

Industrial Relations Reform and Business Performance: An Introduction*

Mark Wooden, Joanne Loundes and Yi-Ping Tseng
Melbourne Institute of Applied Economic and Social Research
The University of Melbourne

Melbourne Institute Working Paper No. 2/02

ISSN 1328-4991

ISBN 0 7340 1526 7

February 2001

*This paper is the result of work being undertaken as part of a collaborative research program entitled *The Impact of Enterprise and Workplace Focused Industrial Relations on Employee Attitudes and Enterprise Performance*. The project is supported by the Australian Research Council, the Business Council of Australia and the Committee for the Economic Development of Australia. The views expressed in this paper represent those of the authors and not necessarily the views of the collaborative partners.

Melbourne Institute of Applied Economic and Social Research
The University of Melbourne
Victoria 3010 Australia
Telephone (03) 8344 3701
Fax (03) 8344 5630
Email melb.inst@iaesr.unimelb.edu.au
WWW Address <http://www.melbourneinstitute.com>

Abstract

There appears to be widespread consensus, at least in industry and in government, that enterprise bargaining has been beneficial for productivity. Many academics however, have argued that the link between bargaining structure and workplace productivity is a contentious one, and that research has been unable to establish a relationship. This paper re-examines the existing evidence. The review reinforces the need to exercise caution before asserting that enterprise bargaining is necessarily beneficial for workplace productivity. The main conclusion that emanates from this review, however, is not this absence of a clear-cut finding, but how poorly developed the relevant research literature is.

1. Introduction

It is now widely accepted that the institutional arrangements that regulate employment relationships in Australian workplaces have changed markedly since the late-1980s. As recently observed by Macdonald, Campbell and Burgess (2001, p. 1), while numerous changes to industrial relations systems in Australia have taken place over the last 100 years or so, “the changes in the most recent period seem to be the most systematic and far reaching”. The central thrust of these changes has been to deliver a set of industrial relations institutions that are much more workplace and enterprise focused. Thus we have seen, among other things, a series of legislative changes intended to facilitate the development of legally enforceable enterprise-based collective bargaining arrangements; the introduction of formal avenues for bargaining collectively with employees without the involvement of a trade union; a diminution in the role for industrial tribunals in setting pay and conditions and in settling disputes; and legislation that has rendered industry- and occupation-based awards less prescriptive.

In large part, these changes, or ‘reforms’, were defended as necessary if Australian businesses were to be able to compete in the new global economy. As summarised by Wooden (2000, p. 150):

Changes in industrial relations arrangements were seen as necessary to bring about better utilisation of both workforce skills and work time, to enhance the ability of firms to modernise their human resource practices, and to promote more cooperative relationships.

Most importantly, this line of argument, while first promoted by employer groups, and most notably the Business Council of Australia (BCA), was readily adopted by the union movement.¹ For example, in 1990, Mr Bill Kelty, the then Secretary of the ACTU, described enterprise bargaining in the following terms:

The new wage bargaining strategy is a strategy designed to create more interesting and financially rewarding jobs, by stimulating greater worker involvement in all aspects of the way their industry and workplace operates, thereby driving enterprise reform and pushing up productivity levels. (Bill Kelty quoted in Evatt Foundation 1995, p. 73)

¹ For an interesting discussion of the role the ACTU played in promoting the shift to enterprise bargaining, see Briggs (2001).

Similarly, the former Labor Government Minister for Industrial Relations, Mr. Peter Cook, in justifying the emphasis on enterprise agreements in legislative amendments being introduced into federal parliament in 1992, stated that “the key aim of the new agreements provision is to facilitate workplace agreements that boost productivity and improve the living standards of workers”.

Furthermore, those persons with most responsibility for implementing enterprise agreements—workplace managers—share these views about the supposed benefits for business performance from enterprise bargaining. As discussed in Wooden (2000, pp. 47-48), survey-based evidence collected as part of both the 1995 Australian Workplace Industrial Relations Survey (AWIRS) and a much smaller survey of workplaces conducted in 1998 indicates that, in the majority of cases, collective agreements had been introduced in the expectation they would result in improved work performance. For example, according to the AWIRS data, over half of those workplaces with collective agreements in 1995 had introduced them in the expectation of increased productivity and efficiency. Relatively sizeable proportions also highlighted other performance-related benefits such as improved product or service quality, reduced costs, and improvements in reliability, wastage and downtime. In total, 62 per cent of responding managers at workplaces with collective agreements claimed that at least one of the reasons for the presence of such agreements was that they were expected to assist work performance.

Despite this apparent consensus, evidence in support of this link between enterprise bargaining and productivity is both rare and unconvincing. In a recent review of relevant research and statistics, for example, Wooden (2000, p. 175) reached the conclusion that “most of the evidence ... is far from supportive”. Others go much further. Rimmer (1998, p. 621), for example, has argued that as far as productivity is concerned, “the choice of appropriate institutional wage fixing systems can be seen as a secondary problem, of less importance than internal managerial and human resource variables”. Campbell and Brosnan (1999) even went so far as to argue that it was always an improbable assumption that a causal mechanism linking bargaining structure and productivity existed. As we will demonstrate later, such claims are misplaced, and there is in fact a quite sound basis for arguing that bargaining structure can matter for performance. Nevertheless, the claim that the promise that reform would deliver productivity gains has proved hollow is well taken, though still far from proven.

Very differently, there is the question of whether, independently of any impacts on business performance, workers have benefitted from reform. Many (e.g., ACIRRT 1999a, Allan, O'Donnell and Peetz 1999, Campbell and Brosnan 1999, Lansbury and Westcott 2000, Macdonald et al. 2001) claim that this is demonstrably not so, with workers working longer and harder, in less secure jobs and, at the bottom of the distribution, earning less. Again, however, such claims are open to serious question. Wooden (2000, p. 128), for example, reported time-series data on perceived job security that reveal no evidence of a long-term downward trend. Similarly, there are good reasons to question the claim that changing bargaining structures have directly contributed to a decline in working hours (Wooden 2001). With respect to earnings, the evidence is more clear cut – the distribution has been widening² – but it does not follow that earnings have been falling for workers toward the bottom of this distribution. Indeed, the Australian Bureau of Statistics (ABS) evidence is very clear; at no point in the earnings distribution are real earnings for full-time employees lower today than they were 25 years ago (see Wooden 2000, Figure 6.2, p. 144). Furthermore, if we focus simply on the last decade, we find evidence of quite strong real earnings growth at the bottom of the distribution.³

In this paper we re-examine the existing evidence. Like many other writers, we too find good reasons to be cautious about defending the bold claims often made for enterprise bargaining and industrial relations reform. However, the main message we take from the state of the existing literature is just how poorly developed it is in Australia. Much of what is written is highly derivative and lacking in serious analytical content. There have, for example, been very few studies that have attempted to quantify linkages between objective measures of business performance and measures of changes in bargaining structure. Further, those that have attempted this exercise have invariably found that their data are not well suited to the task. Ultimately, it is the weakness of this literature that provides the motivation for a broader study on the impact of enterprise and workplace focused industrial relations on employee attitudes and enterprise performance. This paper is a prelude to this broader field of investigation.

² Though part of the explanation for this shift lies not in changing wage relativities, but in a change in the composition of employment favouring more highly paid and highly skilled jobs.

Apart from reviewing the existing evidence, this paper also provides a short history of the reform process beginning in about the mid-1980s, and a simple theoretical framework for understanding how enterprise bargaining might contribute to enhanced business performance. Before proceeding, we briefly examine some of the concepts that are central to this paper, and consider what is actually meant by them

2. Key Concepts

2.1. *What Do We Mean by IR Reform?*

The changes to the industrial relations arrangements that have occurred over the last decade or so are frequently described by the ubiquitous term ‘industrial relations (IR) reform’. As such, IR reform is often seen as synonymous with any change that results in a shift away from more centralised bargaining arrangements – that is, multi-employer bargaining – towards less centralised arrangements – that is, single employer bargaining or negotiations directly between individual employers and individual employees. This, however, is clearly a misuse of the term. In a general sense, reform refers to any change that is deliberately engineered. Consequently, the mid-1980s was also a time of much reform, but in this case that reform was dominated by the Prices and Incomes Accord between the newly elected Labor Government and the ACTU which, in turn, involved the recentralisation of bargaining.

Nevertheless, when the term ‘IR reform’ is used in this paper, we will generally be referring to those types of changes that have dominated industrial relations system since the latter half of the 1980s. The emphasis here is thus on the role of changing bargaining structures. Encouraging a more devolved approach to the negotiation of employment conditions, however, requires much more than simply providing greater choice for employers and employees in reaching agreements. A raft of other supporting changes have thus been introduced to support decentralisation. These changes are discussed in more detail in Section 3, but some of the most important included:

- (i) the restriction, if not removal, of the ability of the Commission to stand in the way of enterprise agreements (and individual agreements) being negotiated;
- (ii) a marked reduction in the role of awards;

³ Between May 1990 and May 2000 average weekly earnings for full-time non-managerial employees in the bottom decile of the distribution rose by 37%, well ahead of the rate of price inflation over this period (23%), and not that far short of the rate of growth in median earnings (45%).

- (iii) regulation in the way trade unions could conduct their affairs;
- (iv) greater powers for the Commission to stop or prevent unlawful industrial action; and
- (v) increased penalties for secondary boycott actions.

It also needs to be made clear that neither ‘decentralisation’ nor ‘IR reform’ should necessarily be equated with the concept of ‘deregulation’. Indeed, we would argue that the oft-heard claim that the Australian labour market has experienced substantial deregulation (e.g., Campbell and Brosnan 1999, Gahan and Harcourt 1999, Hancock 1999) is misleading. The introduction of the *Workplace Relations Act 1996*, for example, did little to substantively reduce the amount of external regulation to which workplaces were exposed. Indeed, it could be argued that the amount of regulation increased. Employment relationships in Australian workplaces are thus still highly regulated. What has been changing is the form of that regulation. Dabscheck (2001), for example, describes the shift in the dominant paradigm as being away from ‘tribunal regulation’ to ‘contractualist regulation’. Moreover, a key feature of this new regime is the continued importance of state-based regulation.

2.2. *Types of Bargaining*

As discussed in Wooden (2000, p. 2), bargaining, at least in an industrial relations context, simply refers to the negotiation process by which different parties seek to reach agreement over the terms and conditions of employment. Collective bargaining thus refers to negotiations where different parties are represented by a single bargaining agent – typically either trade unions (in the case of employees) or employer associations (in the case of employers). It thus follows in a definitional sense that non-collective forms of bargaining can also exist. This, for example, would cover direct negotiations between an employer and an individual employee, though some would question whether meaningful bargaining can actually take place at this level (e.g., Macdonald et al. 2001, p. 4). That is, in their opinion, such negotiations typically involve take it or leave it offers rather than genuine bargaining.

We can also distinguish between collective bargaining that involves a single employer and collective bargaining that involves more than one employer (multi-employer bargaining). The latter is a defining feature of more centralised wage determination systems. Further, it arguably best describes the type of bargaining fostered by the system of industry awards, though it is often argued that the easy availability of arbitration in the past meant that parties had little incentive to engage in meaningful negotiation. It is thus partly for this reason that

the ‘IR reform’ process has been encouraging the spread of single employer bargaining, and it is this which is best described by the term ‘enterprise bargaining’.⁴

As Macdonald et al. (2001, pp. 3-4) observe, however, more often than not, Australian commentators have something else in mind when they use the term enterprise bargaining. Specifically, they see it extending to cover negotiation processes that result, or are intended to result, in individual agreements. This can be defended on the grounds that such negotiation is typically enterprise specific, but in this paper enterprise bargaining is, at least conceptually, reserved for single-employer *collective* agreements.⁵ We say conceptually because in practice it may be difficult to isolate those agreements that are the result of single-employer bargaining and those that are the result of multi-employer bargaining. As discussed in Wooden (2000, pp. 68-70), while the intent of current legislation is to encourage enterprise- (and workplace-level) agreements, there is very little in existing legislation that prevents unions from attempting to coordinate bargaining across different employers. Some enterprise agreements, therefore, may, in part, be the product of ‘pattern bargaining’ processes.

3. IR Reform: A Brief History

3.1. 1983-1986: *The Return to Centralisation*

As outlined in the Introduction, the meaning of ‘reform’ used in this paper refers to those changes that were introduced with the deliberate intention of creating a more decentralised set of industrial relation institutions. It is thus ironic that most accounts of the reform process date it as beginning in the mid-1980s during a period when the determination of wages and employment condition for most workers was governed by the Prices and Incomes Accord, a highly centralised consensus-based incomes policy negotiated between the Australian Council of Trade Unions (ACTU) and the Australian Labor Party. Indeed, in its initial guise, wage increases were centrally determined through National Wage Case decisions handed down by the Conciliation and Arbitration Commission, and were indexed to prices. Further, unions provided undertakings not to seek additional wage increases outside those provided at

⁴ We would also include workplace-level bargaining within the broad definition of what constitutes ‘enterprise bargaining’.

⁵ Macdonald et al. (2001) argue that confounding collective and non-collective agreement-making processes is nonsensical because, as already observed, they believe that individual-level negotiations will generally be devoid of all of the elements typically characteristic of bargaining.

National Wage Cases. In return, union members would benefit from improvements in the ‘social wage’ (for example, through increased expenditure on health and social welfare).

Full wage indexation, however, did not survive long.⁶ A balance of payments crisis in the mid-1980s led the Labor Government to seek agreement from its Accord partners to argue for wage increases that discounted for the price effects arising from the falling value of the Australian currency. A new Accord was thus hurriedly negotiated which made provision for such an agreement (subject to income tax cuts being implemented) and was subsequently endorsed as part of the 1986 National Wage Case decision. For individual union members, however, such decisions were not well received. Despite promises to the contrary, wages were not keeping pace with prices and further increases in social welfare expenditure were seemingly no longer on the agenda. It was thus hardly surprising that the Accord partners began to seek out alternative models for setting wages.

3.2. 1987-1990: Enter Productivity Bargaining⁷

By the end of 1986 it was clear to most parties that delivering the two key commitments of The Accord – maintaining real earnings and improving the social wage – could only be achieved in the presence of a marked increase in rates of productivity growth. It thus followed that wage increases needed to be linked to productivity improvements (or cost reductions).

Independent of any desire to preserve the Accord, a shift in orientation in the wage-setting mechanism was also strongly supported by a number of key employers and employer groups. As observed by a number of authors (e.g., Sheldon and Thornthwaite 1993, Dabscheck 1995, Green and Wilson 2000), the Business Council of Australia (BCA) was especially important. In 1986, for example, they were instrumental in the organisation of a national summit on work practices that reached broad agreement on at least two key points. First, that there was a clear need to remove restrictive work and management practices in order to improve efficiency and productivity. Second, that such matters could only be effectively addressed at the enterprise and workplace level.

⁶ Green and Wilson (2000, p. 113) have argued that full indexation of wages to prices never existed under the Accord. From its inception wage decisions were awarded only retrospectively and were the subject of considerable delay in implementation

⁷ This section draws heavily from Wooden (1990).

At the special unions conference of November 1986 it was thus proposed to cease support for wage indexation and to instead seek the introduction of a new two-tier wages system. This proposal was supported by the Commonwealth and put into effect by the Commission in March 1987.

Under the first tier, a flat \$10 increase was granted to all wage and salary earners, reflecting concern to ensure wages growth was adequate to meet the 'needs' of workers, particularly those on minimum award rates. Under the second tier, up to a further four per cent increase in wages was available. Such increases were not to be uniformly distributed, resulting instead from direct negotiations between unions and employers, mainly at the enterprise level. For approval by the Commission such increases had to be supported by equivalent productivity offsets through a commitment at the workplace to implement measures to improve efficiency; the restructuring and efficiency (R&E) principle. Such measures might include changed work practices, the reduction of demarcation barriers, increased multi-skilling, training, broad-banding and altered working patterns.

The new system, therefore, offered greater scope for bargaining over productivity via the second tier. The Commission, however, continued to retain a large amount of control over the wage increases granted in the second tier through both the requirement that agreements reached comply with the R&E principle and through the establishment of a ceiling to such increases. In effect the system was a form of "centralized decentralization" (Dawkins, Dufty and Norris 1988, p. 15).

It is, however, generally agreed that this system did little to directly stimulate productivity growth. Both Frenkel and Shaw (1989) and Reilly (1989), for example, concluded that many agreements did not produce any real productivity improvements or, if improvements were achieved, they were not sustainable. Indeed, and as noted by Dawkins et al. (1988, p. 36), the operation of the two-tier system could well have been dysfunctional in the long run given it gave unions an incentive to introduce restrictive practices in order that they may be traded for wage rises in the future. Nevertheless, the two-tier system, by creating an explicit link between productivity and wages at the enterprise level, represented an important step away from the highly centralised systems of the past, with their emphasis squarely focused at either the national or industry level.

In 1988, at the behest of both the ACTU and the Federal Government, the Commission retreated from this initial experiment with enterprise bargaining and returned to a system

revolving around industry awards. Nevertheless, the intent was still to tie wages in some way to productivity. Thus, at the August 1988 National Wage Case, the Structural Efficiency Principle (SEP) was introduced. Under this principle, wage increases were to be contingent on the negotiation of award variations that would contribute to improving the competitiveness and efficiency of the industry.

Again, the evidence suggests that this award restructuring process was not particularly effective in achieving productivity gains. Almost by design, the SEP was slowly implemented and not widely adopted. Survey results reported in Sloan and Wooden (1999), for example, indicated a general failure of on the part of firms to implement the agreed changes. Qualitatively similar results were reported in Still and Mortimer (1993).

Another important change during this period was the introduction of a new Act governing industrial relations matters – the *Industrial Relations Act 1988*. As observed by Hawke and Wooden (1998, p. 83), while this legislation did very little that could be described as fundamentally altering the operations of the federal industrial relations system, it did make one change that would ultimately serve as a vehicle for facilitating the introduction of enterprise-based bargaining arrangements that was to come. Specifically, the Act provided for the certification of collective agreements that subject to satisfaction of certain conditions, and most notably the ‘no disadvantage test’, could operate to the exclusion of awards.

3.3. 1991-1995: *Enterprise Bargaining under Labor*

A key theme underlying the introduction of both the Second Tier and subsequently award restructuring was that greater workplace efficiency and productivity could only be achieved with greater wage flexibility. It thus seemed inevitable that the Commission would come under pressure to loosen its grip on wages and allow more devolved arrangements, a position that was subsequently endorsed by both key Government ministers and by the ACTU (see Dabscheck 1995, pp. 61-62). The Accord partners officially endorsed this position in 1990 when a new Accord document (Mark VI) proposed support for the introduction of an enterprise bargaining wage principle, the groundwork for which had already been laid with the enactment of the *Industrial Relations Act 1988*.

The Commission, however, remained unconvinced, and in its April 1991 National Wage Case decision rejected the application for an enterprise bargaining wage principle. The reasoning underlying this decision are summarised by Hancock (1999, p. 42). He suggests

three main reasons for the Commission decision. First, it was believed that despite the claims of a consensus in favour of enterprise bargaining, there was in fact considerable divergence of opinion about how enterprise bargaining might be implemented. Second, it was concerned about the potential for inflationary wage claims that would result from a system of uncoordinated bargaining. Third, the Commission was reluctant to support a system where the benefits from productivity growth would be captured by persons working in firms and industries where the productivity growth occurs, rather than being shared more equally by all members of the workforce.

The decision was widely criticised. The secretary of the ACTU even went so far as to equate it with “vomit”.⁸ In the face of this onslaught and threats by the Minister to introduce legislation to force its hand, the Commission reluctantly conceded and in its October 1991 National Wage Case introduced a principle under which enterprise agreements could be approved. Such approval, however, was made subject to strong conditions, including the requirement that increases be “based on the actual implementation of efficiency measures designed to effect real gains in productivity” (cited in Hancock 1999, p. 42). In other words, it was not sufficient for an employer to simply reach an agreement with its workers over future wage outcomes; it also had to specify what efficiency-enhancing measures were to be introduced to justify such wage increases. The view of the Commission appears to have been that this was necessary in order to meet its legislative requirement that agreements must not be contrary to the public interest. This interpretation effectively meant that firms had to go through the same sort of accounting exercises required to justify wage increases under the Second Tier, and hence it should not have been surprising that relatively few agreements were actually approved by the Commission.

The Labor Government, however, remained unwavering in its commitment to a genuine enterprise-based bargaining system. In 1992 it amended Section 134 of the *Industrial Relations Act 1988* in a way that effectively deprived the Commission of any ability to use discretion along public interest grounds when dealing with enterprise agreements involving a single enterprise. Even more significant were the legislative changes introduced as part of its *Industrial Relations Reform Act 1993*, which became law on 30 March 1994. Discussed in

⁸ The exact quote was: “It’s a sickening decision but there is no reason for the trade union movement to eat the vomit” (*The Australian*, 2 May, 1991).

greater detail in McCallum (1994) and Stewart (1994), the changes affected by this legislation have been described by some labour law academics as the most significant since the introduction of the conciliation and arbitration system in 1904 (e.g., Creighton and Stewart 2000, pp. 45-46). In particular, under this new Act awards would function very much in a subservient way to agreements. Moreover, the requirements for the Australian Industrial Relations Commission failing to endorse an agreement were made much more stringent. Indeed, as Stewart (1994, p. 158) observed:

Provided an agreement involves at least one union, is confined to a single business and does not reduce the employment conditions of the workers affected, the Commission has virtually no way of preventing that agreement taking effect, no matter how much it might believe the agreement to be contrary to the public interest.

The other key feature of this Act was the introduction of a new type of agreement – Enterprise Flexibility Agreements – which, unlike Certified Agreements, could be negotiated without union involvement. While this provision of the legislation was not well used during its short life, it is difficult to overstate its importance. Prior to this time, any negotiations that were to result in outcomes ratified by an industrial tribunal required a trade union as a party to such negotiations. That monopoly was now broken.

3.4. 1996-2001: The Coalition and the Workplace Relations Act 1996

The victory of the Coalition at the 1996 federal election and the subsequent introduction of their *Workplace Relations Act 1996* is often described as a watershed date in the decentralisation of industrial relations system. Yet most serious critiques of the *Workplace Relations Act 1996* do not see in it in this light at all. Instead, the new Act is just another step in the gradual decentralisation of industrial relations structures (e.g., Birmingham 1997, Rimmer 1997, Sloan 1997).

The *Workplace Relations Act 1996*, however, has been described as providing renewed vigor to reform. While the provisions of the Act are wide ranging, the key features are probably threefold. First, the Act provides for agreements that can be struck directly between employers and individual workers – what are known as – Australian Workplace Agreements (AWAs). Second, the Act significantly reduced the power and role of the Commission. Most importantly, the Commission was now restricted to making awards in respect of 20 allowable matters. Moreover, within existing awards matters outside those deemed allowable ceased to have any effect from 30 June 1998. Additionally, the power of the Commission to intervene

in disputes was rendered much more limited. Third, non-union collective agreements were provided a new lease of life. This was achieved by removing the requirement that relevant trade unions must be notified about any negotiations being undertaken as part of the agreement-making process, and by introducing a compliance test that was far less onerous than that in the previous legislation.

There were also many other provisions in this legislation that were designed, at least in part, to support more decentralised bargaining. Thus union preference clauses in awards and agreements were outlawed, compulsory union membership prohibited, and penalties for unlawful industrial action increased.

3.5. Summary: Bargaining Arrangements at the End of the Millennium

The last decade of the 20th century has thus seen a gradual rise in the importance of enterprise agreements and a diminution in the role of awards. A 1999 survey of award and agreement coverage conducted for the Commonwealth Department of Employment, Workplace Relations and Small Business (DEWRSB), and reported on in the Joint Governments' Submission (2000, Table 5.4, p. 5-14), for example, put coverage of employees by registered collective agreements at 42 per cent and by overawards and unregistered agreements at 22 per cent. With a further 14 per cent covered by registered individual agreements or common law contracts, this left only 22 per cent of Australian employees as reliant on arbitrated awards as the main mechanism for obtaining variations in their wages and conditions.⁹

This survey, however, was restricted to workplaces with at least five employees and hence can be expected to overstate the extent of coverage by enterprise agreements. This appears to be confirmed by survey evidence for May 2000 from the Australian Bureau of Statistics (ABS), which suggests that only 35 per cent of Australian employees were paid according to rates of pay set in registered collective agreements (ABS 2001, p. 23). Moreover, among private sector employees the rate of coverage of such agreements is just 22 per cent.

⁹ The survey distinguished four types of payment categories. First, employees paid exactly the award rate (the 22 per cent described here as 'reliant' on awards). Second, employees paid overaward rates or by unregistered agreements. The latter includes persons paid by unregistered individual agreements if, in the absence of that agreement, the relevant award would apply. Third, employees covered by registered collective agreements. Finally, employees paid by other arrangements, which includes persons covered by registered individual agreements and persons on individual arrangements who are outside the award system.

Such results could be interpreted as evidence of the failure of the reform agenda. That is, it could be claimed that despite the enormous effort made to convince both employers and workers of the advantages of enterprise bargaining, the rate of take-up of such agreements has, in the private sector at least, been quite low. To reach such conclusions, however, would, in our view, be a mistake. There are at least three reasons for our position. First, no matter what data are used, it is very clear that agreements, both registered and unregistered, are gradually replacing awards as the principal mechanism for determining wages and conditions. According to the May 2000 ABS survey data, for example, employees who were reliant on awards for pay rises represented just 23 per cent of all Australian employees (which incidentally is almost identical to the estimate from the DEWRSB survey).¹⁰ By comparison the same survey conducted ten years earlier reported that 68 per cent of employees were paid at the award rate (see Joint Governments' Submission 2001, p. 9).

Second, the ABS survey was not actually a survey of agreement coverage. Instead, this survey was concerned with measuring the incidence of different methods of pay, and their approach almost certainly caused the incidence of persons covered by collective agreements to be understated. Specifically, workers covered by such agreements but who then receive pay in addition to that specified in the relevant agreement will typically be classified as having their pay determined by some unregistered individual arrangement.

Third, even if we accept that large proportions of employees in the private sector are not covered by registered enterprise agreements, and are instead covered by informal arrangements, this does not necessarily mean the reform agenda has failed in achieving its objectives. The main objective of the reform agenda was not the creation of a formal system of agreements approved and vetted by industrial tribunals. Rather, the main objective was to create a system whereby employers and workers could determine their own arrangements with as little involvement as possible from third parties. In the absence of a prescriptive system of industrial awards, informal arrangements better satisfy this objective than do registered agreements. Critics, of course, could argue that the potential for informal arrangements over and above awards has always existed. This is true. What, however, is

¹⁰ This figure should not be equated with award coverage, which is much higher. While the latest ABS survey does not provide an estimate of award coverage, one Federal Government estimate suggested award coverage in the late 1990s was still running at in excess of 80 per cent (see Joint Governments' Submission 2000, Table 5.12, p. 104).

different is the role awards play in constraining those arrangements. In the past, awards were highly prescriptive and hence most of these informal arrangements were nothing more than an agreement reached about overaward payments. Awards today, however, are generally less prescriptive and cover fewer matters. As a consequence, the potential for these informal arrangements to range over a much broader range of matters is much greater. There are, therefore, good reasons to suspect that changes in formal industrial relations arrangements have impacted on the character of the informal arrangements. Unfortunately, these are issues that have received relatively little attention from researchers, and hence such conclusions are necessarily somewhat speculative.

Overall, it seems clear to us that the industrial relations landscape in Australia in the year 2002 is very different to that which existed a decade or so earlier. Moreover, while the magnitude of the change might be debated, this seems to be a proposition that is almost universally accepted.

4. Bargaining Structures and Productivity: A Conceptual Framework

4.1. Enterprise Bargaining

Following Dowrick (1993), there are at least two main avenues through which a shift away from centralised determination of wages and conditions towards enterprise-based bargaining structures might facilitate higher workplace productivity.

In the first line of reasoning firms are assumed not to be operating as efficiently as they might be and that enterprise bargaining can help firms move closer to best practice by enhancing the incentives to introduce more efficient work and management practices. Where wage determination is relatively centralised, with rates of wage increase bearing little or no resemblance to the performance of either the firm or the individual, there is little incentive, for example, for workers to cooperate in the removal of inefficient work practices. In contrast, enterprise-based bargaining provides an opportunity for employers to trade-off wage increases for changes in work practices, thereby potentially leaving both individual workers and the firm better off.

In this view, enterprise bargaining is largely about negotiating the removal of inefficient work and management practices. Efficiency gains from this process will thus be reaped once only.

Productivity will be enhanced in the short run, but once these inefficiencies have been removed, no further productivity growth from this source will be possible.

In contrast, the second avenue raises the possibility that enterprise bargaining may have a sustained impact on productivity by affecting the long-run rate of productivity growth. This might arise if enterprise bargaining is able to promote more cooperative relations in the workplace, thereby potentially encouraging innovation, facilitating greater acceptance of new technology and promoting the development of worker skills, and thus enabling a shift outwards in the production function. Buchele and Christiansen (1999, p. 326), for example, have argued “that all of the basic determinants of productivity growth ... depend crucially on the cooperation and effective participation of workers”. Such cooperation and participation, however, will only be forthcoming where employment relationships are characterised by trust and where workers feel they have “a secure stake in the long-run success of their employer” (Buchele and Christiansen 1999, p. 326).

As an aside here, if cooperation is as crucial as Buchele and Christiansen claim, then there can be little doubt that Australian enterprises were, in 1995, still a long way from achieving best practice. As reported in Morehead et al. (1997, pp. 283-285), 58 per cent of employees (at workplaces with 20 or more employees) agreed that management did their best to get on with their employees, leaving a substantial minority of the view that management could improve. Even more disturbing, just 37 per cent indicated that they believed management at their workplace could be trusted “to tell things the way they are”.

Interestingly, Buchele and Christiansen (1999) argue that trust and cooperation is fostered by worker rights, which they equate with strong labour market institutions, such as highly coordinated sectoral bargaining and wage settlements that automatically extend to the non-union sector. That is, they claim that encouraging cooperative and productive relationships within workplaces requires strong external institutions regulating the employment relationship within the firm.

It is at this point that their argument, at least in our view, breaks down.¹¹ If wages and conditions are determined on a national and sectoral basis, the incentives for productivity-

¹¹ Buchele and Christiansen (1999) reported the results of estimating simple regression models of inter-country differences in productivity growth that they claimed supported their hypothesis. Their analysis, however, is far from convincing. First, the data set employed contained a grand total of 18 observations, raising concerns about the statistical properties of their estimates (none of the usual diagnostics are reported). Second, and

enhancing cooperative behaviour between workers and employers are surely weakened, not enhanced. Trusting, cooperative relationships can undoubtedly be assisted by regulations and institutions that enhance and protect worker rights, but those regulations must be firm and/or workplace-based. The justification for this lies in simple cost-benefit arguments. Firms are more likely to invest in good employee relations where the gains are expected to exceed the cost of such investments. In a highly centralised bargaining system the gains from investments in cooperation are spread across many economic agents reducing the incentive for individual firms to make such investments. In contrast, in a highly decentralised system the benefits are mostly captured by the firm making that investment.

Arguably centralised systems might lower the transactions costs associated with investing in employer-employee relations which could stimulate greater investment. That is, centralised bargaining structures might remove the need for individual employers and employees to have to negotiate with each other. The problems here, however, are twofold. First, centralised bargaining leads, by definition, to highly prescriptive and standardised employment conditions and hence to highly inefficient contracts. More efficient contracts are generally those that make use of more information and the agents that have the most complete knowledge about workplace productivity are individual workplace managers and workers. Third parties will typically have less information. Second, the presence of formal procedures for worker-management negotiations may itself undermine cooperation.

Indeed, the Australian experience highlights the problem with centralised determination of wages and conditions. As argued by Niland (1984, p. 9), the historical reliance on tribunals to determine employment conditions (typically on either an industry or occupation basis) and to arbitrate dispute contributed to a highly adversarial industrial climate. This occurred through a number of channels, including:

- the promotion of low commitment to awards (since neither workers nor managers were much involved in the award-making process);
- inadequate handling of local grievances;

more importantly, the analysis did not control for differences across countries in other determinants of productivity growth. Most critical here is differences in the absolute level of productivity. This is vital given rates of productivity growth will vary with the scope for technological catch-up (see Dowrick 1993). Third, the estimated coefficient on the collective bargaining variable declined to insignificance (and in one case, changed sign) once a measure of employment protection was included.

- over zealous use of the strike weapon (in order to gain the attention of industrial tribunals); and
- low levels of interaction between union officials and the rank and file.

The potential influence of trade unions on workplace performance is especially illustrative of the importance of bargaining structure. It is well recognised, for example, that trade unions have the potential to enhance productivity through the ‘voice effects’ they provide (Freeman and Medoff 1984). Moreover, trade unions provide a degree of countervailing power effectively underwriting worker cooperation with management. However, and as argued in Drago, Wooden and Sloan (1992), the effectiveness of these union voice effects can be expected to vary with a number of contextual variables, one of which being the level at which bargaining takes place. Specifically, voice effects can be expected to be far stronger where unions negotiate directly with management on a workplace or enterprise basis. It also needs to be recognised that even where unions possess exercise voice, it does not follow that cooperation between workers and managers will necessarily be enhanced – this depends on how unions use their voice.¹² These observations sit well with the conclusions drawn by Freeman and Medoff in their seminal work, *What Do Unions Do?* In their view: “Unionism is neither a plus nor a minus to productivity. What matters is how unions and management interact at the workplace” (Freeman and Medoff 1984, p. 179).

In summary, what the arguments of Buchele and Christiansen do alert us to is that the productivity impacts of bargaining structure are likely to depend crucially on how they influence worker behaviour. Structures that foster competitive, rivalrous behaviour among workers within workplaces may impede productivity growth, a view that has long received support in the organisational behaviour literature (e.g., Johnson et al. 1981). Similarly, if enterprise bargaining leads to an enhancement in managerial prerogatives at the expense of consultative modes of practice, as is often claimed, then this can be expected to foster a climate of resentment and distrust among workers.

¹² Indeed, Australian research has found that it may not always be in the interests of trade unions to promote more cooperative relationships within the workplace. Deery, Iverson and Erwin (1994), for example, reported that cooperation was associated with higher levels of employee commitment to the employer but lower levels of commitment to the union. That said, in a subsequent study (Deery, Erwin and Iverson 1995) involving workers from a different firm and industry, the findings were very different, with more cooperative industrial relationships associated with both higher levels of organisational commitment and higher levels of member loyalty to the union

4.2. *Individual-level Bargaining*

Whether extending the level of bargaining downwards even further to the individual level will assist productivity is more questionable. On the one hand, individual bargaining has the potential to facilitate the implementation of payment arrangements that more closely tie rewards to performance. Standard economic theory suggests that such arrangements will raise productivity by inducing greater effort and attracting more able workers (e.g., Lazear 1996), and these theories have at least some empirical support – performance-related pay is generally found to be associated with higher earnings (e.g., Brown 1992, Ewing 1996, Booth & Frank 1999).

On the other hand, and as already observed, if individual arrangements promote competitive behaviour within workplaces and foster non-cooperative relationships, then performance when measured at the workplace level may actually suffer. Individual agreements may also be counter-productive if those arrangements are forced upon employees, as is often claimed.¹³ This, for example, would tend to promote grudging performance; perhaps best described by Williamson (1975) as “perfunctory” compliance. This compares with the higher levels of performance associated with “consummate cooperation” that results in more trusting work environments.

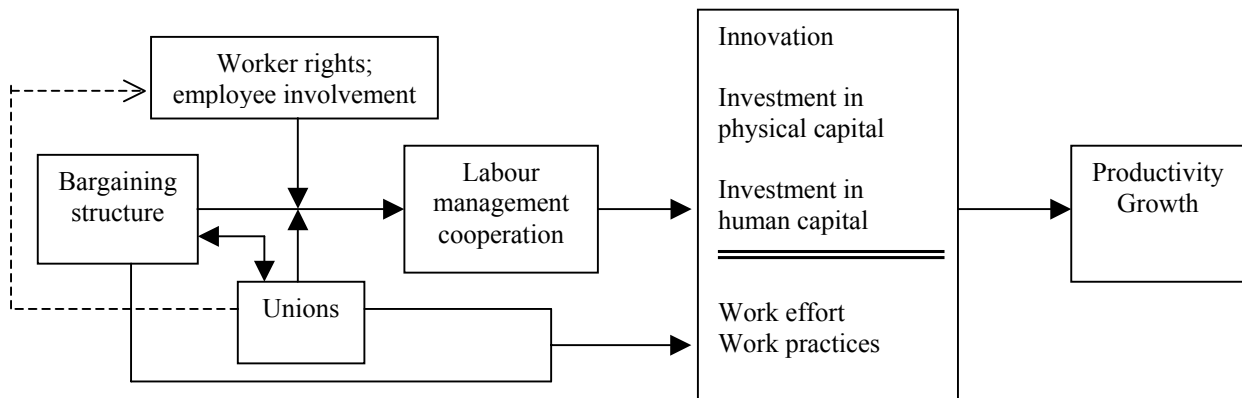
4.3. *A Stylised Model*

The insights of the preceding discussion are drawn upon in Figure 1 to provide a stylised representation of the linkages between institutional arrangements in the labour market and the productivity performance of businesses.

The central argument is that the key sources of productivity growth are innovation, investment in physical capital, investment in human capital (i.e., training), increased work effort (or intensity) and more efficient work practices (including the way in which work is organised). Bargaining structure it is hypothesised can influence these sources both directly, through negotiating changes to work practices and working time arrangements, and indirectly, by promoting a more cooperative employment relationship.

¹³ A claim made with respect to Australian Workplace Agreements by the leader of the Opposition, Mr Kim Beazley, in his Inaugural Fraser Lecture, Canberra Labor Club, 31 May 2000.

Figure 1: Stylised Representation of the Links between Labour Market Institutions and Productivity Growth



The activities of trade unions are also potentially of large importance, especially in the large workplaces and firms where union membership is concentrated. Trade unions obviously can impact directly on productivity via the imposition of work rules and practices and via strike activity. These effects are usually presumed to be negative. They also can influence the extent of cooperation between labour and management, and here the direction of the effect can be in either direction. Collective voice arguments, however, suggest the strong possibility of productivity enhancing effects, though this will depend on the way unions are structured and organised. It also needs to be recognised that the presence of unions can be expected to impact on the type of bargaining structure that is likely to prevail in a workplace. For example, recent research indicates that unions have facilitated growth in enterprise agreements but have actively resisted further decentralisation in bargaining to the individual level (Wooden 2000). Of course, it is also likely that bargaining structures will itself impact on union activity, and hence explaining the two-way relationship between unions and bargaining structure depicted in Figure 1.

Unions can also influence both worker rights and structures for employee involvement in workplace decision-making (as indicated by the dashed line), which in turn will affect on the relationship between bargaining structure and cooperation. That is, a precondition for cooperative relationships is likely to be an environment that provides both clear rights to workers, as reflected in job security and a fair sharing of the rewards from productivity growth, and opportunities for active involvement in decisions that affect how work is performed and how the production process is organised.

4.4. The Role of Competition and Management

There are of course many other influences on productivity growth that are not reflected in this simple model. Perhaps of most significance here are product market competition and managerial leadership.

It is generally recognised that the liberalisation of foreign trade together with the impact of advances in communication and transport technologies have intensified competitive pressures in recent decades which, in turn, is generally assumed to have spurred businesses on to developing new strategies for increasing efficiency and productivity. Perhaps more importantly, and as argued in Blandy and Baker (1987), these forces put pressure on institutions in the labour market. In other words, product market competition can influence productivity growth both directly via investment, work practices, and the like, and indirectly via influencing choice of bargaining structure.

The quality of managerial leadership is also another likely important determinant of workplace performance. Samson (1999), for example, has found that profitability among large Australian businesses is significantly related to a range of principles that can be broadly equated with “good” management. Leadership is especially important in creating the appropriate conditions for the emergence of high trust, cooperative work environments. Furthermore, and as with product market competition, it can be expected that the quality of management leadership will interact with bargaining structure. After all, bargaining structures are, at least in part, the result of strategic choices made by firms.

Related to this point, bargaining structure may directly impact on management behaviour. As suggested by survey evidence reported in Drago et al. (1992), most workplace managers in Australia in the late 1980s took the industrial relations systems that prevailed as a given and appeared content to work within those systems. According to Hilmer et al. (1993, p. 97), this was reflected in:

- a low level of resistance to union pressures;
- a willingness to live with inefficient work and management practices;
- the absence of any strategic long-run focus to employee relations management;
- abdication of management responsibilities to employer associations; and
- the generally low status accorded to the employee relations management function.

In other words, relatively centralised institutions provided disincentives to striving for improved performance. Increased competitive pressures together with the changing institutional arrangements have arguably altered these incentives. Managers are now much more able to directly influence internal reward structures and work practices and, as a consequence, are less able to hide behind the excuse that outcomes relating to employee relations are the result of third parties. In other words, the shift towards enterprise bargaining structures may have provided greater opportunities for managers, especially in larger businesses, to assume greater responsibilities for the management of their workforces. Whether this actually will result in improved business performance is an empirical question, but it certainly follows that if management can be held more accountable for the performance of their business units the incentives to adopt best management practices should be enhanced.

5. IR Reform and Business Performance: A Summary of the Evidence

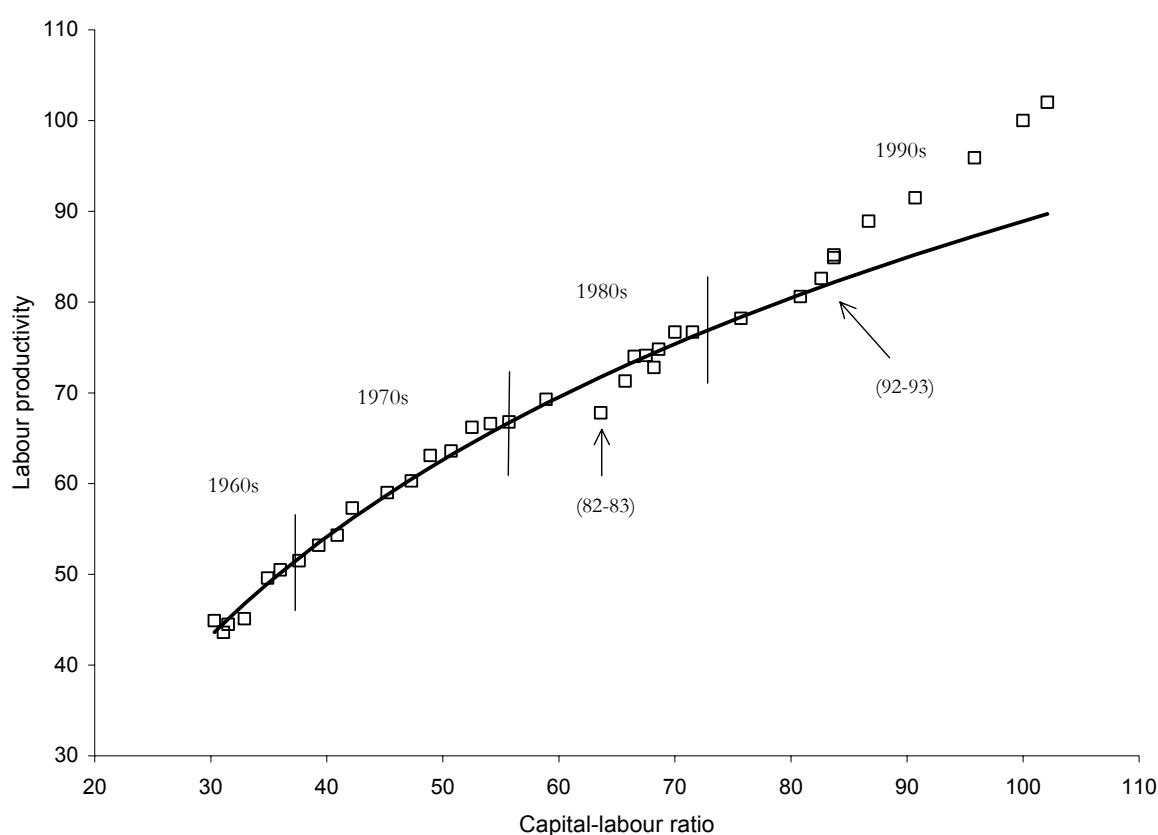
5.1. Evidence from Aggregate Data

As observed by Wooden (2000, p. 153), if enterprise bargaining has worked to enhance productivity, then the period following the introduction of the Enterprise Bargaining Principle by the Australian Industrial Relations Commission, in late 1991, should have been accompanied by a rise in observed productivity. The aggregate data are entirely consistent with this hypothesis. Wooden (2000), for example, drew attention to a Productivity Commission paper (Parham 1999) which used national accounts data to plot, over time, an index of labour productivity (output per hour) against the capital-labour ratio. The juxtaposition of labour productivity against the capital labour ratio is important. As in most industrial nations, labour productivity rises over time due to capital deepening. We thus ideally would like to hold constant this capital deepening effect.

These data are updated in Figure 2 for the period 1964-65 to 1999-2000 and reveal that a distinct upward movement in Australia's productivity growth path took place during the 1990s. This is demonstrated by the growing gap between the plotted observations and a trend line fitted to observations for the period 1964/65 to 1992/93. Note that the data reported here are based on ABS estimates that were extensively revised and published in 2000. In

particular, major changes were made to the method by which capital inputs are derived.¹⁴ The consequence of these revisions is that the extent of the productivity improvement in the 1990s is not as marked as reported in Parham (1999) or Wooden (2000). Nevertheless, the shift is still very sizeable. Note further that while labour productivity growth may have slowed in the most recent year for which data are available, this is entirely consistent with the growth experienced in the capital-labour ratio. We have thus yet to see any convergence back to the historical growth path.

Figure 2: Productivity Growth (in the market sector), 1964/65-1999/2000



Note: As defined by the ABS, the market sector only covers those sectors in which output can be meaningfully measured. Industries not covered by this definition are: Property and business services; Government administration and defence; Education; Health and community services; and Personal and other services.

Source: ABS, *Australian System of National Accounts, 1999-2000* (cat. no. 5204.0), Table 17, p. 28.

¹⁴ These changes are outlined in detail in the 1997-98 issue of *Australian System of National Accounts* (ABS cat. no. 5204.0), ABS, Canberra.

Of most importance for this paper, the productivity surge only becomes noticeable from about 1994-95 on. This is entirely consistent with the possibility that enterprise bargaining is partly responsible for the improvement. Data compiled by the Department of Employment, Workplace Relations and Small Business, for example, indicate that the number of agreements registered within the federal system was negligible until the last quarter of 1992. Thereafter, coverage of employees by agreements gradually accelerated (see Wooden 2000, Figure 2.1, p. 8), though it was not until late 1994 or early 1995 that such agreements applied to a majority of eligible employees (that is, those workers covered by federal awards).

This slow uptake reflects a number of factors. First, the lags involved in parties becoming aware of the possibilities that the new agreements offered. Second, the time and effort required to negotiate such agreements. Third, and as discussed earlier, the initial unwillingness of the AIRC to certify agreements.

A further reason for not expecting any immediate impact on productivity is simply the time lags involved. Indeed, if the productivity benefits from enterprise bargaining arise mainly through changes in work climate rather than the removal of inefficient management and work practices, then it would be expected that the lag between the introduction of bargaining and any subsequent productivity improvement would be considerable.

Of course, the evidence presented in Figure 2, while suggestive of an association between enterprise bargaining and productivity is hardly conclusive. As Wooden (2000) readily acknowledged, other explanations for the rise in productivity cannot be discounted. He pointed in particular to other microeconomic reforms underway during this period, especially those affecting the way many public services are delivered. That said, Gruen and Stevens (2000) have observed that the greatest acceleration in productivity growth has not occurred in those industries most affected by competition policy. Rather it has been in highly labour intensive industries, and especially wholesale and retail trade and construction, where the gains have been greatest. Such findings are consistent with the claim that changes in labour market arrangements must be at least partly responsible.

What about some of the other usual suspects, such as trade liberalisation, rising skill levels and new technology? It is difficult to see how the process of trade liberalisation can explain the marked rise in the 1990s. The process has been very gradual dating back to at least the

1970s; there is certainly nothing peculiar about this process in the 1990s.¹⁵ A similar line of reasoning can be applied to the role of rising levels of workforce skills. While higher skills undoubtedly contribute to economic growth, this is not a new trend. The education level of the workforce, for example has been rising since at least the 1970s, and hence it is difficult to see how changes in the quality of labour could account for more than a small proportion of the recent rise in productivity growth. Very differently, Wooden (2000) argued that if the explanation lay in more rapid rates of adoption of new technology then it follows that we would have seen similar upsurges in productivity growth elsewhere in the world. As Parham (1999), however, demonstrates, the shift in the productivity growth path appears to be peculiar to Australia. Dowrick (2001), for example, identified only Ireland and Norway as experiencing similarly large shifts in productivity performance during the 1990s. Even the much reported productivity explosion in the USA lagged that experienced here. That said, a recent Productivity Commission study (Parham, Roberts and Sun 2001) suggests that Wooden was too quick to dismiss the role that technology, and especially information technology, may have played in assisting productivity growth. The main conclusion from that study was that Australia was by international standards, relatively quick during the 1990s to adopt new information and communication technologies. As a result, part of the productivity surge in Australia can be linked to the increased use of new technology.

Somewhat differently, perhaps the acceleration in productivity growth reflects some lagged response to increased levels of innovation? Such arguments are supported by evidence of a rising relationship between productivity growth and the intensity of research and development expenditure (R&D) in cross-country data (Bassanini, Scarpetta & Visco 2000, pp. 26-29). More importantly, a marked increase in business expenditure on R&D did occur in Australia during the late 1980s and mid-1990s which, given the long lags between innovation and productivity, is consistent with a productivity pick-up beginning around 1994.

Finally, it might be argued that the recent rise reflects nothing more than the usual cyclical movements in productivity. The problem for this explanation, however, is that the response appears to be more sustained than we might expect if it were solely a response to business cycle variations, a conclusion also drawn by Gust and Marquez (2000) in their comparative

¹⁵ That said, Gruen (2001, p. 65) observes that the share of gross trade in goods and services only accelerated noticeably in the 1990s suggesting that there may be a very long lag between reductions in trade protection and changes in the trade share.

analysis of productivity trends. Further, it is again instructive that the recent pick-up in productivity growth is not a feature Australia shares with many other developed economies, even though all industrial economies went through similar recessionary episodes in the early 1990s.

Overall, while the rise in productivity growth during the 1990s is almost certainly the result of a multiplicity of factors, there are good reasons to suspect industrial relations reform may be one of the more important. Nevertheless, the macroeconomic evidence is far from conclusive – it certainly does not establish causation. Far more revealing would be evidence collected at the workplace and firm level, and here the evidence appears to be far less supportive.

5.2. Evidence from Micro Data

Enterprise- and workplace-level research into how industrial relations reform has been impacting on business performance is mostly concerned with the impact of agreements rather than reform per se, and generally falls into one of four main categories. First, some researchers have reported on case-studies which document the experience with industrial relations reform at specific workplaces and/or firms. Second, attempts have been made to draw inferences about the implications for workplace productivity from analyses of the content of agreements. Third, there are studies based on survey data collected from managers about their perceptions of the effectiveness of agreements. Finally, a small number of studies have analysed workplace- or enterprise-level data in an attempt to identify any independent associations between the presence of enterprise agreements and various productivity-related measures.

Case-studies

Despite the predominance of this research method within the industrial relations field, we are aware of only a relatively small number of studies that have made use of the case-study method to examine the implications for business performance that arise from industrial relations reform. Moreover, these studies are highly variable, both in scope and rigour. An example of one of the weaker studies is Jones (1995), who reported on one experience with a non-union agreement in New South Wales and concluded that any positive productivity increases were not the result of the enterprise agreement. How this conclusion was reached,

however, was not well documented, and appears to be based on attitudinal data collected during interviews. No supporting evidence based on objective productivity measures was provided.

Very differently, Mealor (1997) describes the outcome of a long-term change program at the ICI Botany site. This study describes the rationale for change, the type of change program introduced, and the outcomes. Moreover, the views of management, unions and workers are supported by well-documented evidence on a range of indicators of not just output, but also wages, employment and safety measures. A key element of this work is in demonstrating how industrial relations reforms, such as enterprise bargaining, are often introduced in tandem with other major changes to work organisation. As a result, it can be extremely difficult to isolate the impact of industrial relations reform, a conclusion that is consistent with the international research on the organisational impact of human resource management practices (see Rimmer 1998, pp. 618-620). Nevertheless, the conclusion that emerges in this case, is that enterprise bargaining as part of “bundle of mutually-supporting interventions” was instrumental in restoring the long-run economic viability of the workplace.

In another of the better studies, Arsovska (2001) drew essentially the opposite conclusion from her study of an Illawarra steel manufacturer. Making good use of a combination of data sources, including interviews, focus groups, surveys of employees and company records, she found little evidence of a direct relationship between enterprise bargaining and productivity improvements. In part this reflected difficulties in separating the effects of bargaining from other influences on output. More importantly, Arsovska’s work suggests that the conditions under which bargaining is introduced are important. In particular, any productivity benefits from bargaining may not be forthcoming without both an environment that fosters trust and cooperation between management and workers, and a preparedness on the part of management to commit the necessary resources to support initiatives arising from bargaining. These conditions were clearly absent at the firm examined by Arsovska.

Other examples of relevant case-study research include: the study of six non-union firms reported in Campling (1998); a report on the experience at the Ensham coal mine, the first in that industry to negotiate a non-union agreement (Foots 1998); a study of the industrial relations strategies employed at CRA / Rio Tinto (Timo 1998); the study of the Australian Public Service by O’Brien and O’Donnell (2000); the study of a Western Australian Public Sector Agency and a Private Hospital by Scott-Ladd (1999); and the various studies into the

impact of Australian Workplace Agreements commissioned by the Office of the Employment Advocate (ACIRRT 1999b, Bickley, et al. 1999, Smart Strategic Services 1999, World Competitive Practices 1999a, 1999b).

Interestingly, the bulk of these studies do suggest positive consequences for productivity and/or profits, though again it is frequently argued that these positive effects are often only achieved in combination with other organisational changes intended to enhance efficiency and productivity (see also Peetz, 1999, p. 13). Further, while output-based measures may improve, concern is often expressed about the costs for workers of such outcomes (e.g., in terms of increased work intensification). Finally, it is still difficult to know how far to generalise the results from this type of work. This is especially problematic in this area, with most research focusing on the more interesting, but less typical cases, such as firms opting for non-union agreements or individual contracts. Far less attention has been given to examples of more conventional reform revolving around enterprise agreements negotiated directly with trade unions.

Analysis of the Content of Agreements

A quite different approach adopted by a few researchers has been to analyse the content of agreements with a few to identifying whether they contain provisions that will have a significant enhancing effect on productivity. Sheridan and Provis (1998), for example, reported on an analysis of 59 enterprise agreements registered under State legislation in South Australia, and concluded that most lacked any provisions that dealt directly with productivity improvement. In contrast, in a study of enterprise agreements in the Queensland food processing industry, Sappey et al. (1999) concluded that such agreements were associated with an increase in the number of clauses concerned with working time, leave, breaks and the like. This suggests that productivity is central to many agreements, but that any increased productivity is obtained through greater work intensification. That enterprise agreements have facilitated the reorganisation of working hours at a large number of workplaces seems very clear. ACIRRT (1999a, p. 44), for example, reported that in a much larger sample of agreements (4700), 79 per cent dealt with changes in working time arrangements. The changes involved were extremely varied, but included increases in the span of what constitute normal hours, averaging working hours over some period longer than the standard work week, absorbing penalty payments for work on weekends and at other so-called 'unsociable'

times into annualised wages, and increasing the flexibility with which working hours arrangements can be varied. All of these changes should have the effect of improving the match between labour inputs and product demand, thus reducing the incidence of low productivity hours.

Ultimately, however, this type of analysis is of limited value. As Rimmer and Watts (1994) have observed, the presence of provisions in agreements does not guarantee their effective implementation. Even more importantly, it would be erroneous to assume that if an agreement makes no specific reference to some productivity-enhancing measure it cannot have any effects on productivity. Indeed, if the key to productivity growth is fostering a more cooperative, trusting work environment, then it will be the process by which agreements are reached and implemented, rather than their actual content, which will be most critical for productivity.

Management Perceptions

A very different and very simple approach to identifying whether enterprise (and individual) agreements may have been having the positive productivity effects expected is simply to ask samples of managers whether this was so. Such an approach was employed as part of both the 1995 AWIRS and a 1998 survey undertaken by the National Institute of Labour Studies. Results from these surveys were reported in Wooden (2000, pp. 161-164) and are summarised in Table 1. As can be seen, the results from these surveys point to reasonably positive assessments. In the 1995 AWIRS, for example, over half of respondents at workplace with enterprise agreements indicated that labour productivity had increased as a result of the agreements and only three per cent indicated that productivity had fallen (29 per cent responded that there had been no change and 15 per cent indicated it was too early to tell).

A more recent survey conducted in 1999 and involving members of Australian Business Ltd, a large employer organisation (and also summarised in Table 1) suggests a somewhat more pessimistic conclusion, with just under 40 per cent of respondents reporting productivity improvements (Hall and van Barneveld 2000, p. 28). Nevertheless, very few reported a deterioration, and the vast majority (70%) expressed satisfaction with the agreements that were in place. This study also examined the perceived impact of agreements on the ability to introduce change. Only 15 per cent went so far as to suggest that enterprise agreements made

change possible where none had previously occurred. Instead, respondents were more likely to describe agreements as facilitating or legitimising change (45% of managers at workplaces with non-award agreements responded in this way). The authors of this study thus drew the inference that agreement-making can be important to workplace productivity, but it is not “the key ingredient”.

Table 1: Perceived Effects of Enterprise Agreements -- A Summary of Survey Results

<i>Performance indicator</i>	<i>Increased (%)</i>	<i>No change (%)</i>	<i>Decreased (%)</i>	<i>Too early to tell (%)</i>
<i>AWIRS 1995^a</i>				
Profitability	34	37	10	19
Labour productivity	54	29	3	15
Quality of service or product	43	42	2	13
Absenteeism	11	60	16	13
Skill level of employees	39	48	1	12
<i>NILS Workplace Management Survey 1998^b</i>				
Profitability	48	44	9	
Labour productivity	59	36	4	
Output quality	46	51	3	
Employee skill level	53	44	3	
Management-employee relations	59	31	10	
Ability to introduce change	66	29	6	
<i>ACCIRT Workplace Agreement Survey 1999^c</i>				
Profitability	35	62	3	
Labour productivity	39	58	2	

Source: AWIRS 95 main survey, Wooden (2000); Hall and van Barneveld (2000).

Notes: a. Per cent of workplaces with agreements.
b. Per cent of workplaces with collective enterprise agreements.
c. Per cent of workplaces with non-award agreements

This type of approach has also been employed by Gollan (2000) in investigating outcomes following the introduction of AWAs. Involving a sample of almost 700 enterprises, the results were surprisingly similar to those for collective agreements. Fifty-seven per cent of respondents, for example, reported an improvement in labour productivity and only one per cent reported a worsening. Similarly, two-thirds of the sample reported an improved ability to implement change and again very few reported that this ability had declined.

Overall, it does appear that managers at a relatively large proportion of workplaces where enterprise agreements and individual agreements have been introduced are of the view that those agreements have been beneficial for productivity. Nevertheless, as Wooden (2000, p. 175) noted, such data must be treated with a good deal of caution and skepticism.

Attitudinal data can be expected to be subject to measurement error and response bias. Most obviously, there are good reasons to expect that managers who have introduced agreements with the expectation that workplace performance would improve may have a tendency to overstate performance consequences. Any other response, for example, might be viewed as an admission that the decision to introduce agreements was a mistake. Moreover, some managers may perceive a strong interest in ‘talking up’ the value of agreements, especially if those agreements are linked to a strategy of undercutting award conditions, reducing union influence and enhancing managerial prerogatives. Evidence of a lesser role for enterprise bargaining can be found in an earlier survey by Boreham, Hall and Harley (1996), which indicated that as a whole, enterprise bargaining was not obviously associated with ‘productivity enhancement measures’ such as training, work organization and employee participation.¹⁶

Econometric Estimation

The final approach involves the use of firm-level data to estimate econometric models of business performance that include as explanators measures of bargaining structure. The main problem here is that it is typically difficult to obtain comparable measures of performance, especially when comparing firms producing very different types of goods and services. As a result, suitable data sets are in short supply. Indeed, there are only two publicly available data sets in Australia that possess the necessary characteristics to even attempt such an analysis – that is, comparable performance-related measures in tandem with measures of bargaining coverage – and both are far from ideal.

The first of these is the 1995 AWIRS. One obvious problem with these data is that the AWIRS survey was conducted at a time when enterprise agreements were relatively new and hence it may be too soon to expect any strong relationships to be detected. Further problems are presented by the nature of the performance data available in these data – crude rankings of labour productivity, both relative to other firms and previous years, based on manager perceptions. It is thus perhaps not surprising that despite a number of attempts involving slight differences in the selection of dependent variables and in specification, researchers have generally not been able to detect significant relationships between productivity

¹⁶ The survey covered 77 Queensland organisations that had operational enterprise agreements registered under State or Federal legislation.

measures and agreement coverage in these data (Hawke and Drago 1998, Loundes 1999, Saleheen and McCalman 2000, Wooden 2000).¹⁷

The second data source is the Business Longitudinal Survey conducted by the ABS over the period 1994-95 to 1997-98. These data have the distinct advantages that they are longitudinal, provide detailed financial information about output and inputs, and cover a period when bargaining structures were changing. However, and in stark contrast to the AWIRS, these data are dominated by very small businesses, which are far less likely to have been much affected by industrial relations reform. This problem is further compounded by the removal of business units with 200 or more employees from the confidentialised unit record data made available by the ABS to researchers. Furthermore, coverage by agreements and awards is poorly defined. Finally, the data period is relatively short and thus precludes adequate modelling of the lags involved.

Initial analysis of these data, reported in Tseng and Wooden (2001), involved estimation of a conventional Cobb-Douglas production function of the form:

$$\ln Y_{it} = \alpha + \beta \ln K_{it} + \gamma \ln L_{it} + Z_{it}\phi + \varepsilon_{it} \quad (1)$$

where Y_{it} is real value added (essentially sales less purchases adjusted for changes in stocks) for firm i at time t , K is capital, measured here by the book value of non-current assets plus leasing capital, L is labour, represented by the number of full-time equivalent employees, Z is a set of firm-specific characteristics expected to be associated with productivity levels within the firm, and ε_{it} is a random error term. The term, Z , is intended to reflect firm-specific levels of effort, cooperation and innovation. These, however, are not directly observed and hence we need to include measures of other variables that are expected to influence these concepts. This is where enterprise bargaining would come in. Tseng and Wooden (2001) thus included a measure of coverage by enterprise agreements in their model. Estimation of this model using a sample of around 2400 business units, all of which had fewer than 200 employees, suggested that there may be up to a 10 per cent productivity premium associated with coverage by registered agreements.

¹⁷ After splitting the sample according to productivity level, Wooden (2000, pp. 174-175) reported some evidence of a positive association between agreement coverage and productivity growth among the lowest productivity workplaces. Wooden also highlighted the possibility that part of the productivity effect from

However, since this estimate is derived from the estimation of a conventional cross-sectional production function, these results may simply reflect a greater tendency for high productivity firms to engage in enterprise bargaining. Ideally, therefore, we would eliminate all time invariant firm effects from equation (1) by taking first differences. In addition, at a minimum we should allow for dynamics to operate through the inclusion of a lagged dependent variable. That is, we should re-specify the equation to be estimated as:

$$\Delta \ln Y_{it} = \Delta \alpha + \beta \Delta \ln K_{it} + \gamma \Delta \ln L_{it} + \Delta Z_{it} \phi + \theta \Delta \ln Y_{it-1} + \Delta \varepsilon_{it} \quad (2)$$

Estimation of this model using the instrumental variable procedure developed by Arellano and Bond (1991) produced fairly sensible results, with the coefficients on the capital, labour and the lagged dependent variables all statistically significant.¹⁸ None of the agreement coverage variables, however, were even close to significance. In other words, changes in agreement coverage appear not to be associated with changes in productivity. Nevertheless, such findings cannot be taken as clear evidence that enterprise agreements do not have productivity enhancing effects. As noted above, the analysis only covers small and medium-sized enterprises where enterprise agreements are of less significance, both in terms of coverage and influence on employee relations processes. Further, no allowance has been made for the likelihood that effects from enterprise agreements will only be present after a lag. Unfortunately, the BLS data are not ideal for accommodating lags. First, and as already noted, the data only cover four years. Second, data on agreement coverage were not collected in the first year. Allowing for just one lag (which arguably may still not be sufficient) would thus reduce our analysis to a consideration of how sensitive changes in output over a single year – 1996-97 to 1997-98 – were to changes in agreement coverage in the preceding year. For most firms in the sample, however, agreement coverage does not change much in a single year, and hence it follows that we will observe very little in the way of any measurable impact on output. This is exactly what is found.

enterprise bargaining might be captured in variables representing the incidence of major organisational change in the previous two years.

¹⁸ Detailed results are available, on request, from the authors.

6. Conclusions

There is now a general consensus that the dominant industrial relations paradigm has shifted markedly over the last decade. For most of the last century the dominant paradigm centred on the operation of industrial tribunals and the systems of awards that they administered. In this paradigm, capital and labour could not be trusted to determine their own arrangements. This paradigm has now, to quote one notable critic of reform, been “junked” (Dabscheck 2001, p. 5). The dominant paradigm now revolves around bargaining, and especially enterprise bargaining.

But what has enterprise bargaining actually achieved? As demonstrated in this paper, the case for enterprise-based bargaining systems hinges in large part on its potential to enhance the productive capacity of business. Nevertheless, the available evidence is far from supportive. While it is true that Australia experienced a marked resurgence in productivity growth during the 1990s, the available evidence from workplace- and enterprise-level studies does not enable any strong conclusions to be reached about possible links between enterprise bargaining and productivity. The main reason for this appears to be the lack of good quality data, which almost certainly explains the limited amount of published research on this topic in the main academic journals. A scan of the contents of what are arguably Australia’s five leading journals specialising in the publication of industrial relations research, for example, revealed only a handful of articles published between 1995 and 2000 that presented any original data relating enterprise-level bargaining to performance.¹⁹ Thus identifying the presence or absence of such links remains an important research task.

Further, even if it is accepted that enterprise bargaining has been giving rise to the positive productivity effects expected of it, virtually nothing is known about the mechanisms through which such effects are transmitted.

There has also been very little (if any) investigation into the conditions under which the productivity benefits from enterprise-based arrangements are maximised. It was, for example, hypothesised in this paper that the benefits from enterprise agreements may only be forthcoming where those agreements are not used to enhance managerial prerogatives.

¹⁹ These journals were, in no particular order, The Journal of Industrial Relations, Labour and Industry, the Australian Bulletin of Labour, The International Journal of Employment Studies, and the Economic and Labour Relations Review.

Similarly, the successful introduction of enterprise agreements may require certain skills and abilities on the part of management that may not always be present

Agreements will also vary enormously in what they mean for workplaces. In some workplaces, enterprise agreements may involve nothing more than the rolling over of standard award arrangements. If so, we would expect relatively little impact on the organisation. Very differently, some agreements in some industries continue to reflect industry bargaining processes rather than enterprise considerations. Again, we might expect the effectiveness of such agreements to be far more limited than agreements that are truly enterprise-based.

Finally, there has been no serious research that we are aware of that has attempted to investigate the extent to which changes in the formalised systems have been affecting the way informal arrangements operate. That is, even firms that have not introduced the tribunal-approved forms of agreements may be operating differently because of the changes in the formal systems. For example, award simplification might have promoted communication and negotiation between managers and workers at enterprises that have historically relied on award provisions for structuring employment arrangements.

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