

Do Individual and Collective  
Agreements make a difference?

Working Paper Number 65

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February 2001

# Do individual and collective agreements make a difference?

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*Australian Business Limited* says 'yes' they do make a difference.

The question is one which can be answered in a number of ways. The phrase 'individual and collective agreements' can be responded to by inviting one to distinguish between individual and collective agreements and to answer with respect to each class of agreement, or the phrase can be taken to refer to the regime of agreement making. I have chosen to answer the question phrased in the latter way.

The phrase 'make a difference' begs the question of what kind of difference. Differences can be positive or negative, and that judgment strongly depends upon the perspective of the person answering the question. In the sense of having an impact – becoming a mainstream form of industrial regulation – the agreement making regime clearly has had an effect. DEWRSB<sup>1</sup> puts forward that, at 31 Dec 1999, an estimated 2.44M employees were subject to federal certified agreements (current or continuing), and there are additional employees under state agreements. It estimates that, at the end of 1999, only 22% of Australians in enterprises with 5+ employees were subject to award rates.

Even those commentators who argue that the bargaining wave has crested do not argue that bargaining has not had a significant effect, in the sense that I am using the term, even if they would argue that bargaining will not continue to make inroads into workplace regulation, or that bargaining is in slight decline.

Unfortunately the question of bargaining has become politicised to the detriment of reasoned analysis. Australians seem to spend more time than other countries in fighting elections over the nature of the industrial regime; 'industrial relations' separates coalition from Labor and state from federal systems. And out of all of this there seem to be no real decided principles – only political advantages.

For example, in 1991, unions were strongly opposed to the then NSW government's legislation which generally assessed agreements against statutory minima (wage rates were assessed against the award) rather than the award. Yet the Victorian government's *Fair Employment Bill 2000* effectively provides statutory minima against which certified agreements will be assessed. This bill has strong union support.

The real issue posed by preferring legislated minima, as opposed to arbitrated minima, is whether, having regard to the balance of efficiency and equity, there are terms and conditions of employment which should be subject to a general minimum. (There are then also second level issues such as how general minima might be altered over time).

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<sup>1</sup> *Agreement making in Australia under the Workplace Relations Act – 1998 and 1999*, A report prepared by the Department of Employment, Workplace Relations and Small Business and the Office of the Employment Advocate.

I have made these observations to draw attention to the political context in which the question of whether collective and individual agreements make a difference lies. The current federal decentralised agreement-making system is under threat. This is a system which encourages people to negotiate their own arrangements and which provides a diversity of ways of reflecting those arrangements. Yet, it is less than 10 years since there was a broad consensus about the need to move away from the centralised award system and to provide greater access at the workplace for the parties to determine their own appropriate mix of conditions.

This broad consensus arose painfully against the backdrop of the manifest failure of centralised award making once the pillar of trade protection was removed. Whilst I freely concede that the move to establishment or enterprise bargaining started within the award system, I think that it would be difficult to argue that agreement making would become the norm under a system where the general award was king. It is true that awards have become less prescriptive but they have done so under the pressure of the bargaining regime. Reduce bargaining and the tendency to re-prescribe seems destined to reemerge.

Worse perhaps, than restoring the centrality of awards, is to give greater significance to agreed industry settlements. Agreements are often more prescriptive than awards – albeit with detail relevant to the local level, but they can also be changed at the workplace when it is appropriate. Industry wide agreements would bring the generalised prescription typical of awards without the protection of merit in their making.

So my first point is that individual and collective agreements make a difference by reducing the need and tendency to prescribe at the general level.

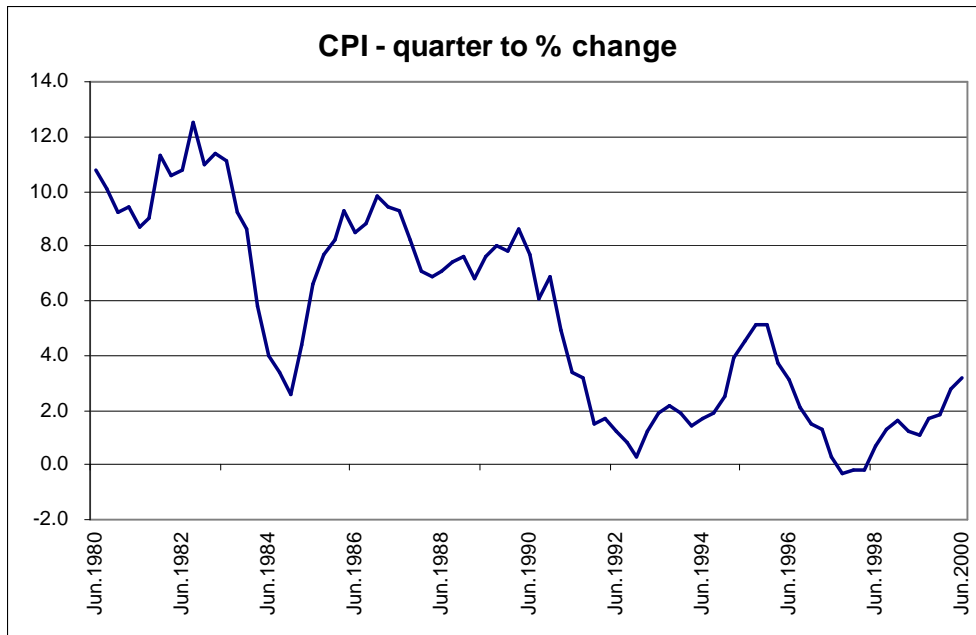
And at *Australian Business Limited* we think the evidence is there to support the need for local arrangements. We have identified a ‘virtuous circle’ which has emerged under the bargaining regime. I don’t think that we have found something that no-one else has noticed but it does not seem to have been much remarked upon.

Everyone is familiar with the concept of the ‘vicious circle’ where one bad thing leads and feeds into another with events spiralling downwards. The opposite concept is the ‘virtuous circle’ where a series of positive things lead and feed into one another to create positive outcomes. *ABL* believes a number of positive policy directions have worked together to produce significant improvements in labour market outcomes and that maintaining the current focus on enterprise bargaining is a necessary ingredient for the perpetuation of this virtuous circle.

It needs to be emphasised that *ABL* does not claim that enterprise bargaining is the sole cause of the improving labour market outcomes. This would be to claim too much for any single policy. Rather, enterprise bargaining is one of a number of policy settings that combine together to produce improving outcomes.

## **Price and wage inflation**

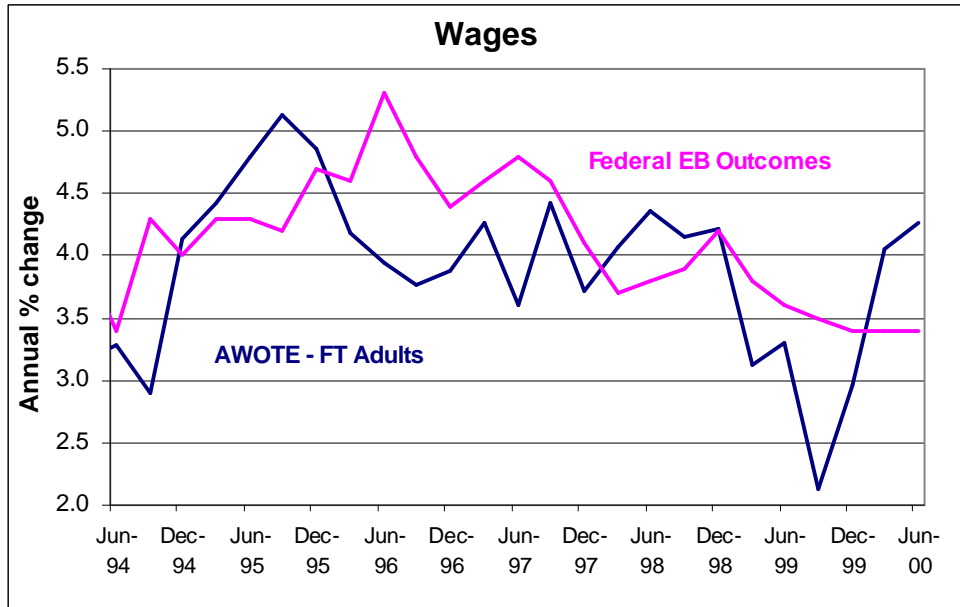
The high inflation of the 1980's has been supplanted in the 1990's with much lower rates of inflation. Since the latter part of 1991 inflation has rarely been above 3%. It is a basic tenet of enterprise bargaining that wage increases are linked to productivity gains as opposed to increases in the CPI. However, it must conversely be said that practice of linking wage increases to productivity rather than increases in the CPI is itself assisted by sustainable low inflation. If price inflation is significant, demands for wage increases to match price inflation would inevitably follow. CPI changes since 1980 show a low inflation environment over the last decade has corresponded to the life of formal enterprise bargaining.



Source: ABS Catalogue 6401

Comparing the CPI figures with available figures on wage inflation reveals that wage inflation has, for the most part and exceeded price inflation. This is true of agreement outcomes and also of minimum wage outcomes. It is also worth noting that since the introduction of the *Workplace Relations Act 1996* there has been a modest downward trend in wages growth (average annualised wage increase – AAWI).

The chart below compares AAWI for agreements struck in the quarter, with average weekly ordinary time earnings (full time adults) for the economy as a whole.



Source: ABS 6302; Department of Industrial Relations, *Wage Trends in Enterprise Bargaining*.

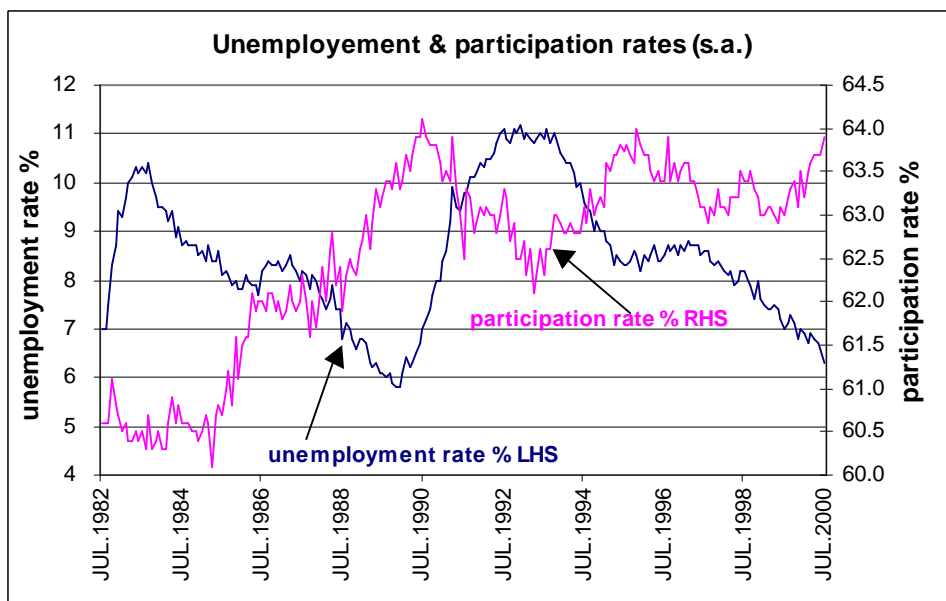
Clearly, wage outcomes have been sufficiently low to prevent price inflation.

### Employment and unemployment

Levels of unemployment remain an enduring concern of the community.

Unemployment had risen to more than 11% in the early 1990's and the rate of participation in the labour market had begun to fall. Since 1993 the unemployment rate has fallen significantly and continues to fall. In July 2000 unemployment was at its lowest rate for more than ten years.

Labour market participation increased over the years of the Accord, but had begun to fall in the early 1990s. From 1993 the labour market participation rate has increased and remained relatively stable.



Source: ABS

Again, a number of factors has contributed to these outcomes and *ABL* says that the advent of enterprise bargaining is one of these.

## Productivity

Productivity growth tends to ebb and flow in cycles. Often, these movements are synchronised with the broader economic cycle. Typically, when employment is growing strongly, labour productivity growth tends to be falling. Whilst *ABL* does not think that economics has been turned on its head, Treasury's quarterly labour productivity series shows labour productivity accelerating since the early 1990s.



Source: Commonwealth Treasury

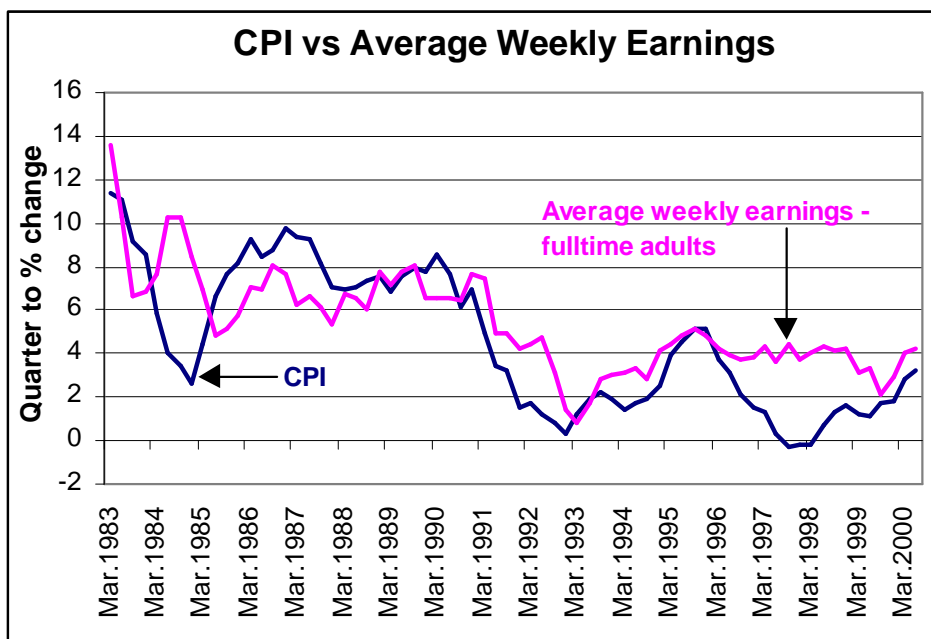
Treasury's quarterly real unit labour costs (conceptually equal to nominal wage growth less inflation less growth in labour productivity) show that real unit labour costs have fallen by 2.7% between the December quarter of 1996 and the March quarter of 2000. This welcome outcome seems largely the result of wages increasingly being determined by productivity. Undeniably, this in turn has been due to the moves towards enterprise bargaining ushered in the early 1990s.



Source: Commonwealth Treasury

This long time real unit labour costs ('RULC') series shows that RULC fell throughout the first six years of the Accord. During this period, total employment grew impressively. In the following period, RULC are relatively stable, which in recent times has allowed employees to receive real wage increases, while not raising real costs to employers.

It is arguable that the major difference in labour market outcomes between the Accord years the enterprise bargaining era is that the enterprise bargaining era has brought significant real wage increases, delivered on the back of the linkage between wage increases and productivity. In contrast the Accord delivered solid results in terms of employment and unemployment while real wages fell. CPI movements were ahead of Average Weekly Earnings for most of the Accord years with the position reversed under the enterprise bargaining era.



Source : ABS 6401, Reserve Bank of Australia *Bulletin September 2000*

A retreat from enterprise bargaining that is accompanied by a break in the linkage between productivity and wage increases is likely to result in a severe weakening of the improved labour market outcomes observed during the last decade of enterprise bargaining. While the Accord produced some impressive outcomes in terms of employment and unemployment, particularly before the recession, the corresponding decline in real wages is to be contrasted with the outcomes under enterprise bargaining.

### Another aspect to the virtuous circle

While the evidence discussed above establishes the labour market benefits of enterprise bargaining as a whole, a legitimate question arises in relation to whether such benefits have been visited on groups of workers such as female, non-English speaking background, young and part-time employees. The joint DEWRSB/OEA Report found that, on balance, formalised agreement making has not worked to the disadvantage women, NESB, part-time and young employees.

The report showed that:

- A broader examination of gender wage outcomes shows a narrowing of gender wage differences in agreements during 1998 to 1999 and, more generally, since the introduction of the *Workplace Relations Act*.
- Women, NESB employees and young people had similar or greater access to the main conditions of employment in agreements (such as leave entitlements, hours of work provisions, superannuation). Part-time employees had similar or slightly less access to these provisions.
- Overall, most family-friendly and equity provisions show a positive outcome for designated groups during 1998 to 1999 compared to the last reporting period.

- In collective agreements made directly with employees, females, part-time employees and NESB employees enjoyed greater access to the main conditions of employment while young people had a lower rate of coverage in relation to just over one half of the provisions.
- Many of the differences in access to the main employment conditions provisions in agreements experienced by young people can be partly explained by the concentration of young people in certain industries, such as retail trade and the accommodation, cafes and restaurants industries.

I have said that *ABL* thinks that a decentralised bargaining regime is important and I have suggested that it has been associated with social and economic benefit and that these benefits should not be put at risk. However there is less understanding about how bargaining operates at the enterprise level. *ABL* has also put its money where its mouth is. Under the Strategic Partnerships Industry Research and Training Scheme *ABL* is an industry partner with *ACIRRT* in a three year longitudinal study of bargaining outcomes amongst *ABL* members. This research is attempting to answer two questions

- Why do workplaces adopt the particular forms of industrial regulation that they do?; and
- What impact, if any, do different types of industrial agreements have on workplace processes and outcomes?

The longitudinal study is primarily survey based with some case studies which will look at processes not easily susceptible to survey inquiry. The same members will be surveyed during the project concerning their form of industrial regulation, who was involved and their views about objectives and outcomes. Because the study is longitudinal, it can pick up changes in the form of regulation at individual workplaces. So that if, say, small businesses learn about bargaining by moving from an informal contract system to (say) AWAs this should be picked up.

The first round of results has just been finished and made public.

Respondents were asked to identify which of an identified range of forms of regulation (award, agreement or arrangement) applied at their enterprise and which was the 'main' form of regulation, that is, which form of regulation covered the most employees and how many were covered by it. The logic of *ABL* membership meant that weighted results are influenced by the number of small business members – which means that results by workplace differ from results by employee. Thus, for example, about 42% of workplaces had awards as the main form of regulation, but only 37% of employees in the survey were in workplaces where awards were the main form of regulation.

The sample was also asked where the main form of regulation came from – did workplace regulation come from the outside (external – awards without over-awards and agreements where the main idea for the agreement came from outside the workplace) or inside the workplace (internal – federal and state agreements, where the main idea did not come from outside, unregistered agreements or over-award arrangements, and verbal agreements). 57% of workplaces (62% of employees) were

subject to a main arrangement which was internally generated and 36% of workplaces and employees to a main arrangement which was externally generated.

The 8% of workplaces (2% of employees) which reported there was no award or agreement was left as a residual category.

Internal arrangements were disproportionately common amongst workplaces with 100+ employees and also, although less disproportionately, amongst workplaces with fewer than 20 employees. Medium workplaces were disproportionately reliant on external arrangements.

A number of other workplace characteristics were also examined, but time does not permit discussing them. I wish to briefly look at several questions.

- Why did workplaces without an agreement not have one?

Size was important. Few companies reported employee, union or management resistance. Larger companies were either relatively happy with existing arrangements or did not feel the costs justified the benefits. Smaller companies (less than 20) were more likely to cite lack of time/resources.

- Is there bargaining fatigue?

25% of respondents with a formal agreement with a union said that it was their first such agreement. There were higher numbers of respondents with other forms of agreement – non-union certified agreement; AWAs unregistered collective agreements, individual contracts and verbal agreements reported that this was the first arrangement of this type. Allowing for some cross over of types of arrangement, which I do not think is a significant factor, this could be taken to support figures that the rate of expansion of the bargaining regime is slowing. DEWRSB figures support the view that the rate of coverage of agreements is slowing – although the number of employees under current agreements at 31 December grew from the previous quarter. Similarly, the rate of increase of AWAs has slowed.

The study asked about the range of issues which were subject to bargaining for those who had a non-award agreement. They were asked whether the range of issues bargained over had increased or decreased compared to the issues in the last agreement of award. Except in the case of enterprise bargainers (those under NSW agreements) the majority stated that the range of issues stayed the same. Only about 10% stated that the range of issues represented a decrease. Clearly most people had things to bargain about. However a decrease might not represent ‘fatigue’ since something like shift starting times, or family flexibility arrangements could be expected to remain stable over a longer time frame than a single agreement. Agreement over an important matters might be pursued at the expense of diversity.

- Who’s involved in bargaining?

Typically the idea for the chosen type of agreement came from management (56% of workplaces) and 25% of the time the idea came from employer organisations or consultants. In 58% of workplaces negotiation involved employee representational

forms or tribunals. There is clearly a size effect here and there may be some issue about what is understood about negotiation. For present purposes I wish to take this at face value, since it suggests that if management is selecting the instrument, and often negotiation does not involve representative stakeholders, then management should be achieving its objectives.

- What are management's objectives and is it getting them?

20% wanted to improve workplace productivity and 24% wanted to consolidate changes or harmonise terms and conditions across the workplace. Managers were not seeking to cost cut (4%), nor to improve staff retention (6%). They were asked about the effect of the agreement on profitability and labour productivity. 35% of workplaces reported improved profitability and 40% reported improved productivity. Almost all the remainder said the agreement had no effect. Where improvements were identified managers were asked what the main cause of the change was. Changes to the organisation, work culture, products or services was the most common explanation for profitability change (30%) and productivity (27%) with improved skilled /motivated workforce was also common (23%). These managers were somewhat more likely to have productivity measures in their agreements.

The report concludes that agreements do not usually cause productivity or profitability improvements – these improvements arise from a multiplicity of factors - but where this has occurred the agreement has typically contributed to the process.

These are modest but important outcomes.

- Satisfaction

The report identifies a high level of satisfaction (satisfied/very satisfied) with the agreement (70%). Only 6.2% were dissatisfied or felt it was too soon to tell. (I should also point out that most of those reliant on awards tended to be satisfied (80%). Agreement satisfaction was lowest with union certified agreements (51% - dissatisfaction – 16%) and highest with unregistered written collective agreements (92%); non-union certified agreements 77%, verbal agreements 76% and NSW agreements sat on the average (70%).

So what are we to make of all this?

The impression presented by this data is that most *ABL* employers had relatively modest ambitions regarding the outcomes of enterprise bargaining. A majority of respondents were unable to confirm that their agreement had a positive impact on the achievement of various goals (although of those who saw productivity or profitability improvement the majority saw the agreement as playing a part) but they were nonetheless satisfied with their agreement. Why are they satisfied?

Two possible hypotheses emerge. One hypothesis is that agreements provide the opportunity to formalise workplace practices, to consolidate change, they facilitate or legitimise change. This needs further research given it is seen as a desirable outcome. Another hypothesis is that satisfaction arises from the array of choice employers now

have. That is, employers are satisfied with the regime of choice allowing them to choose the most appropriate instrument or arrangement for their circumstances.

*ABL* sees the diversity of responses as supportive of this hypotheses, but again more research is needed. Some further evidence on this hypothesis may come from the longitudinal survey.

The industry partners are currently examining the basis for supporting case studies. Case studies were always contemplated in the project design, but the first results raise the question of their exact focus and whether there should be some increase in the number of studies. Clearly the dynamics of bargaining and the question of how agreements facilitate or legitimise change, and indeed, quite what this means, remains to be teased out. Case studies could also throw light on the range of choice hypotheses as well.

While it raises a number of questions concerning the process of workplace regulation, the research, as it stands, supports the view that range of choice is important and that collective and individual agreements do make a difference.