither company has been able to pursue successfully what might be termed a ‘high’ road business strategy. At the same time, it would be wrong to conclude that the organisations were consistently held bent on enacting purely cost-based strategies. During the nineties, for example, Waterford Crystal pursued a business strategy that centred on reducing costs and building a workplace partnership with trade unions. This two-pronged strategy sought to reduce the cost-base of the organisation on the one hand and to upgrade the skills of the workforce on the other. Cost and quality were combined in the one strategy. Yet this collaborative strategy was unable to put the company back on a commercially successful footing, at least not on a sustainable basis: market pressures trumped enterprise partnership.

The key lesson to take from this experience is that the black and white distinction often made in the literature between a high and a low road to competitive success is perhaps overdone. As markets become more internationally interdependent, business strategies will almost certainly have to combine in some form cost and quality considerations: the boundary between the low road and the high road is becoming increasingly blurred. At the same time, another lesson from the case-studies is that pursuing a business strategy that integrates cost and quality factors is often difficult. The efforts to pursue a partnership-based strategy at Waterford Crystal that combined these two factors failed and as a result paved the way for a more cost-focused commercial plan.

The Shannon Aerospace case-study shows that introducing a cost-reduction strategy into a unionised firm without careful planning can destabilise cooperative arrangements with the workforce. Relations between the unions and management in the company had been professional and workmanlike, but the decision not to award the pay increases set out in the national social agreement alongside the launch of a new efficiency programme embittered relations. The result was eighteen months of almost continual confrontation or threatened confrontation, which not only led to mistrust and disaffection on both sides but also to an inability to conclude agreements: there have been few signs of credible commitments existing between the two sides in the organisation recently.  Thus the design and implementation of an organisational change programme aimed at cutting costs needs careful planning.

The case-studies suggest that the management of the organisational change programmes in the two companies could have been done better. In both companies, the intervention of the state's dispute resolution agency, the Labour Relations Commission (LRC) was required to either obtain agreement on crucial restructuring plans or to prevent industrial action. At one level, this indicates the importance of having a public dispute resolution body with capabilities to intervene in organisations when collective negotiations have reached an impasse.  But at another level, it suggests that the negotiation and conflict management skills of both management and trade unions are not all what they might be in either organisation. Thus, on the surface at least, the evidence from the case-studies suggest that a new educational programme is required to go beyond the essentially reactive approach adopted by the LRC and raise the capabilities of both trade union officials and representatives as well as all tiers of management in conflict management skills. The case-studies highlight the importance of both management and trade unions having good leaders to ensure industrial relations inside an organisation remain stable and that mistrust and disaffection do not take hold.

A further lesson from the two-case studies is that the drive to reduce costs and make the organisation more efficient places unions on the defensive. Unions acted slightly differently in the two organisations. In Waterford Crystal, trade unions strongly opposed the first big rationalisation programme in the 1980s and engaged in a bitter 14 week strike. This was clearly an example of the trade union exerting countervailing power. However, the trade unions failed to win this strike, which weakened its strength within the organisation. As a result, the trade union response to the rationalisation measures in recent years has been more muted: although they officially opposed restructuring plans, they seemed to focus more on getting the best severance package for those workers made redundant. In Shannon Aerospace the response of trade unions to cost reduction in Shannon Aerospace was much more assertive: management claims that they were unable to make the pay increases stipulated by the national social agreement were strongly challenged at every opportunity. In addition, a policy of non-cooperation has been adopted in relation to management efforts to introduce more unskilled workers into the operations of the company. Thus, the unions are not rolling over in the face of the new emphasis being placed on efficiency by management. Whether this oppositional posture will be successful has yet to be seen.

The two-case studies suggest that a new approach to people management is diffusing within unionised organisations in Ireland. In the past, people management was a ‘Cinderella’ function inside organisations, with worker welfare being as much a concern for personnel managers, as they were known then, as the competitiveness of the organisation (Sisson and Storey 2000). As a result of this ‘dual’ role, as it was called by Legge (1978), personnel managers became the employee champion or advocate inside the management team. They also recognised the importance of developing cooperative ways of working with trade unions as it would allow collective industrial relations to operate more smoothly inside the organisation. Today, a new set of beliefs and assumptions about the nature of the employment relationship underpin the work of human resource managers. As a result, human resource managers have a quite different identity than their personnel management predecessors, and it is encapsulated in the business partnering model of HRM set out by Ulrich (1997).

According to this model, HR managers can play four distinctive roles in the organisation. One is the strategic partner role which involves human resource management getting close to the formulation of corporate strategy inside the organisation. A second role is the administrative or functional expert which involves the HR manager creating a lean, cost-effective HR function inside the firm. The third role is change agent and this involves the HR department getting involved in the implementation of organisational change plans. The final role is employee champion which involves the HR team listening to the concerns of employees and articulating these within the management team. From the case-studies it can be seen that the human resource management team now operate mostly as change agents inside Waterford Crystal and Shannon Aerospace.

In neither organisation were the HRM team close to the making of corporate strategy for the organisation. In recent years, the HRM team at Waterford Crystal operated to some degree as an administrative expert by streamlining HRM processes and by expanding the HR role of line managers. This activity at Shannon Aerospace although evident was not nearly as developed as in Waterford Crystal. In both companies, the HR team suggested that they performed an employee advocacy role, but the case-studies suggest that this role was not given as much importance as change agent activity. The HR department in both companies were at the centre of implementing the restructuring plans for the organisation. Both departments viewed this role as their main activity. Business strategies were very much seen as driving employment relations policies, which is quite different from the dual role played by personnel managers in the past. Thus, the studies indicate that old-style personnel management found in unionised firms in the past is being cast aside as human resource managers adopt a more business-orientated approach to their work.

The case-studies, albeit indirectly, throw light on the topical ‘Berlin or Boston’ debate about Irish industrial relations (Sweeney 1998). One view is that the twenty year social partner regime has moved Ireland closer towards corporatist industrial relations systems found in other European countries (Donaghey and Teague 2006). Another view suggests that social partnership amounts to nothing more than a new façade on an otherwise unchanged ‘Anglo-Saxon’ industrial relations system (Allen 2000). The analysis of these case-studies tends to support the view that Irish industrial relations systems lies somewhere between Boston and Berlin. In some respects the national social partnership system imitates the corporatist wage bargaining systems that were prominent in many north European countries a few decades ago. A key function of these corporatist systems involved trade unions making a political exchange with government whereby the unions agreed to pursue moderate wage demands in return for government giving them privileged access to policy-making and increasing public expenditure or social programmes (Pizzorno 1978). In essence, the collective bargaining system is organised to reduce the possibilities of industrial relations disorder**.** The Irish social partnership system can be seen as a variant of this approach as the national social agreements sought to establish rates for pay increases on a bi-annual or tri-annual basis that are consistent with sustaining high employment and economic growth.

But there are aspects of the corporatist bargaining systems that have not been replicated in Ireland. Although sometimes overlooked, many corporatist systems had strong 'micro' dimensions, which replicated inside organisations the social compromise that had been reached at the national level. For the most part, works councils that gave employees a formalised decision-making role inside the firm was the way corporatism was constituted inside firms (Muller-Jentsch 1995). In addition, many corporatist systems locked organisational industrial relations into a wider external network of institutions. One argument is that these ensemble of institutions imposed what has been termed 'beneficial constraints' on firms, encouraging them to adopt 'win-win' business strategies inside firms. In Germany, for example, the celebrated system of vocational training obliged firms to focus on organisational and technological innovations that would allow them to incorporate the supply of highly skilled workers (Streeck 1997).

The Irish system of social partnership has never really operated in this way. Unlike corporatist bargaining systems in other parts of Europe, a comprehensive micro-dimension has not emerged inside the Irish social partnership system. In the late nineties, there was a big initiative to launch enterprise partnerships, but these arrangements failed to get established on a widespread basis. Little momentum now exists to create enterprise partnerships. Thus, a split-level collective bargaining process has prevailed under social partnership. At the national level, strong behavioural norms developed around the social partnership process that encouraged all the parties to work positively to ensure that the effective operation of the system.

No such behavioural norms emerged at the local level in the absence of a meaningful organisational-level dimension to social partnership.

Unions and employers have had more or less complete autonomy to fashion the manner in which they interact with each other inside firms. All in all, social partnership in Ireland centralised pay bargaining, but left other collective bargaining matters, such as those relating to workplace change, in the hands of management and unions inside firms. As a result, two separate tiers have emerged to Irish industrial relations during the past two decades, one at firm level and the other at national level. This outcome is evident from the case-studies. The business strategies pursued by both companies were not restricted by any external institutional pressures. Thus, at the national level the industrial relations system has operated more like Berlin and more like Boston at the organisational level.

**Conclusions**

The message from this study is not up-beat as it casts doubt on the ability of unionised firms in many sectors to develop ‘high road’ business strategies. Highly competitive markets, mainly brought about by the relentless march of globalisation, are limiting the ability of firms to base their business strategies on skills, quality and technology alone. Increasingly, cost and price factors are entering the equation and trade unions are finding it difficult to prevent this from happening. In many ways, the new business environment in which many unionised firms find themselves in is making the old distinction between high and low road competitive strategies almost redundant. The issue nowadays is not so much about whether firms go for the high or low roads but how successful they are in combining quality and cost in the one business strategy. In other words, firms can combine cost and quality factors in a variety of ways, some of which have harsher consequences for trade unions and employees than others.

The evidence from these case-studies suggests that it is exceptionally difficult to compete more on costs and still maintain high commitment policies and practices with employees. At Waterford Crystal attempts to face adverse market conditions through building workplace partnership with trade unions brought success for a number of years, but in the end this arrangement was swept aside by the sheer intensity of external business conditions. At Shannon Aerospace, attempts to implement the efficiency plan devised by the company's headquarters have had a seriously negative impact on management-union relations. Although difficult, combining cost-based business strategies alongside high commitment employment relations is the most desirable route for firms to travel as it is more likely to ensure that a corporate strategy accommodates the interests and views of employees. The challenge for the future is to build skills and capabilities amongst managers and unions so that competitive strategies are forged that do not have hugely negative consequences for labour.

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